



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

I N F O R M A T I O N

**ON THE LEASING SECTOR IN THE FEDERATION OF BOSNIA AND
HERZEGOVINA**

30.06.2014

Sarajevo, August 2014

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I INTRODUCTION

The Banking Agency of the Federation of B&H (hereinafter: the Agency) as a regulatory institution for the supervision of leasing companies drafted this Information on the Leasing Sector in the Federation of B&H as of 30.06.2014 based on the analysis of the reports on business operations submitted to the Agency by leasing companies (indirect off-site control), findings from on-site examinations (direct on-site control) and other information and data submitted to the Agency by leasing companies.

The business operations of leasing companies in the Federation of B&H are regulated by the Law on Leasing, which entered into force on 03.01.2009 („Official Gazette of the Federation of Bosnia and Herzegovina“, No.: 85/08, 39/09 and 65/13). The Law defines the conditions for establishing leasing companies, their business operations and the cessation of leasing companies' operations, the rights and responsibilities of entities in leasing operations, risk management, financial reporting, activities of leasing companies with respect to preventing money laundering and the financing of terrorism, and the supervision of leasing companies' business operations.

The supervision of leasing companies has been established following the Agency's issuance of operating licences to leasing companies for the purpose of continuous monitoring of the business operations and financial status of each individual leasing company and the leasing sector in the Federation of B&H as a whole, checking the compliance of leasing companies' business operations with valid regulations, and analysing and checking the financial statements of leasing companies.

According to data from the Central Bank of B&H, the projection of economic growth for 2014 amounted to 2.6%, but the aforementioned was reduced by 0.7% due to the impact of the natural disasters that occurred in May 2014.

In order to collect data on the possible effects of the natural disasters on the portfolio of leasing companies, the Agency has sent a letter to all leasing companies, ordering them to submit a preliminary assessment of the number and amount of leasing arrangements by area of business (by municipality), for which it is likely that they might be at risk of default due to the damage suffered by the natural disasters, or contracts (clients) who already have knowledge of the damage suffered.

Based on the submitted data, the Report on the State of Exposure of Leasing Companies as of 30.04.2014 was drafted for clients located in areas affected by the natural disasters. According to the submitted data, it was found that the 1 687 leasing arrangements concluded with clients located in areas affected by the natural disasters in the Federation of B&H, the total value of which amounts to EUR 45 907 thousand (approximately 8.5% of the balance sheet total of the leasing sector as of 31.03.2014), with total receivables due in the amount of KM 3 207

thousand, with leasing companies possessing information on the material damage suffered for 346 arrangements, while, at the time of the report being drafted, leasing companies do not possess information on the material damage suffered for 1 341 leasing arrangements. During the third quarter of 2014, the Agency will publish a by-law that will further define the treatment of receivables by contracts concluded with clients who have suffered damage caused by the natural disasters.

During the first quarter of 2014, macroeconomic indicators had a positive trend of growth (GDP growth of 2.7% in the first quarter of 2014 compared to the same period of the previous year, as well as the growth of gross domestic value, which was recorded in the individual branches of the economy such as construction, manufacturing, mining and service activities – data used from the Agency for Statistics of B&H).

Positive developments in the real sector in the first quarter of 2014 were reflected in leasing activity, which, in the second quarter, increased the number of newly concluded arrangements and the total amount of financing through financial and operational leasing compared to the first quarter of 2014.

The balance sheet total of leasing companies in the Federation of B&H as of 30.06.2014 amounted to KM 509 078 thousand, which is lower by 11.94% or KM 69 023 thousand compared to 31.12.2013.

If one compares the individual balance sheet totals of six leasing companies (which are licensed for leasing operations as of 30.06.2014) with data as of 31.12.2013, one can conclude that an increase in the balance sheet total in the amount of KM 6 815 thousand is evident with two leasing companies, while four leasing companies recorded decrease of the balance sheet total in the amount of KM 75 838 thousand, 85.36% or KM 64 734 thousand of which account for two leasing companies.

In the period from 01.01. to 30.06.2014, losses in the amount of KM 4 717 thousand were generated in the leasing sector in the Federation of B&H as a result of business operations. Three leasing companies recorded a negative financial result in the amount of KM 7 029 thousand, while three leasing companies recorded a positive financial result in the amount of KM 2 312 thousand.

Total capital of leasing companies as of 30.06.2014 amounted to KM 31 606 thousand. Compared to 31.12.2013, this item dropped by KM 4 356 thousand or 12.11%. One leasing company recorded a capital amount lower than the legal minimum prescribed under the provisions of the Law on Leasing (KM 250 000.00).

Authorised persons of the Agency conduct direct supervision of the operations of the leasing companies through comprehensive and targeted examinations – on-site controls of business operations. After the reports become legally valid, leasing companies are instructed to eliminate any instances of non-compliance with the law and irregularities in the interest of

improvement, legal compliance, profitability, solvency and security in their business operations.

Irregularities determined by on-site controls of leasing companies in the period from 01.01. to 30.06.2014 related mainly to the improvement of internal regulations that define risks in business, the improvement of internal regulations in the field of the accounting function of leasing companies, non-compliance with contractual provisions by leasing companies in the context of the agreed harmonisation of the interest rate with the variable index, the shortcomings of the system of internal controls in the area of quality compliance with internal regulations, improper submission of data to the Central Loan Registry at the Central Bank, disregard of the provisions of the Law on Contractual Obligations of the Federation of B&H on the basis of compensation for warnings that are calculated for leasing beneficiaries in default and the conclusion of leasing arrangements that are at odds with the provisions of the Law on Guarantor Protection in the Federation of B&H.

The data in the Information as of 30.06.2014 includes the data provided by six leasing companies licensed for leasing operations in the Federation of BiH, unless specifically stated otherwise.

II BUSINESS PERFORMANCE OF THE LEASING SECTOR IN THE FEDERATION OF B&H

1. LEASING SECTOR STRUCTURE

1.1. Status, Number and Network of Branches

As of 30.06.2014, leasing activities in the Federation of B&H were performed by 6 leasing companies, while in the period from 2010 to 2011, leasing activities were performed by 8 leasing companies. Six leasing companies registered in the Federation of B&H perform leasing operations in 20 branches, 16 of which are located in the Federation of B&H and 4 of which are located in Republika Srpska.

The following leasing companies have operating licences for leasing operations:

1. ASA Aleasing d.o.o. Sarajevo,
2. NLB Leasing d.o.o. Sarajevo,
3. Raiffeisen Leasing d.o.o. Sarajevo,
4. S-Leasing d.o.o. Sarajevo,
5. UniCredit Leasing d.o.o. Sarajevo and
6. VB Leasing d.o.o. Sarajevo.

1.2. Ownership Structure

During the second quarter of 2014, the ownership structure of the leasing companies did not see any changes compared to the previous reporting period. Three leasing companies are still 100% owned by non-resident legal entities, two leasing companies are in majority ownership

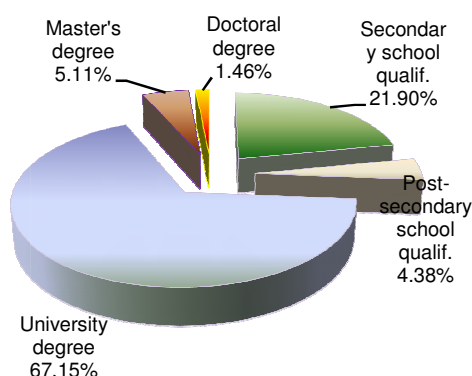
(over 51%) of non-resident legal entities, while one leasing company is in majority ownership of resident legal entities. Detailed information on the overview of the ownership structure of leasing companies is provided in Annex 2 to the Information.

1.3. Human Resources

As of 30.06.2014, the leasing sector has 137 employees, a decrease by 11.04% or 17 employees compared to 31.12.2013. 13 of these employees relate to a leasing company that saw significant organisational changes during the second quarter of 2014 in the context of the consolidation of certain joint functions with the parent bank. The total amount of employees does not account for seven employees of leasing companies seated in Republica Srpska, who work in branches in the Federation of B&H.

Additionally, as of 30.06.2014, the leasing companies had an additional 32 employees recruited via student services and organisations mediating in employment, 62.50% or 20 employees of which have been recruited in one leasing company. Compared to 31.12.2013, the number of temporarily employed staff increased by 3 employees or 9,68%.

Graph 1. Qualification Structure of Leasing Sector Employees



The efficiency of employees during the assessment of the performance of a leasing company is measured by the assets/headcount ratio (assets per employee). As of 30.06.2014, every employee accounts for KM 3 716 thousand of assets at the leasing sector level (as of 31.12.2013 – KM 3.754 thousand per employee). Analytical indicators for individual leasing companies range from KM 1 811 to KM 4 913 thousand of assets per employee. At the same time, as of 30.06.2014, this indicator amounted to KM 341 thousand in the microcredit sector and to KM 2 204 thousand of assets per employee in the banking sector.

2. FINANCIAL BUSINESS INDICATORS

2.1. Balance Sheet

As of 30.06.2014, the balance sheet total of leasing companies in the Federation of B&H amounted to KM 509 078 thousand, which is lower by KM 69 023 thousand or 11.94% compared to 31.12.2013. If observed individually, two leasing companies saw an increase of

the balance sheet total in the amount of KM 6 815 thousand, while four leasing companies saw a decrease of the balance sheet total in the amount of KM 75 838 thousand, 85.36% or KM 64 734 thousand of which account for two leasing companies.

The two largest leasing companies (by size of assets) account for 55.34% of total assets of leasing companies.

The highest share in the total assets structure of leasing companies accounts for net receivables from financial leasing in the amount of KM 331 423 thousand or 65.10% of total assets of the leasing sector. Compared to 31.12.2013, net receivables for financial leasing fell by KM 35 759 thousand or 7.02%, while gross receivables for financial leasing fell by KM 50 026 thousand or 11.21%.

As of 30.06.2014, net receivables for loans amounted to KM 57 131 thousand or 11.22% of the amount of total assets of the leasing sector. Compared to 31.12.2013, net receivables for loans fell by KM 6 826 thousand or 10.67%, while gross receivables fell by KM 3 467 thousand or 4.85%.

Out of the total recorded amount of net receivables for loans, KM 54 425 thousand or 95.26% accounts for receivables of one leasing company with a significant amount of loan receivables in its portfolio. KM 43 271 thousand or 79.50% of which account for receivables from subsidiaries, which had been used for real estate construction projects before the Law on Leasing was passed.

In the loans receivables structure, 77.09% accounts for loans approved for real estate financing.

As of 30.06.2014, the recorded balance sheet item Cash and Cash Equivalents amounted to KM 20 960 thousand, which is lower by KM 20 815 thousand or 49.83% compared to 31.12.2013. The share of this balance sheet item in total assets dropped from 7.23%, to which it amounted at the end of 2013, to 4.12%, to which it amounted as of 30.06.2014. As of 30.06.2014, the recorded balance sheet item Facilities to Banks amounted to KM 16 415 thousand, up by KM 954 thousand or 6.17% compared to 31.12.2013. This item mostly relates to term deposits at commercial banks.

Net value of fixed assets financed via operational leasing as of 30.06.2014 amounted to KM 27 650 thousand, up by KM 2 353 thousand or 9.30% compared to 31.12.2013. If observed individually, net value of fixed assets financed via operational leasing rose for two leasing companies in the amount of KM 4 713 thousand, while it fell with 4 leasing companies in the amount of KM 2 406 thousand.

Table 1 of this Information provides an overview of net balance sheet positions of assets per reporting periods.

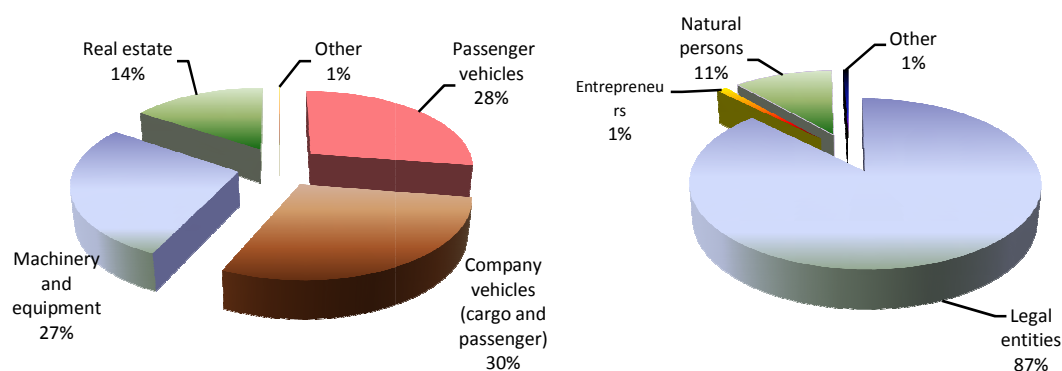
Table 1. Structure of Net Balance Sheet Positions of Assets

(000 KM)

Balance sheet positions	31.12.2013	% share in assets	30.06.2014	% share in assets	30.06.2014 / 31.12.2013
Financial leasing - net	367 182	63.52%	331 423	65.10%	-9.74%
Operational leasing - net	25 297	4.38%	27 650	5.43%	9.30%
Loan - net	63 957	11.06%	57 131	11.22%	-10.67%
Other assets	121 665	21.05%	92 874	18.24%	-23.66%
Total assets	578 101	100.00%	509 078	100.00%	-11.94%

There were no significant changes in the structure of receivables by lessee and leasing object compared to previous reporting periods.

Graph 2. Structure of Receivables for Financial Leasing Broken Down by Leasing Object and Lessee as of 30.06.2014



In the structure of the balance sheet total of the financial sector supervised by the Agency, the leasing sector accounts for 3.11% of the balance sheet total, while the banking sector and microcredit sector account for 94.11% and 2.78%, respectively.

2.1.1. Asset Quality

According to data from the reports of leasing companies, loan loss reserves for financial leasing as of 30.06.2014 are recorded in the amount of KM 18 309 thousand, which represents a decrease of KM 4 992 thousand or 21.42% compared to 31.12.2013. In the structure of receivables for financial leasing as of 30.06.2014, a total of KM 16 184 thousand outstanding receivables has been recorded. While the amount of KM 15.171 thousand was recorded as of 31.12.2013, up by KM 1 013 thousand or 6.68%.

A detailed analysis of reports submitted by leasing companies found that a significant amount of formed reserves for losses for financial leasing as of 30.06.2014 is also caused by the fact that, in their reports, leasing companies declared losses of KM 3 277 thousand above calculated and allocated reserves (reserves formed in the amount higher than the minimum prescribed amount). This amount relates to reserves formed by two leasing companies, with

KM 3 062 thousand or 93.43% of the total amount of additional calculated and allocated reserves related to one leasing company. The reserves were allocated in accordance with the assessment of the leasing company in terms of expected difficulties in the collection of receivables from some financial leasing arrangements as well as difficulties when coming into the possession and sale of repossessed leasing objects.

Table 2 of the Information shows a parallel overview of formed reserves by category of default.

Table2. Parallel Overview of Formed Reserves for Financial Leasing by Category of Default
(000 KM)

Days past due	Total reserves 31.12.2013	Total reserves 30.06.2014	% change
0-60	701	507	-27.69%
60-90	385	559	45.08%
90-180	9 425	1 846	-80.41%
preko 180	12 444	15 052	20.96%
preko 360	346	345	-0.29%
TOTAL	23 301	18 309	-21.42%

If observed individually, the two largest leasing companies (by size of assets) account for 80.25% of total formed reserves for loan losses. Three leasing companies recorded an increase in formed reserves in the total amount of KM 4 233 thousand compared to 31.12.2013, while three leasing companies recorded a decrease in total formed reserves for loan lossess in the total amount of KM 9 226 thousand compared to 31.12.2013.

As of 30.06.2014, loan loss reserves amounted to KM 10 885 thousand and rose by KM 3 360 thousand or 44.63% compared to 31.12.2013, when the loan reserves amounted to KM 7 526 thousand.

Out of the total amount of formed loan loss reserves as of 30.06.2014, KM 10 855 thousand or 99.72% accounts for reserves formed by one leasing company with the most significant amount of loan receivables from subsidiary companies and a significant deterioration in the quality of the loan portfolio during 2013 and 2014.

The total amount of written-off receivables for financial leasing and loans as of 30.06.2014 was KM 91 258 thousand and rose by KM 4 864 thousand or 5.63% compared to 31.12.2013. Out of the total recorded amount of written-off receivables, KM 60 612 thousand or 66.41% accounts for write-offs by two leasing companies.

A review of the structure of written-off receivables revealed additional receivables in the amount of KM 5 707 thousand in off-balance records during the second quarter of 2014, KM 3 378 thousand or 59.19% of which relate to write-offs by one leasing company.

During the same period, the amount of KM 779 thousand was recorded on the basis of the collection of off-balance receivables, indicating difficulties in the collection of written-off receivables in leasing companies, since the approval criteria for the aforementioned were

either inadequate or companies failed to adhere to internally defined policies and procedures in the financial approval process (non-functioning of the internal control system).

As of 30.06.2014, the market value of repossessed leasing objects amounted to KM 32 294 thousand and fell by KM 1 237 thousand or 3.69% compared to 31.12.2013 due to the termination of leasing arrangements with lessees or the expiration of arrangements with no contracted purchase of leasing objects. The recorded value relates to 121 repossessed units, down by 47 repossessed units or 27.97% compared to 31.12.2013. Table 3 of the Information shows a parallel structure of repossessed leasing objects as of 31.12.2013 and 30.06.2014.

Table 3. Number and Value of Repossessed Leasing Objects

(000 KM)

No.	TYPE OF LEASING OBJECT	31.12.2013		30.06.2014	
		Number of units	Appraised market value of leasing object	Number of units	Appraised market value of leasing object
1.	Passenger vehicles	98	1 713	50	917
2.	Company vehicles (cargo and passenger)	31	429	20	568
3.	Machinery and equipment	18	6 613	32	6 696
4.	Real estate	21	24 776	19	24 113
5.	Rail vehicles, water and air vehicles	0	0	0	0
6.	Household appliances	0	0	0	0
7.	Other	0	0	0	0
Total		168	33 531	121	32 294

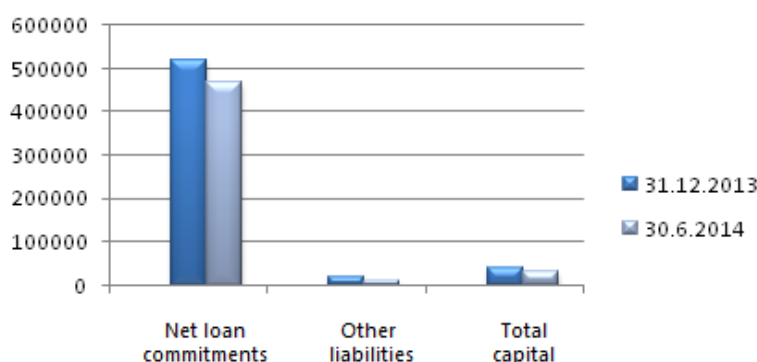
If observed individually, KM 30 505 thousand or 94.46% of the total value of leasing objects owned by leasing companies relates to repossessed leasing objects of two leasing companies.

Out of the total value of repossessed leasing objects as of 30.06.2014, 74.66% relates to real estate (commercial real estate) repossessed by leasing companies due to the lessees' non-compliance with legal obligations. The total amount of this item relates to two leasing companies. The current market situation and inadequate financing approval criteria cause difficult sales or new financing of repossessed real estate via financial or operational leasing, especially if we take into account the fact that repossessed real estate constitutes mostly production and commercial facilities.

2.2. Liabilities Structure

As of 30.06.2014, loan commitments are still a predominant position in the structure of total liabilities of leasing companies (91.56% of the balance sheet total). Graph 3 of the Information provides a parallel structure of liabilities of the sector as of 31.12.2013 and 30.06.2014.

Graph 3. Structure of Liabilities – Parallel Overview(000 KM)



As of 30.06.2014, total loan commitments amount to KM 466 122, down by KM 54 503 thousand or 10.47% compared to 31.12.2013. Out of the total amount of loan commitments, KM 419 793 thousand or 90.06% relate to long-term commitments (short-term loan commitments amount to KM 46 839 as of 30.06.2014).

In the structure of sources of funding, indebtedness with commercial foreign and local banks belonging to groups to which the leasing companies belong accounts for 57.77% of total loan commitments, while 18.78% account for direct indebtedness with founders and 23.46% relate to indebtedness with European banks (EIB, EBRD, CEDB and DEG). The funds of these banks are mostly purpose funds and relate to development of small and medium-sized enterprises and they have been provided by bank guarantees issued by parent banks or their holding companies.

The total weighted nominal interest rate paid by leasing companies on sources of funding in the period from 01.01. to 30.06.2014 is 3.06% per annum (the interest rate calculated on the basis of the average balance of taken loans and interest expenses in the reporting period) and has been increased compared to the previous business year. This is a result of the fact that the interest rates on sources of funding of leasing companies are mostly linked to the EURIBOR variable index, the value of which saw no major oscillations in 2013 as well as in the first half of 2014.

Total capital of leasing companies as of 30.06.2014 amounted to KM 31 606 thousand. Compared to 31.12.2013, this item fell by KM 4 356 thousand or 12.11%. The drop was caused by the fact that the sector operated at a loss as of 30.06.2014.

One leasing company recorded total capital that is lower than the minimum amount prescribed under the Law on Leasing due to losses in their business operations caused by a decrease in interest-bearing assets (excluding leasing objects) and a reduced volume of new business activities.

2.3. Profitability

In the period from 01.01. to 30.06., total losses generated at the level of the leasing sector amounted to KM 4 717 thousand. In the same period of the previous year, a profit in the amount of 3 342 thousand KM (this data refers to seven leasing companies) was recorded at sector level. The analysis of individual operating results of leasing companies resulted in findings that the generated losses are the result of the new value adjustments of loan receivables and written-off receivables.

If observed individually, three leasing companies recorded a negative financial result in the amount of KM 7 029 thousand, while three leasing companies recorded a positive financial result in the amount of KM 2 312 thousand.

In the first half of 2014, interest income amounted to KM 15 366 thousand. This item saw a decrease of KM 4 249 thousand or 21.66% compared the same period of the previous year. A look at individual items of interest income reveals that interest income for financial leasing amounted to KM 11 544 thousand, down by KM 3 221 thousand or 21.82% compared to the same period of the previous business year. A drop in interest income may be explained by a decrease in interest-bearing assets of leasing companies (decrease of active portfolio) and new business activities, as well as a low amount of the variable index to which the placements to leasing companies are linked (EURIBOR). The item Other Interest Income fell by KM 1 046 thousand or 26.37% compared to the same period of the previous year. This item is dominated by interest income from approved loans, the volume of which fell significantly compared to the same period of the previous year, causing a decrease in total interest income.

Interest expenses amounted to KM 7 544 thousand, down by KM 886 thousand or 10.51% compared to the same period of the past business year. Lower interest expenses are caused by the significantly lower amount of loan commitments due to a decrease in lending activities of leasing companies and a low level of the variable index to which the leasing companies' sources of funding are linked (EURIBOR).

Total net interest income in the period from 01.01. to 30.06.2014 amounted to KM 7 822 thousand, down by KM 3 363 thousand or 30.07% compared to the same period of the previous business year. The aforementioned indicates that a decrease in interest income is not linearly followed by a decrease in interest expenses due to the fact that a significant amount of facilities that have been approved in the past periods is unrecoverable (written-off receivables), with prolonged payment of loan commitments for credit lines from which the disputed financing was approved.

The item Operating Income is down by KM 9 817 thousand or 51.65% compared to the same period of the previous year since some leasing companies recorded the appraised value of repossessed leasing objects as part of this item in 2013 (parallel with the write-off of receivables to off-balance records).

Within the item Expenses, costs of reserves for losses in the first half of 2014 amounted to KM 4 027 thousand and were up by KM 3 021 thousand or 300.30% compared to the same period of the previous year. In the first half of 2014, there was no significant deterioration of the quality of the financial leasing portfolio, as indicated by the ratio of non-performing assets (default of over 90 dpds) and total receivables from financial leasing arrangements, which amounted to 8.76% as of 30.06.2014, while the aforementioned indicator amounted to 15.83% in the same period of the previous year. At the same time, a look at the quality of loan receivables shows the deterioration of the ratio of non-performing assets and total receivables, which amounted to 20.27% as of 30.06.2014 and to 17.10% as of 31.12.2013.

3. STRUCTURE OF PLACEMENTS, MARKET SHARE, NOMINAL AND EFFECTIVE INTEREST RATES AND LESSEES' COMPLAINTS

3.1. Structure of Placements by Leasing Object and Type

In the second quarter of 2014, the operations of leasing companies saw an increase in the value of newly-concluded financial and operational leasing arrangements in the amount of KM 4 138 thousand or 13.53%, as well as an increase in the number of newly-concluded arrangements in the amount of 99 contracts or 13.03% compared to the first quarter of the current year. This indicates that leasing operations in the second quarter of the current year recorded a slight increase in business activities and an increased demand for financing via leasing arrangements.

The value of newly-concluded financial and operational leasing arrangements in the period from 01.01. to 30.06.2014 amounted to KM 65 318 thousand, down by KM 17 632 thousand or 24.86% compared to the same period of the previous year. A total of 1 619 new arrangements was concluded, 614 or 27.5% less compared to the same period of the previous year.

The average value of arrangements in the second quarter 2014 amounted to KM 40 thousand and it is slightly below the average value of arrangements in the same period of the previous year, when it amounted to KM 44 thousand.

Out of the total generated value of newly-concluded arrangements, KM 55 792 thousand or 85.42% accounts for financial leasing arrangements with an average (weighted) nominal interest rate of 6.88% and a weighted effective interest rate of 9.29%.

Table 4 of the Information shows parallel indicators of new financings by leasing object and type of arrangement.

Table 4. Structure of financing amounts by leasing object for the second quarter of 2013 and 2014

(000 KM)

	30.06.2013			30.06.2014		
	Financial leasing	Operational leasing	TOTAL	Financial leasing	Operational leasing	TOTAL
Vehicles	65 731	5 187	70 918	43 916	9 370	53 286
Equipment	25 094	51	25 145	9 835	156	9 991
Real estate	2 223	0	2 223	2 032	0	2 032
Other	140	0	140	9	0	9
TOTAL	93 188	5 238	98 426	55 792	9 526	65 318

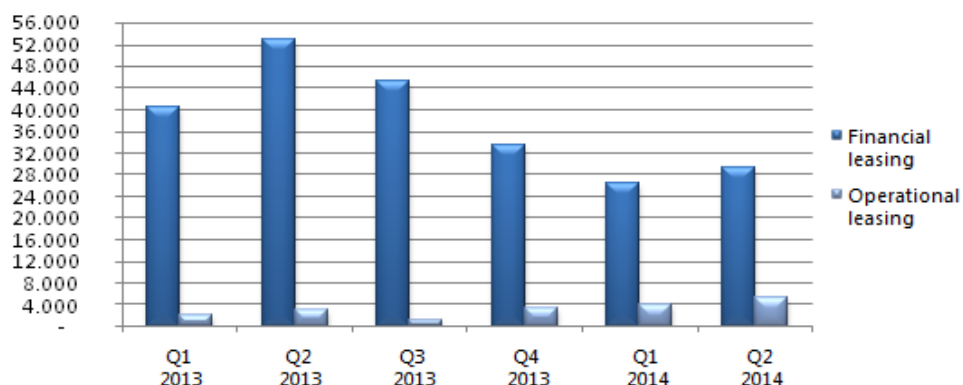
The total amount of new financings generated in the period from 01.01. to 30.06.2014 includes the amount of financing generated by the leasing company seated in Republika Srpska through its branches located in the Federation of B&H (this company generates the majority of its business activities in the Federation of B&H).

Please note that, by the owner's decision, one leasing company terminated new financings to stabilise its business operations and recover existing non-performing facilities.

In the structure of new facilities by type of lessee, the facilities to legal entities are predominant (88.23% of the total amount of financing in the first half 2014). One important reason is the fact that financing via leasing arrangements for natural persons is less favourable than loan facilities due to the payment of the VAT on interest rates, which poses additional costs for clients that are not VAT payers.

Graph 4 of the Information provides a parallel overview of the value of newly-concluded financial and operational leasing arrangements by quarter in 2013 and 2014.

Graph 4. Parallel Overview of the Value of Newly-Concluded Arrangements in 2013 and 2014 (in000 KM)

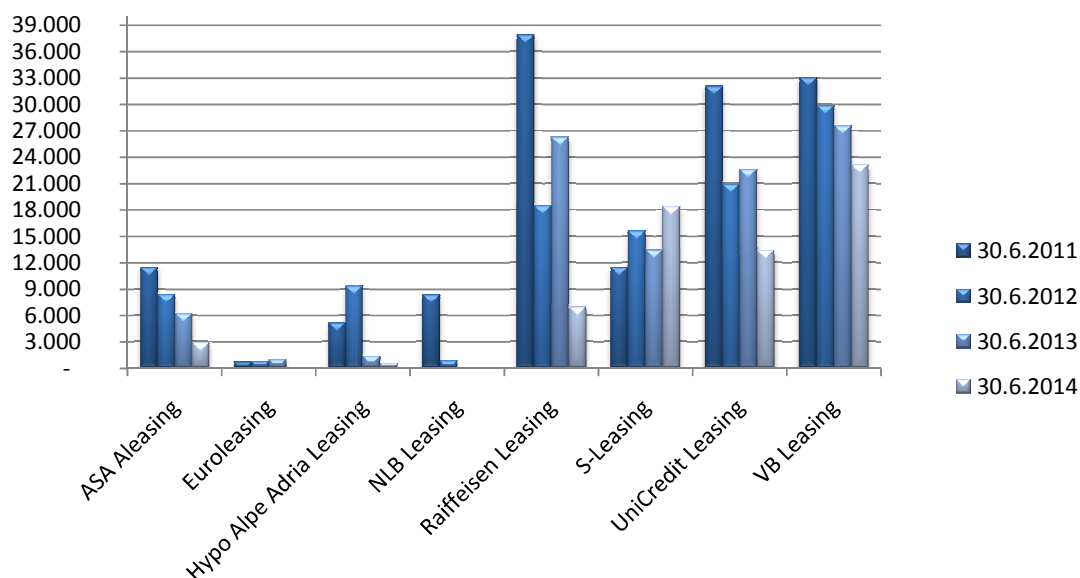


In the first half of 2014, the volume of financing via operational leasing arrangements is up by 81.86% or KM 4 288 thousand compared to the same period of the previous year.

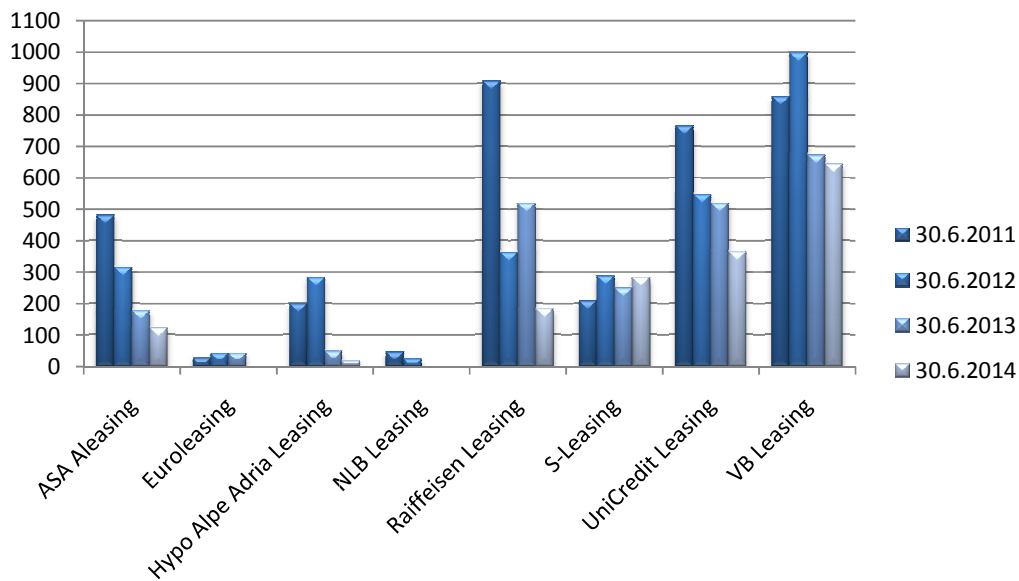
3.2. Market Share by Financial Volume and Number of Arrangements

A parallel overview of individual market shares of leasing companies by total volume and number of newly-concluded financial and operational leasing arrangements is provided in Graphs 5 & 6 of this Information.

Graph 5. Market Share by Volume (in 000 KM)



Graph 6. Market Share by Number of Arrangements



The above graphs show that the volume of new financings in the second quarter of 2014 ranged from 16.06% to 73.50% in all leasing companies.

3.3. Weighted Nominal and Effective Interest Rate

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

The total average nominal interest rate for financial leasing arrangements concluded in the second quarter 2014 amounted to 6.57% for short-term and 6.63% for long-term arrangements, while the effective interest rate for short-term and long-term arrangements amounted to, respectively, 11.49% and 9.18% per annum. The total weighted nominal interest rate for the aforementioned period amounted to 6.63%, while the effective interest rate amounted to 9.23% per annum. Compared to the same period of the previous business year, when the total weighted nominal interest rate was 6.88% and the effective interest rate 9.29% per annum, there is an evident decrease in interest rates on financial leasing arrangements.

Table 5 of the Information provides the data on the amount of financing, nominal and effective interest rates for financial leasing arrangements concluded in the second quarter of 2014.

Table 5. Average nominal and effective interest rate for financial leasing arrangements concluded in the second quarter 2014

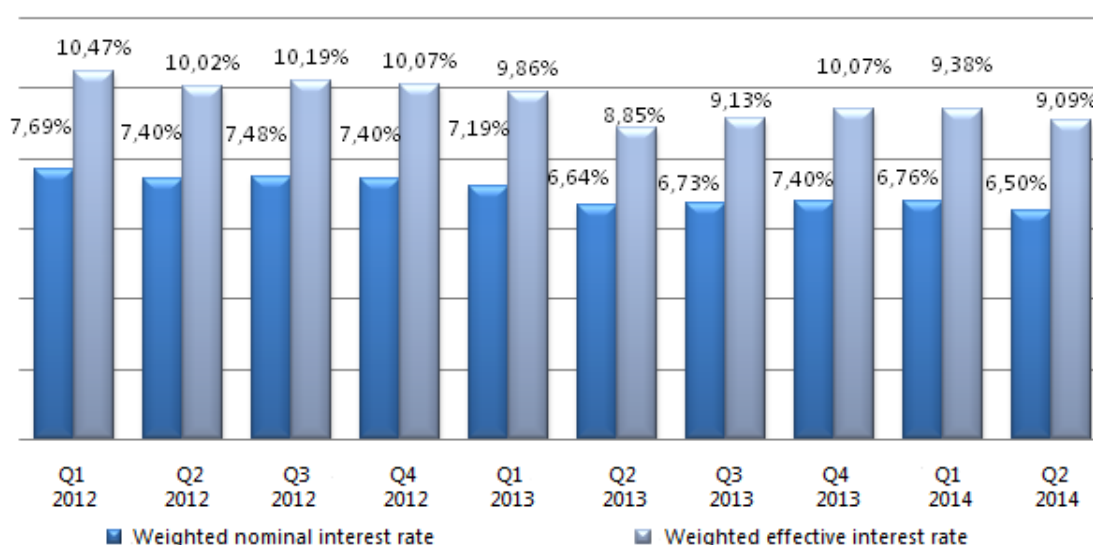
No.	DESCRIPTION	Number of contracts	Amount of financing (000) KM	Weighted nominal interest rate	Weighted effective interest rate
1.	Short-term leasing arrangements by leasing object:	49	1 254	6.57%	11.49%
a.	Passenger vehicles	28	603	6.63%	11.95%
b.	Company vehicles (cargo and passenger)	16	472	6.31%	10.73%
c.	Machinery and equipment	5	179	7.06%	11.94%
1.1.	Short-term leasing arrangements by type of lessee:	49	1 254	6.57%	11.49%
a.	Legal entities	43	1 196	6.47%	11.11%
b.	Entrepreneurs	1	16	9.50%	23.57%
c.	Natural persons	5	42	8.25%	17.83%
2.	Long-term leasing arrangements by leasing object:	1 401	54 538	6.63%	9.18%
a.	Passenger vehicles	865	22 913	6.78%	9.55%
b.	Company vehicles (cargo and passenger)	387	19 928	6.38%	8.72%
c.	Machinery and equipment	146	9 656	6.87%	9.78%
d.	Real estate	2	2 032	6.23%	6.45%
g.	Other	1	9	9.50%	15.90%
2.1.	Long-term leasing arrangements by type of lessee:	1 401	54 538	6.6%	9.18%
a.	Legal entities	1 111	48 032	6.67%	9.17%
b.	Entrepreneurs	50	1 246	7.21%	10.53%

c.	Natural persons	240	5 260	6.10%	8.89%
	TOTAL	1 450	55 792	6.63%	9.23%

The trend of decrease in nominal and effective interest rates in the second quarter of 2014 compared to 2012 and 2013 is also evident when looking at weighted nominal and effective interest rates at a quarterly level, which is caused by a decrease in the variable index (EURIBOR) to which input and output interest rates are linked.

Graph 7 of this Information shows weighted nominal and effective interest rates by quarter.

Graph 7 . Overview of Average Nominal and Effective Interest Rates for Financial Leasing Arrangements in 2012, 2013 and 2014



The previously presented nominal interest rates are interest rates contracted between a leasing company and lessee when signing a leasing arrangement, while previously stated effective interest rates are discounted rates representing a present value of all future and existing obligations agreed upon between the leasing company and the lessee at an annual level, and they involve all cash flows anticipated under the leasing arrangement referring to the payments of lessees to the leasing company only.

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

3.4. Lessees' Complaints

In the second quarter of 2014, a total of 18 complaints by lessees were recorded in the reports delivered to the Agency, with 15 being by legal entities and 3 by natural persons. The specified number of complaints was filed against three leasing companies and the aforementioned were negatively resolved, since they relate to unfounded complaints of lessees resulting from a lack of understanding of contractual provisions on financing through leasing.

Out of the total number of complaints submitted in the second quarter of 2014, 8 complaints refer to a single leasing company, or 57.14% of the total number of lessees' complaints.

Two leasing companies did not have any complaints by lessees in the second quarter of 2014.

III CONCLUSIONS AND RECOMMENDATIONS

Based on the business indicators of leasing companies in the Federation of B&H as of 30.06.2014, it may be concluded that the business operations of leasing companies in the second quarter of 2014 in the Federation of B&H still have a downward trend compared to the same period of the previous business year.

Some leasing companies still have difficulties in their business operations arising from the collection of outstanding receivables from past periods.

The impact of the crisis on the real sector is obvious, and the consequences will inevitably take their toll on the economic environment of the leasing companies in the following period as well.

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

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

- Continuous supervision of the leasing companies through on-site and off-site controls,
- Insist on the capital strengthening of leasing companies and the internal defining of capital protection and capital adequacy parameters,
- Amendment of legal regulations and by-laws for the leasing sector, which refer to actions and business operations of the leasing companies,
- Protection of lessees in the interest of achieving the financial stability of the leasing sector as a whole,

- Monitoring of leasing companies' activities to prevent money laundering and the financing of terrorism and improvement of the cooperation with other supervision and control institutions,
- Improve the structure and data quality of the Central Loan Registry at the Central Bank of B&H,
- Continue permanent education and professional training of staff, and
- Improve cooperation with the Association of Leasing Companies in B&H in terms of providing support in the implementation of laws and regulations referring to leasing companies and proposals for the amendments of legal regulations.

In the period to come, leasing companies should additionally focus on the control of past due receivables, and special attention should be paid to non-performing facilities and initiating activities to improve the system of collection of past due receivables and improve sales capacities and sales channels.

Activities of leasing companies should be focused on the following:

- Strengthening capital and defining parameters for capital protection and capital adequacy,
- Improving policies and procedures for managing risks to which the leasing companies are exposed in their business operations,
- Improving the scope of products offered on the market and finding new sales channels,
- Establishing a system of internal controls and the functioning of the internal audit as an independent audit in the fulfilment of their tasks,
- Improving IT support in the interest of more adequate accounting records and better reporting quality,
- Improvements in the context of the protection of lessees,
- Implementation of the practices of responsible financing,
- Detailed informing of clients on products offered by leasing companies in the interest of a better understanding and more serious approach to financing through leasing arrangements,
- Regular, up-to-date and precise submission of data to the Central Loan Registry at the Central Bank, and
- Harmonising business operations with the Law on Guarantor Protection in the Federation of B&H and the Law on Protection of Users of Financial Services.

IV THE FBA'S REGULATIONS FOR BUSINESS OPERATIONS OF LEASING COMPANIES

Under the Leasing Law, the issuing of licences for establishing and for business operations of leasing companies is defined in detail under the regulations of the FBA, i.e. decisions adopted by the Management Board of the FBA (issued in the "Official Gazette of the Federation of Bosnia and Herzegovina", No.: 46/09, 46/11, 48/12, 110/12, 23/14 and 46/14), as well as instructions adopted by the Director of the FBA.

The FBA's Decisions that define the establishing of the leasing companies and issuing of licences for work and business operations of leasing companies are as follows:

1. Decision on Conditions and Issuance and Revocation Process of Licences for Performing Leasing Operations,
2. Decision on Conditions and Issuance and Revocation Process of Approvals to/from Leasing Companies,
3. Decision on Minimum Standards for Activities of Leasing Companies of Preventing Money Laundering and Financing of Terrorist Activities,
4. Decision on Uniform Manner and Method of Calculation and Disclosure of Effective Interest Rates for Financial Leasing Agreements,
5. Decision on Uniform Manner and Method of Calculation and Disclosure of Leasing Fees under the Operational Leasing Agreement,
6. Decision on Form and Contents of Reports Submitted to the Banking Agency of the Federation of B&H by Leasing Companies and Reporting Deadlines,
7. Decision on Minimum Level and Manner of Forming, Managing and Maintaining Loss Reserves and Risk Management in Leasing Companies,
8. Decision on Supervision of Leasing Companies,
9. Decision on Fees Leasing Companies Pay to the Banking Agency of the Federation of B&H,
10. Decision on Conditions and Manner of Customer Complaint Management in Banks, MCOs and Leasing Companies,
11. Decision on Conditions and Manner of Handling Guarantors' Requests for Release from the Guarantor's Obligation,
12. Decision on Minimum Standards for Documenting Financing under Leasing Agreements and Assessing Creditworthiness,
13. Instructions for Implementing the Decision on Uniform Manner and Method of Calculation and Disclosure of Effective Interest Rates for Financial Leasing Arrangements, and
14. Instructions for Drafting Reports of Leasing Companies.

No.: U.O.-62-4/14
Sarajevo: 02.09.2014

ANNEXES

Annex 1. Main Data on leasing Companies as of 30.06.2014

No.	Name of the leasing company	Adress and seat	Director	Phone	Issuance date of FBA licence	Headcount	Web adress
1.	ASA ALEASING d.o.o. Sarajevo	Bulevar Meše Selimovića 16, Sarajevo	Alma Kadrić	+ 387 33 771 222	22.03.2010	17	www.asa-aleasing.ba
2.	NLB LEASING d.o.o. Sarajevo	Trg Solidarnosti 2a, Sarajevo	Dalida Međedović	+ 387 33 789 345	19.03.2010	9	www.nlbleasing.ba
3.	RAIFFEISEN LEASING d.o.o. Sarajevo	Danijela Ozme 3, Sarajevo	Izmira Tuka-Aličić	+ 387 33 254 354	19.01.2010	34	www.rlhb.ba
4.	S-LEASING d.o.o. Sarajevo	Zmaja od Bosne 7 Sarajevo	Elma Hošo	+ 387 33 565 850	11.02.2010	12	www.s-leasing.ba
5.	UNICREDIT LEASING d.o.o. Sarajevo	Džemala Bijedića 2, Sarajevo	Denis Silajdžić	+ 387 33 721 750	16.03.2010	29	www.unicreditleasing.ba
6.	VB LEASING d.o.o. Sarajevo	Fra Anđela Zvizdovića 1, Sarajevo	Slobodan Vujić	+ 387 33 276 280	12.01.2010	36	www.vbleasing.ba
					TOTAL	137	

Annex 2. Overview of the Ownership Structure of Leasing Companies as of 30.06.2014

LEASING COMPANY	NAME OF THE OWNER	% share
ASA ALEASING d.o.o. Sarajevo	ASA FINANCE d.d. Sarajevo	17,19%
	ASA AUTO d.o.o. Sarajevo	33,81%
	ALEASING d.o.o. Ljubljana	49,00%
RAIFFEISEN LEASING d.o.o. Sarajevo	RAIFFEISEN LEASING INTERNATIONAL GmbH, Vienna	51,00%
	RAIFFEISEN BANK d.d. Sarajevo, BiH	49,00%
NLB LEASING d.o.o. Sarajevo	NLB d.d. Ljubljana	100,00%
S-LEASING d.o.o. Sarajevo	STEIERMAERKISCHE BANK UND SPARKASSEN AG, Graz	51,00%
	SPARKASSE BANK d.d. Sarajevo	49,00%
UNICREDIT LEASING d.o.o. Sarajevo	UNICREDIT LEASING S.p.A., Milan	100,00%
VB LEASING d.o.o. Sarajevo	VB LEASING INTERNATIONAL GmbH, Vienna	100,00%

Annex 3. Overview of Reserves for Leasing Loans as of 30.06.2014 (in 000 KM)

No.	Days past due	Provisioning rate	Amount of receivables	Total reserves
1	0-60	0.05%	18 446	9
2	60-90	5%	35 783	2 265
3	90-180	10%	1 194	119
4	180-270	30%	189	57
5	270-360	50%	7 938	3 969
6	preko 360	100%	4 466	4 466
TOTAL			68 016	10 885

Annex 4. Overview of Reserves for Financial Leasing as of 30.06.2014 (in 000 KM)

Days past due							Reserves			Total reserves
	Provisioning rate for financial leasing (moveables)	Provisioning rate for financial leasing (immoveables)	Amount of receivables for moveables	Amount of receivables for immoveables	Principal amount for moveables	Principal amount for immoveables	For moveables	For immoveables	Additional calculated and allocated reserves	
0-60	0.50%	0.50%	262 947	34 466	50 609	4 834	253	24	230	507
60-90	10%	10%	18 338	3 345	2 187	239	219	24	316	559
90-180	50%	50%	6 444	5 935	2 021	389	1 010	195	641	1 846
preko 180	100%	75%	12 480	5 432	12 238	966	12 238	724	2 090	15 052
preko 360	100%	100%	345	0	345	0	345	0	0	345
TOTAL			300 554	49 178	67 400	6 428	14 065	967	3 277	18 309

Annex 5. Consolidated Balance Sheet (in 000 KM)

No.	DESCRIPTION	31.12.2013		30.06.2014		% growth
		Amount	% in total assets	Amount	% in total assets	30.06.2014/ 31.12.2013
	ASSETS					
1.	Cash and cash equivalent	41 775	7.23%	20 960	4.12%	-49.83%
2.	Placements with banks	15 461	2.67%	16 415	3.22%	6.17%
3.	Receivables for financial leasing, net	367 182	63.52%	331 423	65.10%	-9.74%
3a)	Receivables for financial leasing, gross	446 269	77.20%	396 243	77.84%	-11.21%
3b)	Loan loss reserves	23 301	4.03%	18 309	3.60%	-21.42%
3c)	Deferred interest income	55 504	9.60%	46 260	9.09%	-16.65%
3d)	Deferred fee income	282	0.05%	251	0.05%	-10.99%
4.	Receivables from subsidiaries	2	0.00%	2	0.00%	0.00%
5.	Tangible and intangible assets, net	33 783	5.84%	35 944	7.06%	6.40%
5a)	Tangible and intangible assets – own assets	13 696	2.37%	13 852	2.72%	1.14%
5b)	Tangible and intangible assets – operational leasing	42 375	7.33%	43 647	8.57%	3.00%
5c)	Value adjustment – own assets	5 210	0.90%	5 558	1.09%	6.68%
5d)	Value adjustment – operational leasing	17 078	2.95%	15 997	3.14%	-6.33%
6.	Long-term investments	119	0.02%	52	0.01%	-56.30%
7.	Other assets	119 779	20.72%	104 282	20.48%	-12.94%
7a)	Loans, net	63 957	11.06%	57 131	11.22%	-10.67%
7a1)	Loans (due receivables + non-due interest)	71 483	12.37%	68 016	13.36%	-4.85%
7a2)	Loan loss reserves	7 526	1.30%	10 885	2.14%	44.63%
7b)	Inventories	33 212	5.75%	31 955	6.28%	-3.78%
7c)	Other assets	22 610	3.91%	15 196	2.99%	-32.79%
	TOTAL ASSETS	578 101	100.00%	509 078	100.00%	-11.94%
	LIABILITIES					
9.	Due for taken loans, net	520 625	90.06%	466 122	91.56%	-10.47%
9a)	Due for short-term loans	65 064	11.25%	46 839	9.20%	-28.01%
9b)	Due for long-term loans	456 159	78.91%	419 793	82.46%	-7.97%
9c)	Prepaid costs and fees	598	0.10%	510	0.10%	-14.72%
10.	Other liabilities	21 514	3.72%	11 350	2.23%	-47.24%
	TOTAL LIABILITIES	542 139	93.78%	477 472	93.79%	-11.93%
11.	Core capital	90 502	15.66%	53 520	10.51%	-40.86%
12.	Reserves	8 829	1.53%	8 990	1.77%	1.82%
13.	Accumulated profit/loss	-63 369	-10.96%	-30 904	-6.07%	-51.23%
	TOTAL CAPITAL	35 962	6.22%	31 606	6.21%	-12.11%
	TOTAL LIABILITIES	578 101	100.00%	509 078	100.00%	-11.94%
	Written-off receivables (initial balance)	65 028	11.25%	86 394	16.97%	32.86%
	New write-off (+)	23 545	4.07%	5 707	1.12%	-75.76%
	Collection (-)	2 091	0.36%	779	0.15%	-62.75%
	Permanent write-off (-)	88	0.02%	64	0.01%	-27.27%
	Written-off receivables (final balance)	86 394	14.94%	91 258	17.93%	5.63%

Annex 6. Consolidated Income Statement (in 000 KM)

No.	DESCRIPTION	30.06.2013.		30.06.2014		% growth 30.06.2014/ 30.06.2013
		Amount (000 KM)	% in total income	Amount (000 KM)	% in total income	
	FINANCIAL INCOME AND EXPENSES					
1.	Interest income	19 615	50.79%	15 366	62.58%	-21.66%
1a)	Interest for financial leasing	14 765	38.23%	11 544	47.01%	-21.82%
1b)	Interest on placements with banks	80	0.21%	181	0.74%	126.25%
1c)	Fees (for processing leasing arrangements, etc.)	803	2.08%	720	2.93%	-10.34%
1d)	Other interest income	3 967	10.27%	2 921	11.90%	-26.37%
2.	Interest expenses	8 430	21.83%	7 544	30.72%	-10.51%
2a)	Interest on borrowed funds	8 248	21.36%	7 371	30.02%	-10.63%
2b)	Fees for loan processing	182	0.47%	172	0.70%	-5.49%
2c)	Other interest expenses	0	0.00%	1	0.00%	0.00%
3.	Net interest income	11 185	28.96%	7 822	31.86%	-30.07%
	OPERATING INCOME AND EXPENSES					
4.	Operating income	19 006	49.21%	9 189	37.42%	-51.65%
4a)	Fees for services	38	0.10%	24	0.10%	-36.84%
4b)	Fees from operational lease	6 007	15.55%	5 792	23.59%	-3.58%
4c)	Income from sale of leasing facilities, net	923	2.39%	81	0.33%	-91.22%
4d)	Other operating income	12 038	31.17%	3 292	13.41%	-72.65%
4d)1	Income from recoveries	876	2.27%	816	3.32%	-6.85%
4d)2	Income from notifications	315	0.82%	298	1.21%	-5.40%
4d)3	Other	10 847	28.09%	2 178	8.87%	-79.92%
5.	Operating expenses	25 397	65.76%	17 585	71.61%	-30.76%
5a)	Salaries and contributions	4 391	11.37%	3 925	15.98%	-10.61%
5b)	Costs of business premises	6 783	17.56%	5 738	23.37%	-15.41%
5c)	Other operating expenses	14 223	36.83%	7 922	32.26%	-44.30%
6.	Costs of loan loss reserves	1 006	2.60%	4 027	16.40%	300.30%
6a)	Costs of loan loss reserves financial leasing	1 628	4.22%	668	2.72%	-58.97%
6b)	Costs of loan loss reserves borrowings	-622	-1.61%	3 359	13.68%	640.03%
7.	Profit before taxes	3 788	9.81%	-4 601	-18.74%	-221%
8.	Profit tax	446	1.15%	116	0.47%	-73.99%
9.	Net profit	3 342	8.65%	-4 717	-19.21%	-241%

Annex 7. Balance Sheet Volume Ranking

31.12.2013					30.06.2014					
Rank	Leasing company	Balance sheet volume (000 KM)	Share 31.12.2013.	Cumulative share	Rank	Leasing company	Balance sheet volume (000 KM)	Share 30.06.2014.	Cumulative share	Balance sheet volume index
1.	Raiffeisen Leasing d.o.o. Sarajevo	192 559	33.31%	33.31%	1.	Raiffeisen Leasing d.o.o. Sarajevo	154 872	30.42%	30.42%	80
2.	UniCredit Leasing d.o.o. Sarajevo	153 919	26.62%	59.93%	2.	UniCredit Leasing d.o.o. Sarajevo	126 872	24.92%	55.34%	82
3.	VB Leasing d.o.o. Sarajevo	110 709	19.15%	79.08%	3.	VB Leasing d.o.o. Sarajevo	104 537	20.53%	75.88%	94
4.	S-Leasing d.o.o. Sarajevo	53 651	9.28%	88.36%	4.	S-Leasing d.o.o. Sarajevo	58 953	11.58%	87.46%	110
5.	Asa ALeasing d.o.o. Sarajevo	35 718	6.18%	94.54%	5.	Asa ALeasing d.o.o. Sarajevo	30 786	6.05%	93.51%	86
6.	NLB Leasing d.o.o. Sarajevo	31 545	5.46%	100.00%	6.	NLB Leasing d.o.o. Sarajevo	33 058	6.49%	100.00%	105
TOTAL		578 101	100.00%		TOTAL		509.078	100.00%		88