



**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**

**30.09.2014**

**Sarajevo, November 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 30.09.2014 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.

In order to mitigate the negative effects of the May 2014 natural disasters on natural and legal persons in B&H, at the beginning of the fourth quarter, the Agency's Board of Directors adopted the Decision on Provisional Measures for Treatment of Liabilities on the Basis of Leasing Contracts of Leasing Clients Affected by Natural Disasters („Official Gazette of the Federation of B&H“, No. 88/14 from 29.10.2014). The main goal of the aforementioned is to stimulate leasing companies to offer and contract special measures, a moratorium on the repayment of liabilities on the basis of leasing contracts and a rescheduling of existing liabilities on the basis of leasing contracts through specific regulatory requirements, which are more flexible than the existing prescribed minimum requirements in terms of forming and maintaining reserves for loan losses.

In Bosnia and Herzegovina, a stagnation of the physical volume of industrial production was recorded, with a growth rate of 0.40% compared to the same period of the previous year, as a result of the natural disasters as well as the reduced demand for B-H products in the reporting period.

In accordance with the fact that leasing companies in the Federation are oriented mainly toward legal entities (89.86% of receivables from financial leasing are related to legal entities, 8.08% to natural persons and 2.06% to entrepreneurs and others), it can be concluded that trends in the leasing sector are in direct relation to the economic situation in B&H.

*Table 1. Macroeconomic indicators in B&H*

| Indicators                        | 2012           | 2013           | 2014                              |
|-----------------------------------|----------------|----------------|-----------------------------------|
| Real GDP growth rate              | -1.10%         | 1.51%          | 0.3% (in six months)              |
| Industrial production growth rate | -5.20%         | 6.40%          | 0.4% (in nine months)             |
| Average annual inflation          | 1.80%          | -0.10%         | -1.2% (in the last 12 months)     |
| Unemployment rate                 | 28.00%         | 27.50%         | 27.50%                            |
| Foreign direct investments        | KM 558 million | KM 478 million | KM 468 million<br>(in six months) |

*\*Data source: the CBBH*

The balance sheet total of leasing companies in the Federation of B&H as of 30.09.2014 amounted to KM 487 564 thousand, which is lower by 15.66% or KM 90 537 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 30.09.2014) with data as of 31.12.2013, one can conclude that an increase in the balance sheet total in the amount of KM 6 520 thousand is evident with one leasing company, while five leasing companies recorded a decrease of the balance sheet total in the amount of KM 97 057 thousand, 90.06% or KM 87 413 thousand of which account for two leasing companies.

In the third quarter of 2014, leasing activities recorded a slight increase in the value and number of newly-concluded financial and operational leasing arrangements compared to the previous two quarters of 2014.

In the period from 01.01. to 30.09.2014, five leasing companies recorded a negative financial result in the amount of KM 13 591 thousand, while one leasing company recorded a positive financial result in the amount of KM 1 458 thousand, so that leasing activities in the Federation of B&H as a result of business operations recorded a loss in the amount of KM 12 133 thousand. Out of the aforementioned amount, KM 10 549 thousand or 86.94% constitute the loss of one leasing company, with the loss being the consequence of the significant concentration of the company's exposure to one lessee. The company's activities to restructure the receivables at hand have been intensified and positive effects can be expected by the end of the year, which will affect the financial result of the leasing sector.

The total capital of leasing companies as of 30.09.2014 amounted to KM 24 281 thousand. Compared to 31.12.2013, this item dropped by KM 11 681 thousand or 32.48%. Two leasing companies recorded a capital amount lower than the legal minimum prescribed under the provisions of the Law on Leasing (KM 250 000.00) and the aforementioned have the Agency's special attention, with the founders having initiated recapitalisation activities during the fourth quarter.

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 final, the controlled leasing companies are instructed to eliminate identified instances of non-compliance with the law and irregularities in the interest of improvement, legal compliance, profitability, solvency and security in their business operations.

Irregularities determined by on-site controls of leasing companies in the period from 01.01. to 30.09.2014 are 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 30.09.2014 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 30.09.2014, 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. The number of leasing companies was reduced due to the licences of two leasing companies being revoked by the Agency (2011 and 2013). 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

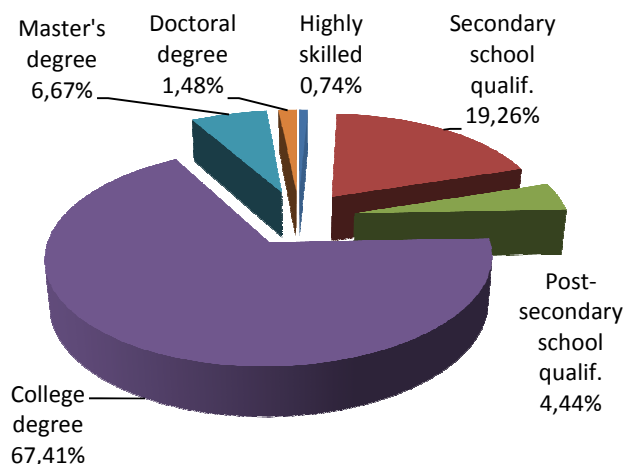
During the third quarter of 2014, the ownership structure of the leasing companies did not see any changes compared to the previous reporting period. Three leasing companies are still 100% owned by non-resident legal entities, two leasing companies are in majority ownership (over 51%) of non-resident 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 30.09.2014, the leasing sector has 135 employees, a decrease by 12.34% or 19 employees compared to 31.12.2013. A reduction in the number of employees was recorded in one leasing company, which saw significant organisational changes in early 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 30.09.2014, the leasing companies had an additional 38 employees recruited via student services and organisations mediating in employment, 68.42% or 26 employees of which have been recruited in one leasing company. Compared to 31.12.2013, the number of temporarily employed staff increased by 4 employees or 10.53%.

**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 30.09.2014, every employee accounts for KM 3 612 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 1 641 to KM 4 816 thousand of assets per employee.

## 2. FINANCIAL BUSINESS INDICATORS

### 2.1. Balance Sheet

As of 30.09.2014, the balance sheet total of leasing companies in the Federation of B&H amounted to KM 487 564 thousand, which is lower by KM 90 537 thousand or 15.66% compared to 31.12.2013. The decrease in assets is primarily the result of a continuous decrease in the assets of one leasing company, which had the largest individual market share in the leasing sector of the Federation of B&H in previous periods. If observed individually, one leasing company saw an increase of the balance sheet total in the amount of KM 6 520 thousand, while five leasing companies saw a decrease of the balance sheet total in the amount of KM 97 057 thousand, 90.06% or KM 87 413 thousand of which account for two leasing companies.

The two largest leasing companies (by size of assets) account for 53.13% of total assets of leasing companies.

The highest share in the total assets structure of leasing companies accounts for net receivables for financial leasing in the amount of KM 328 445 thousand or 67.36% of total assets of the leasing sector. Compared to 31.12.2013, net receivables for financial leasing fell by KM 38 737 thousand or 10.55%, while gross receivables or financial leasing fell by KM 56 120 thousand or 12.58%.

As of 30.09.2014, net receivables for loans amounted to KM 51 975 thousand or 10.66% of the amount of total assets of the leasing sector. Compared to 31.12.2013, net receivables for loans fell by KM 11 982 thousand or 18.73%, while gross receivables fell by KM 4 474 thousand or 6.26%. Receivables for loans in the structure of total assets of leasing companies are continuously decreasing, since the Law on Leasing prohibited leasing companies from concluding loan agreements and the aforementioned will remain in the balance sheet until the contracted periods of time they were granted for expire.

Out of the total recorded amount of net receivables for loans, KM 49 687 thousand or 95.60% accounts for receivables of one leasing company with a significant amount of loan receivables in its portfolio. KM 43 092 thousand or 86.73% of that 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, 77.45% accounts for loans approved for real estate financing.

As of 30.09.2014, the recorded balance sheet item Cash and Cash Equivalents amounted to KM 14 098 thousand, which is lower by KM 27 677 thousand or 66.25% 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 2.89%, to which it amounted as of 30.09.2014. As of 30.09.2014, the recorded balance sheet item Facilities to Banks amounted to KM 14 207 thousand, down by KM 1 254 thousand or 8.11% compared to 31.12.2013. This item mostly relates to term deposits at commercial banks.

The net value of fixed assets financed via operational leasing as of 30.09.2014 amounted to KM 27 467 thousand, up by KM 2 170 thousand or 8.58% compared to 31.12.2013. If observed individually, the net value of fixed assets financed via operational leasing rose for two leasing companies in the amount of KM 1 803 thousand, while it fell with 4 leasing companies in the amount of KM 3 547 thousand.

Table 2 of this Information provides an overview of net balance sheet positions of assets per reporting periods.

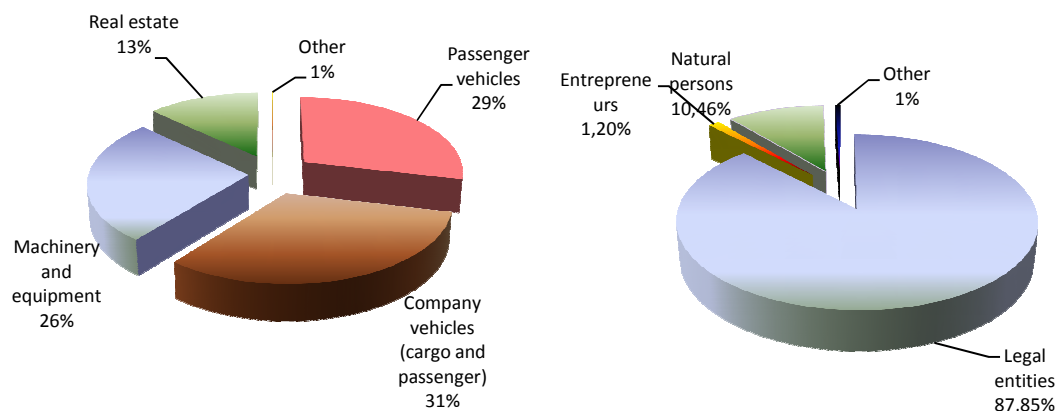
*Table 2. Structure of Net Balance Sheet Positions of Assets*

(KM 000)

| Balance sheet positions   | 31.12.2013     | % share in assets | 30.09.2014     | % share in assets | 30.09.2014/31.12.2013 |
|---------------------------|----------------|-------------------|----------------|-------------------|-----------------------|
| Financial leasing – net   | 367 182        | 63.51%            | 328 445        | 67.36%            | -10.55%               |
| Operational leasing – net | 25 297         | 4.38%             | 27 467         | 5.64%             | 8.58%                 |
| Loan – net                | 63 957         | 11.06%            | 51 975         | 10.66%            | -18.73%               |
| Other assets              | 121 665        | 21.05%            | 79 677         | 16.34%            | -34.51%               |
| <b>Total assets</b>       | <b>578 101</b> | <b>100.00%</b>    | <b>487 564</b> | <b>100.00%</b>    | <b>-15.66%</b>        |

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 30.09.2014*



### **2.1.1. Asset Quality**

According to data from the reports of leasing companies, loan loss reserves for financial leasing as of 30.09.2014 are recorded in the amount of KM 16 244 thousand, which represents a decrease of KM 7 057 thousand or 30.29% compared to 31.12.2013. In the structure of receivables for financial leasing as of 30.09.2014, a total of KM 13 958 thousand outstanding receivables has been recorded, while the amount of KM 15 171 thousand was recorded as of 31.12.2013, down by KM 1 213 thousand or 8.00%.



A detailed analysis of reports submitted by leasing companies found that a significant amount of formed reserves for losses for financial leasing as of 30.09.2014 is also caused by the fact that, in their reports, leasing companies declared losses of KM 2 653 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 2 491 thousand or 93.89% 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 3 of the Information shows a parallel overview of formed reserves by category of default.

*Table 3. Parallel Overview of Formed Reserves for Financial Leasing by Category of Default (KM 000)*

| Days past due | Total reserves<br>31.12.2013 | Total reserves<br>30.09.2014 | % change       |
|---------------|------------------------------|------------------------------|----------------|
| 0-60          | 701                          | 903                          | 28.80%         |
| 60-90         | 385                          | 297                          | -22.92%        |
| 90-180        | 9 425                        | 1 882                        | -80.03%        |
| more than 180 | 12 444                       | 12 968                       | 4.21%          |
| more than 360 | 346                          | 194                          | -43.93%        |
| <b>TOTAL</b>  | <b>23 301</b>                | <b>16 244</b>                | <b>-30.29%</b> |

If observed individually, the two largest leasing companies (by size of assets) account for 86.26% of total formed reserves for loan losses. Two leasing companies recorded an increase in formed reserves in the total amount of KM 3 404 thousand compared to 31.12.2013, while four leasing companies recorded a decrease in total formed reserves for loan losses in the total amount of KM 10 463 thousand compared to 31.12.2013.

As of 30.09.2014, loan loss reserves amounted to KM 15 034 thousand and rose by KM 7 508 thousand or 99.76% 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 30.09.2014, KM 14 927 thousand or 99.29% accounts for reserves formed by one leasing company with the most significant amount of loan receivables from subsidiary companies and receivables from lessees with a significant concentration of the company's exposure.

The total amount of written-off receivables for financial leasing and loans as of 30.09.2014 was KM 95 725 thousand and rose by KM 7 314 thousand or 8.27% compared to 31.12.2013. Out of the total recorded amount of written-off receivables, KM 45 463 thousand or 47.49% accounts for write-offs by one leasing company.

A review of the structure of written-off receivables revealed additional receivables in the amount of KM 9 172 thousand in off-balance records during the third quarter of 2014, KM 5 508 thousand or 60.05% of which relate to write-offs by one leasing company.

During the same period, the amount of KM 1 794 thousand was recorded on the basis of the collection of off-balance receivables, down by 14.20% compared to 31.12.2013 and 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).

Due to the difficult economic situation of B&H, there is an increasing number of insolvent lessees causing the termination of contracts and the repossession of leasing objects that leasing companies record in inventories. As of 30.09.2014, the market value of repossessed leasing objects amounted to KM 31 380 thousand and fell by KM 2 151 thousand or 6.41% 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 4 of the Information shows a parallel structure of repossessed leasing objects as of 31.12.2013 and 30.09.2014.

*Table 4. Number and Value of Repossessed Leasing Objects*

*(KM 000)*

| No.          | TYPE OF LEASING OBJECT                 | 31.12.2013      |  | 30.09.2014      |  |
|--------------|--|-----------------|--|-----------------|--|
|              |  | Number of units | Appraised market value of leasing object | Number of units | Appraised market value of leasing object |
| 1.           | Passenger vehicles                     | 98              | 1.713                                    | 37              | 519                                      |
| 2.           | Company vehicles (cargo and passenger) | 31              | 429                                      | 28              | 416                                      |
| 3.           | Machinery and equipment                | 18              | 6 613                                    | 35              | 6 861                                    |
| 4.           | Real estate                            | 21              | 24 776                                   | 21              | 23 584                                   |
| 5.           | Rail vehicles, water and air vehicles  | 0               | 0  | 0               | 0  |
| 6.           | Household appliances                   | 0               | 0  | 0               | 0  |
| 7.           | Other                                  | 0               | 0  | 0               | 0  |
| <b>Total</b> |  | <b>168</b>      | <b>33 531</b>                            | <b>121</b>      | <b>31 380</b>                            |

If observed individually, KM 29 065 thousand or 92.62% of the total value of repossessed leasing objects owned by leasing companies relates to repossessed leasing objects of two leasing companies.

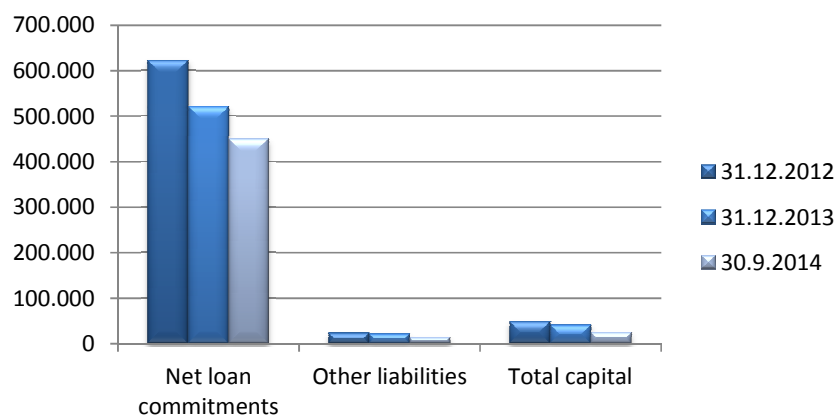
Out of the total appraised value of repossessed leasing objects as of 30.09.2014, 75.16% relates to real estate (commercial real estate) repossessed by leasing companies due to the lessees' non-compliance with legal obligations. The total amount of this item relates to two leasing companies. The current market situation and inadequate financing approval criteria cause difficult sales or new financing of repossessed real estate via financial or operational

leasing, especially if one takes into account the fact that repossessed real estate constitutes mostly production and commercial facilities.

## 2.2. Liabilities Structure

As of 30.09.2014, loan commitments are still a predominant position in the structure of total liabilities of leasing companies (92.28% 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 30.09.2014.

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



As of 30.09.2014, due to the reduced business activities of leasing companies, total loan commitments are down by KM 70 703 thousand or 13.58% compared to 31.12.2013, when the aforementioned item amounted to KM 520 625 thousand. Out of the total amount of loan commitments, KM 425 822 thousand or 87.34% relate to long-term commitments (short-term loan commitments amount to KM 24 523 as of 30.09.2014).

In the period leading up to the financial crisis (late 2008), the leasing sector in B&H had significant sources of funding from abroad. In the circumstances of the effects of the debtors' crisis in Europe (2011), the access to the money market was made more difficult and there were new business strategies of parent groups, which, in addition to the reorganisation and restructuring of the groups, included measures of more restrictive financing of subsidiaries, which affected the leasing companies operating in the FB&H as well.

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 58.26% of total loan commitments, while 19.58% account for direct indebtedness with founders and 22.16% 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 30.09.2014 is 3.09% 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 three quarters of 2014.

The total capital of leasing companies as of 30.09.2014 amounted to KM 24 281 thousand. Compared to 31.12.2013, this item fell by KM 11 681 thousand or 32.48%. The drop was caused by the fact that the sector operated at a loss as of 30.09.2014.

Two leasing companies recorded a total capital that is lower than the minimum amount prescribed under the Law on Leasing due to a deterioration in the quality of the loan portfolio, as well as the insufficient volume of newly-concluded financial and operational leasing arrangements. The Agency continuously supervises and carries out activities to strengthen the capital of leasing companies whose capital is lower than the minimum amount defined by the Law on Leasing

### ***2.3. Profitability***

In the period from 01.01. to 30.09.2014, total losses generated at the level of the leasing sector amounted to KM 12 133, KM 10 549 thousand or 86.94% of which relate to one leasing company. If observed individually, five leasing companies recorded a negative financial result in the amount of KM 13 591 thousand, while one leasing companies recorded a positive financial result in the amount of KM 1 458 thousand.

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 new written-off receivables for leasing arrangements.

In the period from 01.01. to 30.09.2014, interest income amounted to KM 22 518 thousand. This item saw a decrease of KM 6 588 thousand or 22.63% 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 16 812 thousand, down by KM 5 451 thousand or 24.48% compared to the same period of the previous business year. A drop in the 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 1 164 thousand or 21.07% 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 11 254 thousand, down by KM 1 173 thousand or 9.44% compared to the same period of the past business year. Lower interest expenses are caused by the significantly lower amount of loans 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 30.09.2014 amounted to KM 11 264 thousand, down by KM 5 415 thousand or 32.47% 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 9 519 thousand or 41.10% 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 current year amounted to KM 9 300 thousand and were up by KM 2 242 thousand or 31.77% compared to the same period of the previous year. In the current year, there was no significant deterioration of the quality of the financial leasing portfolio (including written-off receivables), as indicated by the ratio of non-performing assets (default of over 90 days) and total receivables from financial leasing arrangements, which amounted to 27.71% as of 30.09.2014, while the aforementioned indicator amounted to 29.36% 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 18.74% as of 30.09.2014 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 third 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 8 120 thousand or 22.27%, as well as an increase in the number of newly-concluded arrangements in the amount of 132 contracts or 14.65% compared to the second quarter of the current year. This indicates that leasing operations in the third 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 30.09.2014 amounted to KM 111 644 thousand, down by KM 33 294 thousand or 22.97% compared to the same period of the previous year. A total of 2 694 new

arrangements was concluded, 374 or 16.12% more compared to the same period of the previous year.

The average value of arrangements in the third quarter 2014 amounted to KM 43 thousand and it is slightly below the average value of arrangements in the same period of the previous year, when it amounted to KM 45 thousand.

Out of the total generated value of newly-concluded arrangements, KM 98 565 thousand or 88.29% accounts for financial leasing arrangements with an average (weighted) nominal interest rate of 6.51% and a weighted effective interest rate of 9.08%.

Table 5 of the Information shows parallel indicators of new financings by leasing object and type of arrangement.

*Table 5. Structure of financing amounts by leasing object*

(KM 000)

|              | 01.01. to 30.09.2013 |                     |                | 01.01. to 30.09.2014 |                     |                |
|--------------|----------------------|---------------------|----------------|----------------------|---------------------|----------------|
|              | Financial leasing    | Operational leasing | TOTAL          | Financial leasing    | Operational leasing | TOTAL          |
| Vehicles     | 98 606               | 6 374               | 104 980        | 78 027               | 12 767              | 90 794         |
| Equipment    | 37 076               | 51                  | 37 127         | 18 466               | 312                 | 18 778         |
| Real estate  | 2 476                | 0                   | 2 476          | 2 032                | 0                   | 2 032          |
| Other        | 355                  | 0                   | 355            | 40                   | 0                   | 40             |
| <b>TOTAL</b> | <b>138 513</b>       | <b>6 425</b>        | <b>144 938</b> | <b>98 565</b>        | <b>13 079</b>       | <b>111 644</b> |

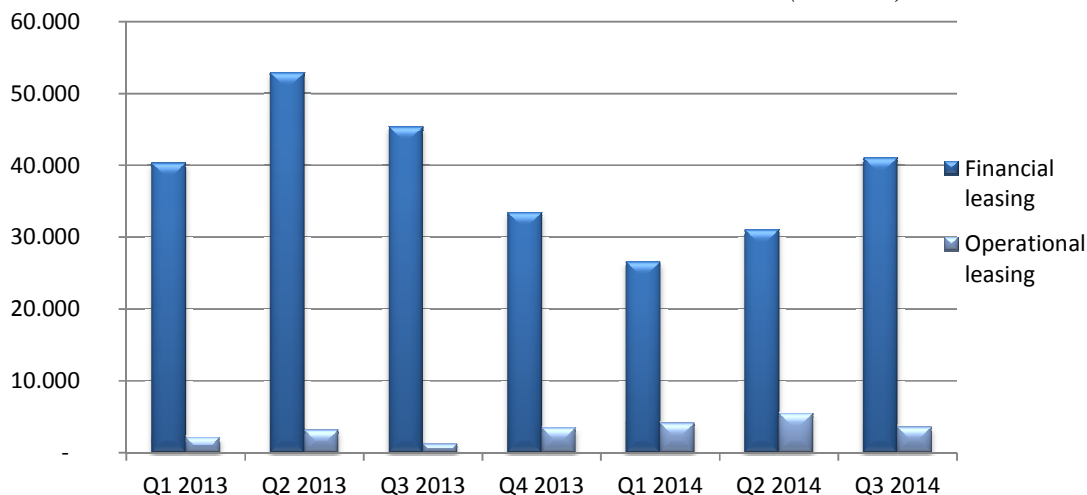
The total amount of new financings generated in the period from 01.01. to 30.09.2014 includes the amount of financing generated by the leasing company seated in Republika Srpska through its branches located in the Federation of B&H (this company generates the majority of its business activities in the 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 (91.02% of the total amount of financing in the first three quarters of 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**  
(in KM 000)

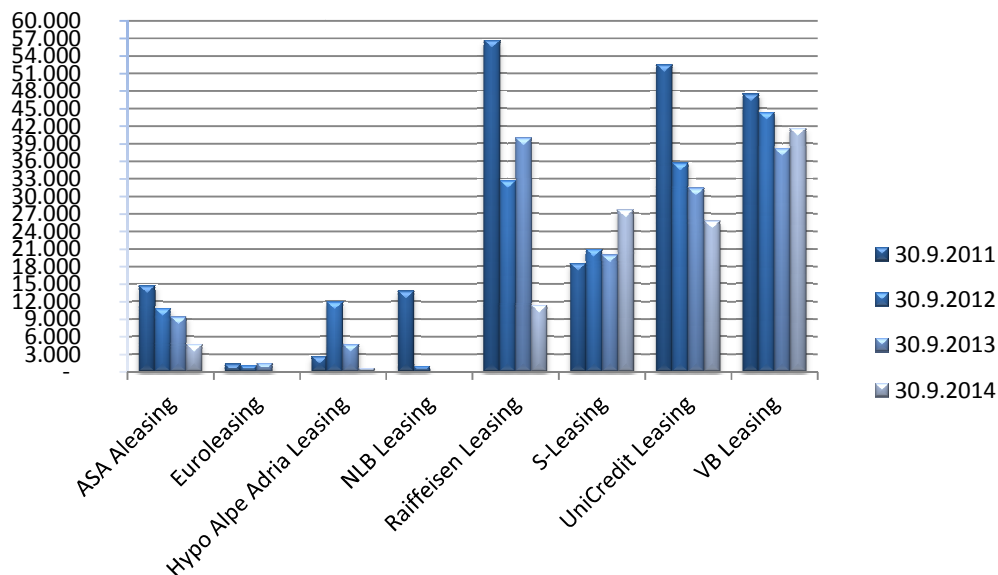


In the period from 01.01. to 30.09.2014, the volume of financing via operational leasing arrangements was up by 103.56% or KM 6 654 thousand compared to the same period of the previous business year.

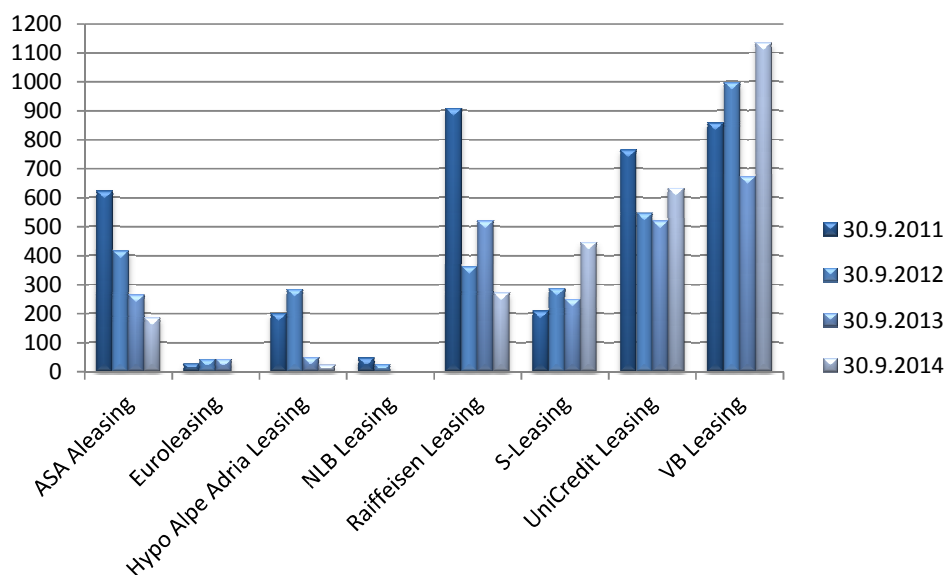
### 3.2. Market Share by Financial Volume and Number of Arrangements

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 KM 000)**



**Graph 6. Market Share by Number of Arrangements**



The above graphs show that two leasing companies saw an increase in the volume of new financings in the third quarter of 2014, while four leasing companies saw a decrease in the volume of new financings, which ranged from 17.90% to 87.07%. Two companies did not have new financings (one company's operating licence was revoked, the other terminated new financings).

### **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 period from 01.07. to 30.09.2014 amounted to 5.71% for short-term and 8.49% for long-term arrangements, while the effective interest rate for short-term and long-term arrangements amounted to, respectively, 6.46% and 9.02% per annum. The total weighted nominal interest rate for the aforementioned period amounted to 6.43%, while the effective interest rate amounted to 9.00% per annum. Compared to the same period of the previous business year, when the total weighted nominal interest rate was 6.73% and the effective interest rate 9.13% per annum, a slight decrease in interest rates on financial leasing arrangements is evident. Table 6 of the Information provides the data on the amount of financing, nominal and effective interest rates for financial leasing arrangements concluded in the period from 01.07. to 30.09.2014.



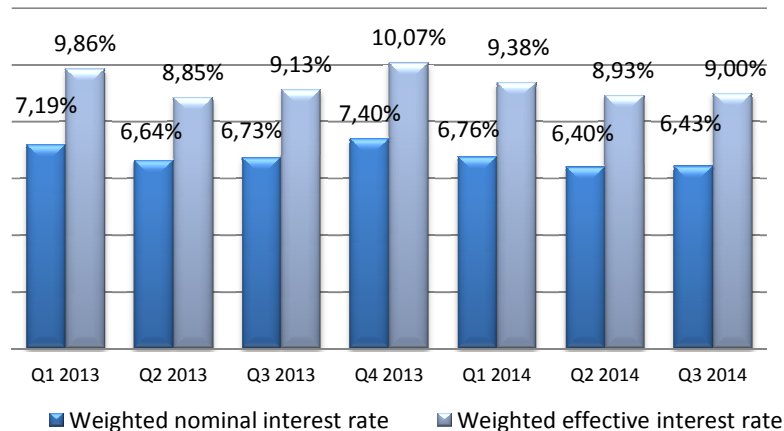
Table 6. Average nominal and effective interest rate for financial leasing arrangements concluded in the period from 01.01. to 30.09.2014

| No.         | DESCRIPTION   | Number of contracts | Amount of financing KM (000) | Weighted nominal interest rate | Weighted effective interest rate |
|-------------|---|---------------------|------------------------------|--------------------------------|----------------------------------|
| <b>1.</b>   | <b>Short-term leasing arrangements by leasing object:</b> | <b>78</b>           | <b>2 696</b>                 | <b>6.11%</b>                   | <b>9.91%</b>                     |
| a.          | Passenger vehicles  | 41                  | 943                          | 6.39%                          | 11.44%                           |
| b.          | Company vehicles (cargo and passenger)                    | 29                  | 1 368                        | 5.78%                          | 8.64%                            |
| c.          | Machinery and equipment                                   | 8                   | 385                          | 6.59%                          | 10.65%                           |
| <b>1.1.</b> | <b>Short-term leasing arrangements by type of lessee:</b> | <b>78</b>           | <b>2 696</b>                 | <b>6.11%</b>                   | <b>9.91%</b>                     |
| a.          | Legal entities  | 72                  | 2 638                        | 6.05%                          | 9.70%                            |
| b.          | Entrepreneurs   | 1                   | 16                           | 9.50%                          | 23.57%                           |
| c.          | Natural persons   | 5                   | 42                           | 8.25%                          | 17.83%                           |
| <b>2.</b>   | <b>Long-term leasing arrangements by leasing object:</b>  | <b>2 322</b>        | <b>95 869</b>                | <b>6.52%</b>                   | <b>9.06%</b>                     |
| a.          | Passenger vehicles  | 1 349               | 36 576                       | 6.65%                          | 9.52%                            |
| b.          | Company vehicles (cargo and passenger)                    | 688                 | 39 140                       | 6.32%                          | 8.64%                            |
| c.          | Machinery and equipment                                   | 280                 | 18 081                       | 6.73%                          | 9.32%                            |
| d.          | Real estate   | 2                   | 2 032                        | 6.23%                          | 6.45%                            |
| g.          | Other   | 3                   | 40                           | 8.11%                          | 11.91%                           |
| <b>2.1.</b> | <b>Long-term leasing arrangements by type of lessee:</b>  | <b>2 322</b>        | <b>95 869</b>                | <b>6.52%</b>                   | <b>9.06%</b>                     |
| a.          | Legal entities  | 1 879               | 85 935                       | 6.56%                          | 8.99%                            |
| b.          | Entrepreneurs   | 77                  | 2 012                        | 7.34%                          | 11.99%                           |
| c.          | Natural persons   | 366                 | 7 922                        | 5.90%                          | 9.08%                            |
|             | <b>TOTAL</b>  | <b>2 400</b>        | <b>98 565</b>                | <b>6.51%</b>                   | <b>9.08%</b>                     |

The trend of decrease in nominal and effective interest rates during 2014 compared to 2013 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 by quarter in 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 the VAT paid on the interest rate, which is a mandatory part of the financial leasing arrangement and is paid in advance by the lessee, the creation of the financial leasing arrangement with purchase value, as well as additional costs of leasing arrangements that are commonly an integral part of a monthly lease in the leasing arrangement.

### **3.4. Lessees' Complaints**

In the period from 01.07. to 30.09.2014, a total of 7 complaints by natural persons – lessees (six of which were related to financial leasing, one of which was related to operational leasing) were recorded in the reports delivered to the Agency. The specified number of complaints was recorded by two leasing companies, three of them were negatively resolved, one positively, while, in the case of three complaints, the Agency submitted requests for the leasing companies to issue statements.

## **III CONCLUSIONS AND RECOMMENDATIONS**

Based on the business indicators of leasing companies in the Federation of B&H in the period from 01.07. to 30.09.2014, it may be concluded that the business operations of leasing companies 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,
- Insistence 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 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 improving the cooperation with other supervision and control institutions,
- Improving the structure and data quality of the Central Loan Registry at the Central Bank of B&H,
- Continuing the permanent education and professional training of staff, and
- Improving the 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,
- Strengthening the 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,
- Improving methods of information and fair treatment of lessees before and during the contractual relationship,
- Implementing 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. Decision on Minimum Requirements in Terms of Content, Comprehensibility and Availability of General and Special Business Conditions of Providers of Financial Services
14. Instructions for Implementing the Decision on Uniform Manner and Method of Calculation and Disclosure of Effective Interest Rates for Financial Leasing Arrangements, and
15. Instructions for Drafting Reports of Leasing Companies.

16. Code of Conduct of Ombudsmen for Banking System of the Federation of Bosnia and Herzegovina

No.: U.O.-64-4/14  
Sarajevo: 04.12.2014

## ANNEXES

### *Annex 1. Main Data on Leasing Companies as of 30.09.2014*

| No. | Name of leasing company                   | Address and seat                     | Director           | Phone            | Issuance date of FBA licence | Headcount  | Web address             |
|-----|---|--------------------------------------|--------------------|------------------|------------------------------|------------|-------------------------|
| 1.  | <b>ASA ALEASING d.o.o. Sarajevo</b>       | Bulevar Meše Selimovića 16, Sarajevo | Samir Mustafić     | + 387 33 771 222 | 22.03.2010                   | 18         | www.asa-aleasing.ba     |
| 2.  | <b>NLB LEASING d.o.o. Sarajevo</b>        | Trg Solidarnosti 2a, Sarajevo        | Dalida Međedović   | + 387 33 789 345 | 19.03.2010                   | 8          | www.nlbleasing.ba       |
| 3.  | <b>RAIFFEISEN LEASING d.o.o. Sarajevo</b> | Danijela Ozme 3, Sarajevo            | Munir Čengić       | + 387 33 254 354 | 19.01.2010                   | 29         | www.rlbh.ba             |
| 4.  | <b>S-LEASING d.o.o. Sarajevo</b>          | Zmaja od Bosne 7 Sarajevo            | Elma Hošo          | + 387 33 565 850 | 11.02.2010                   | 13         | www.s-leasing.ba        |
| 5.  | <b>UNICREDIT LEASING d.o.o. Sarajevo</b>  | Džemala Bijedića 2, Sarajevo         | Izmira Aličić-Tuka | + 387 33 721 750 | 16.03.2010                   | 32         | www.unicreditleasing.ba |
| 6.  | <b>VB LEASING d.o.o. Sarajevo</b>         | Fra Anđela Zvizdovića 1, Sarajevo    | Slobodan Vujić     | + 387 33 276 280 | 12.01.2010                   | 35         | www.vbleasing.ba        |
|     |   |                                      |                    |                  | <b>TOTAL</b>                 | <b>135</b> |                         |

*Annex 2. Overview of the Ownership Structure of Leasing Companies as of 30.09.2014*

| LEASING COMPANY                           | NAME OF THE OWNER                             | % share |
|---|---|---------|
| <b>ASA ALEASING d.o.o. Sarajevo</b>       | ASA FINANCE d.d. Sarajevo                     | 17.19%  |
|   | ASA AUTO d.o.o. Sarajevo                      | 33.81%  |
|   | ALEASING d.o.o. Ljubljana                     | 49.00%  |
| <b>RAIFFEISEN LEASING d.o.o. Sarajevo</b> | RAIFFEISEN LEASING INTERNATIONAL GmbH, Vienna | 51.00%  |
|   | RAIFFEISEN BANK d.d. Sarajevo, BiH            | 49.00%  |
| <b>NLB LEASING d.o.o. Sarajevo</b>        | NLB d.d. Ljubljana                            | 100.00% |
| <b>S-LEASING d.o.o. Sarajevo</b>          | STEIERMAERKISCHE BANK UND SPARKASSEN AG, Graz | 51.00%  |
|   | SPARKASSE BANK d.d. Sarajevo                  | 49.00%  |
| <b>UNICREDIT LEASING d.o.o. Sarajevo</b>  | UNICREDIT LEASING S.p.A., Milan               | 100.00% |
| <b>VB LEASING d.o.o. Sarajevo</b>         | VB LEASING INTERNATIONAL GmbH, Vienna         | 100.00% |



**Annex 3. Overview of Reserves for Leasing Loans as of 30.09.2014 (in KM 000)**

| No.          | Days past due | Provisioning rate | Amount of receivables | Total reserves |
|--------------|---------------|-------------------|-----------------------|----------------|
| 1            | 0-60          | 0.05%             | 16 609                | 8              |
| 2            | 60-90         | 5%                | 35 846                | 2 268          |
| 3            | 90-180        | 10%               | 1 997                 | 201            |
| 4            | 180-270       | 30%               | 0                     | 0              |
| 5            | 270-360       | 50%               | 0                     | 0              |
| 6            | preko 360     | 100%              | 12 557                | 12 557         |
| <b>TOTAL</b> |               |                   | <b>67 009</b>         | <b>15 034</b>  |

**Annex 4. Overview of Reserves for Financial Leasing as of 30.09.2014 (in KM 000)**

| Days past due | Provisioning rate for financial leasing (moveables) | Provisioning rate for financial leasing (immoveables) | Amount of receivables for moveables | Amount of receivables for immoveables | Principal amount for moveables | Principal amount for immoveables | Reserves      |                 |  | Total reserves |
|---------------|---|---|-------------------------------------|---------------------------------------|--------------------------------|----------------------------------|---------------|-----------------|--|----------------|
|               |   |   |                                     |                                       |                                |                                  | For moveables | For immoveables | Additional calculated and allocated reserves |                |
| 0-60          | 0.50%   | 0.50%   | 270 733                             | 23 118                                | 50 402                         | 4 945                            | 253           | 25              | 625  | 903            |
| 60-90         | 10%   | 10%   | 10 818                              | 13 691                                | 2 147                          | 762                              | 215           | 76              | 6  | 297            |
| 90-180        | 50%   | 50%   | 8 205                               | 2 178                                 | 2 316                          | 392                              | 1 158         | 196             | 528  | 1 882          |
| over 180      | 100%  | 75%   | 11 184                              | 4 568                                 | 11 036                         | 584                              | 11 036        | 438             | 1 494  | 12 968         |
| over 360      | 100%  | 100%  | 29                                  | 165                                   | 29                             | 165                              | 29            | 165             | 0  | 194            |
| <b>TOTAL</b>  |   |   | <b>300 969</b>                      | <b>43 720</b>                         | <b>65 930</b>                  | <b>6 848</b>                     | <b>12 691</b> | <b>900</b>      | <b>2 653</b>                                 | <b>16 244</b>  |

**Annex 5. Consolidated Balance Sheet (in KM 000)**

| No.        | DESCRIPTION  | 31.12.2013     |                      | 30.9.2014      |                      | % growth<br>30.09.2014/<br>31.12.2013 |
|------------|--|----------------|----------------------|----------------|----------------------|---------------------------------------|
|            |  | Amount         | % in total<br>assets | Amount         | % in total<br>assets |                                       |
|            | <b>ASSETS</b>  |                |                      |                |                      |                                       |
| <b>1.</b>  | <b>Cash and cash equivalents</b>                     | <b>41 775</b>  | <b>7.23%</b>         | <b>14 098</b>  | <b>2.89%</b>         | <b>-66.25%</b>                        |
| <b>2.</b>  | <b>Placements with banks</b>                         | <b>15 461</b>  | <b>2.67%</b>         | <b>14 207</b>  | <b>2.91%</b>         | <b>-8.11%</b>                         |
| <b>3.</b>  | <b>Receivables for financial leasing, net</b>        | <b>367 182</b> | <b>63.52%</b>        | <b>328 445</b> | <b>67.36%</b>        | <b>-10.55%</b>                        |
| 3a)        | Receivables for financial leasing, gross             | 446 269        | 77.20%               | 390 149        | 80.02%               | -12.58%                               |
| 3b)        | Loan loss reserves                                   | 23 301         | 4.03%                | 16 244         | 3.33%                | -30.29%                               |
| 3c)        | Deferred interest income                             | 55 504         | 9.60%                | 45 199         | 9.27%                | -18.57%                               |
| 3d)        | Deferred fee income                                  | 282            | 0.05%                | 261            | 0.05%                | -7.45%                                |
| <b>4.</b>  | <b>Receivables from subsidiaries</b>                 | <b>2</b>       | <b>0.00%</b>         | <b>2</b>       | <b>0.00%</b>         | <b>0.00%</b>                          |
| <b>5.</b>  | <b>Tangible and intangible assets, net</b>           | <b>33 783</b>  | <b>5.84%</b>         | <b>35 676</b>  | <b>7.32%</b>         | <b>5.60%</b>                          |
| 5a)        | Tangible and intangible assets – own assets          | 13 696         | 2.37%                | 13 964         | 2.86%                | 1.96%                                 |
| 5b)        | Tangible and intangible assets – operational leasing | 42 375         | 7.33%                | 43 690         | 8.96%                | 3.10%                                 |
| 5c)        | Value adjustment – own assets                        | 5 210          | 0.90%                | 5 755          | 1.18%                | 10.46%                                |
| 5d)        | Value adjustment – operational leasing               | 17 078         | 2.95%                | 16 223         | 3.33%                | -5.01%                                |
| <b>6.</b>  | <b>Long-term investments</b>                         | <b>119</b>     | <b>0.02%</b>         | <b>52</b>      | <b>0.01%</b>         | <b>-56.30%</b>                        |
| <b>7.</b>  | <b>Other assets (7a+7b)</b>                          | <b>119 779</b> | <b>20.72%</b>        | <b>95 084</b>  | <b>19.50%</b>        | <b>-20.62%</b>                        |
| 7a)        | Loans, net (7a1-7a2)                                 | 63 957         | 11.06%               | 51 975         | 10.66%               | -18.73%                               |
| 7a1)       | Loans (due receivables + non-due interest)           | 71 483         | 12.37%               | 67 009         | 13.74%               | -6.26%                                |
| 7a2)       | Loan loss reserves                                   | 7 526          | 1.30%                | 15 034         | 3.08%                | 99.76%                                |
| 7b)        | Inventories  | 33 212         | 5.75%                | 31 144         | 6.39%                | -6.23%                                |
| 7c)        | Other assets   | 22 610         | 3.91%                | 11 965         | 2.45%                | -47.08%                               |
|            | <b>TOTAL ASSETS</b>                                  | <b>578 101</b> | <b>100.00%</b>       | <b>487 564</b> | <b>100.00%</b>       | <b>-15.66%</b>                        |
|            | <b>LIABILITIES</b>                                   |                |                      |                |                      |                                       |
| <b>9.</b>  | <b>Due for taken loans, net</b>                      | <b>520 625</b> | <b>90.06%</b>        | <b>449 922</b> | <b>92.28%</b>        | <b>-13.58%</b>                        |
| 9a)        | Due for short-term loans                             | 65 064         | 11.25%               | 24 523         | 5.03%                | -62.31%                               |
| 9b)        | Due for long-term loans                              | 456 159        | 78.91%               | 425 822        | 87.34%               | -6.65%                                |
| 9c)        | Prepaid costs and fees                               | 598            | 0.10%                | 423            | 0.09%                | -29.26%                               |
| <b>10.</b> | <b>Other liabilities</b>                             | <b>21 514</b>  | <b>3.72%</b>         | <b>13 361</b>  | <b>2.74%</b>         | <b>-37.90%</b>                        |
|            | <b>TOTAL LIABILITIES</b>                             | <b>542 139</b> | <b>93.78%</b>        | <b>463 283</b> | <b>95.02%</b>        | <b>-14.55%</b>                        |
| <b>11.</b> | <b>Core capital</b>                                  | <b>90 502</b>  | <b>15.66%</b>        | <b>53 520</b>  | <b>10.98%</b>        | <b>-40.86%</b>                        |
| <b>12.</b> | <b>Reserves</b>                                      | <b>8 829</b>   | <b>1.53%</b>         | <b>9 046</b>   | <b>1.86%</b>         | <b>2.46%</b>                          |
| <b>13.</b> | <b>Accumulated profit/loss</b>                       | <b>-63 369</b> | <b>-10.96%</b>       | <b>-38 285</b> | <b>-7.85%</b>        | <b>-39.58%</b>                        |
|            | <b>TOTAL CAPITAL</b>                                 | <b>35 962</b>  | <b>6.22%</b>         | <b>24 281</b>  | <b>4.98%</b>         | <b>-32.48%</b>                        |
|            | <b>TOTAL LIABILITIES</b>                             | <b>578 101</b> | <b>100.00%</b>       | <b>487 564</b> | <b>100.00%</b>       | <b>-15.66%</b>                        |
|            | Written-off receivables (initial balance)            | 65 028         | 11.25%               | 88 411         | 18.13%               | 35.96%                                |
|            | New write-off (+)                                    | 25 562         | 4.42%                | 9 172          | 1.88%                | -64.12%                               |
|            | Collection (-)                                       | 2 091          | 0.36%                | 1 794          | 0.37%                | -14.20%                               |
|            | Permanent write-off (-)                              | 88             | 0.02%                | 64             | 0.01%                | -27.27%                               |
|            | <b>Written-off receivables (final balance)</b>       | <b>88 411</b>  | <b>15.29%</b>        | <b>95 725</b>  | <b>19.63%</b>        | <b>8.27%</b>                          |

*Annex 6. Consolidated Income Statement (in KM 000)*

| No.                                  | DESCRIPTION                                      | 30.09.2013.        |                      | 30.9.2014          |                         | % rasta<br><br>30.09.2014/<br>30.09.2013 |
|--------------------------------------|--|--------------------|----------------------|--------------------|-------------------------|--|
|                                      |  | Amount<br>(KM 000) | % in total<br>income | Amount<br>(KM 000) | % in<br>total<br>income |  |
| <b>FINANCIAL INCOME AND EXPENSES</b> |  |                    |                      |                    |                         |  |
| <b>1.</b>                            | <b>Interest income</b>                           | <b>29 106</b>      | <b>55.69%</b>        | <b>22 518</b>      | <b>62.28%</b>           | <b>-22.63%</b>                           |
| 1a)                                  | Interest for financial leasing                   | 22 263             | 42.60%               | 16 812             | 46.50%                  | -24.48%                                  |
| 1b)                                  | Interest on placements with banks                | 109                | 0.21%                | 307                | 0.85%                   | 181.65%                                  |
| 1c)                                  | Fees (for processing leasing arrangements, etc.) | 1 210              | 2.32%                | 1 039              | 2.87%                   | -14.13%                                  |
| 1d)                                  | Other interest income                            | 5 524              | 10.57%               | 4 360              | 12.06%                  | -21.07%                                  |
| <b>2.</b>                            | <b>Interest expenses</b>                         | <b>12 427</b>      | <b>23.78%</b>        | <b>11 254</b>      | <b>31.13%</b>           | <b>-9.44%</b>                            |
| 2a)                                  | Interest on borrowed funds                       | 12 155             | 23.26%               | 10 957             | 30.30%                  | -9.86%                                   |
| 2b)                                  | Fees for loan processing                         | 272                | 0.52%                | 256                | 0.71%                   | -5.88%                                   |
| 2c)                                  | Other interest expenses                          | 0                  | 0.00%                | 41                 | 0.11%                   | 0.00%                                    |
| <b>3.</b>                            | <b>Net interest income</b>                       | <b>16 679</b>      | <b>31.91%</b>        | <b>11 264</b>      | <b>31.15%</b>           | <b>-32.47%</b>                           |
| <b>OPERATING INCOME AND EXPENSES</b> |  |                    |                      |                    |                         |  |
| <b>4.</b>                            | <b>Operating income</b>                          | <b>23 158</b>      | <b>44.31%</b>        | <b>13 639</b>      | <b>37.72%</b>           | <b>-41.10%</b>                           |
| 4a)                                  | Fees for services                                | 23                 | 0.04%                | 39                 | 0.11%                   | 69.57%                                   |
| 4b)                                  | Fees from operational lease                      | 8 792              | 16.82%               | 8 703              | 24.07%                  | -1.01%                                   |
| 4c)                                  | Income from sale of leasing facilities, net      | 24                 | 0.05%                | 50                 | 0.14%                   | 108.33%                                  |
| 4d)                                  | Other operating income                           | 14 319             | 27.40%               | 4 847              | 13.41%                  | -66.15%                                  |
| 4d1)                                 | Income from recoveries                           | 3 199              | 6.12%                | 1 698              | 4.70%                   | -46.92%                                  |
| 4d2)                                 | Income from notifications                        | 462                | 0.88%                | 431                | 1.19%                   | -6.71%                                   |
| 4d3)                                 | Other  | 10 658             | 20.39%               | 2 718              | 7.52%                   | -74.50%                                  |
| <b>5.</b>                            | <b>Operating expenses</b>                        | <b>34 327</b>      | <b>65.68%</b>        | <b>27 574</b>      | <b>76.26%</b>           | <b>-19.67%</b>                           |
| 5a)                                  | Salaries and contributions                       | 6 243              | 11.95%               | 6 015              | 16.64%                  | -3.65%                                   |
| 5b)                                  | Costs of business premises                       | 9 315              | 17.82%               | 8 749              | 24.20%                  | -6.08%                                   |
| 5c)                                  | Other operating expenses                         | 18 769             | 35.91%               | 12 810             | 35.43%                  | -31.75%                                  |
| <b>6.</b>                            | <b>Costs of loan loss reserves</b>               | <b>7 058</b>       | <b>13.50%</b>        | <b>9 300</b>       | <b>25.72%</b>           | <b>31.77%</b>                            |
| 6a)                                  | Costs of loan loss reserves financial leasing    | 4 033              | 7.72%                | 1 792              | 4.96%                   | -55.57%                                  |
| 6b)                                  | Costs of loan loss reserves borrowings           | 3 025              | 5.79%                | 7 508              | 20.76%                  | 148.20%                                  |
| <b>7.</b>                            | <b>Profit before taxes</b>                       | <b>-1 548</b>      | <b>-2.96%</b>        | <b>-11 971</b>     | <b>-33.11%</b>          | <b>673%</b>                              |
| 8.                                   | Profit tax                                       | 153                | 0.29%                | 162                | 0.45%                   | 5.88%                                    |
| <b>9.</b>                            | <b>Net profit</b>                                | <b>-1 701</b>      | <b>-3.25%</b>        | <b>-12 133</b>     | <b>-33.56%</b>          | <b>613%</b>                              |

**Annex 7. Balance Sheet Volume Ranking**

| 31.12.2013   |                                    |                               |                  |                  | 30.9.2014    |                                    |                               |                  |                  |                            |
|--------------|------------------------------------|-------------------------------|------------------|------------------|--------------|------------------------------------|-------------------------------|------------------|------------------|----------------------------|
| Rank         | Leasing company                    | Balance sheet volume (KM 000) | Share 31.12.2013 | Cumulative share | Rank         | Leasing company                    | Balance sheet volume (KM 000) | Share 30.09.2014 | 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 | 139 667                       | 28.65%           | 28.65%           | 73                         |
| 2.           | UniCredit Leasing d.o.o. Sarajevo  | 153 919                       | 26.62%           | 59.93%           | 2.           | UniCredit Leasing d.o.o. Sarajevo  | 119 398                       | 24.49%           | 53.13%           | 78                         |
| 3.           | VB Leasing d.o.o. Sarajevo         | 110 709                       | 19.15%           | 79.08%           | 3.           | VB Leasing d.o.o. Sarajevo         | 107 859                       | 22.12%           | 75.26%           | 97                         |
| 4.           | S-Leasing d.o.o. Sarajevo          | 53 651                        | 9.28%            | 88.36%           | 4.           | S-Leasing d.o.o. Sarajevo          | 60 171                        | 12.34%           | 87.60%           | 112                        |
| 5.           | Asa ALeasing d.o.o. Sarajevo       | 35 718                        | 6.18%            | 94.54%           | 5.           | Asa ALeasing d.o.o. Sarajevo       | 29 546                        | 6.06%            | 93.66%           | 83                         |
| 6.           | NLB Leasing d.o.o. Sarajevo        | 31 545                        | 5.46%            | 100.00%          | 6.           | NLB Leasing d.o.o. Sarajevo        | 30 923                        | 6.34%            | 100.00%          | 98                         |
| <b>TOTAL</b> |                                    | <b>578 101</b>                | <b>100.00%</b>   |                  | <b>TOTAL</b> |                                    | <b>487 564</b>                | <b>100.00%</b>   |                  | <b>84</b>                  |