



**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**

31.03.2014

Sarajevo, May 2014

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I INTRODUCTION

The Banking Agency of the Federation of B&H (hereinafter: the FBA) produced this Information on the Leasing Sector in the Federation of B&H as of 31.03.2014 as a regulatory body for supervision of leasing companies based on an analysis of the financial statements submitted by the leasing companies to the FBA (indirect off site supervision), its findings from on-site examinations (direct on-site supervision) and other information and data delivered by the leasing companies to the FBA.

Business operations of the leasing companies in the Federation of B&H are regulated under the Law on Leasing that was passed on 03.01.2009 (Official Gazette of the Federation of Bosnia and Herzegovina No. 85/08, 39/09 and 65/13). The Law defines terms and conditions for establishing leasing companies, their operations and termination, rights and responsibilities of companies in leasing operations, risk management, financial reporting, activities of leasing companies with respect to anti-money laundering and counter-terrorism financing and supervision of operations of leasing companies.

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

The economic trends in the environment in 2012 and 2013 have had a negative impact on local economy influenced through the credit crunch from Eurozone and the region. This caused weakening of local demand which has been present since 2010 and a slow-down of business activities of leasing companies.

An encouraging indicator that could cause rising demand in leasing products in a period ahead of us is the industrial production growth of 6,70 % in 2013 over the past year and real GDP rate of 1,51%.

Impact of the crisis on the real sector is evident, and its consequences will inevitably impact the economic environment of leasing companies in the forthcoming period, as they have already influenced the balance sheet volume of leasing companies in the Federation of B&H of KM 542.384 ths as of 31.03.2014, 6,18% or KM 35.717 ths less than as of 31.12.2013.

Having compared individual balance sheet volumes of six leasing companies (licensed as of 31.03.2014 for leasing business) with the data as of 31.12.2013, we have found an evident increase in the balance sheet volume with two leasing companies amounting to KM 1.674 ths, and a decrease in the balance sheet volume of four leasing companies in the total amount of

KM 37.391 ths. Thereof, balance sheet volume of one leasing company accounts for 68,37% or KM 25.565 ths.

In a period from 1 January to 31 March 2014, losses were generated in the leasing sector in the Federation of B&H in the amount of KM 5.555 ths. Five leasing companies operated with losses in the amount of KM 6.196 ths, while one leasing company operated with profit of KM 641 ths.

Total capital of leasing companies as of 31.03.2014 was KM 30.408 ths. Compared to 31.12.2013, this item fell by KM 5.554 ths or 15,44%. Two leasing companies had their capital amount lower than a legal minimum prescribed under the Leasing Law (KM 250.000,00).

Authorised persons of the FBA conduct direct supervision of operations of the leasing companies through comprehensive and target controls – overview of business operations on the location. After the reports become legally valid, leasing companies are instructed to eliminate any non-compliance and irregularities for the purpose of improvements, legal compliance, profitability, solvency and security in their business operations.

The data in the Information as of 31.03.2014 include the data provided by six leasing companies licensed for the leasing business in the Federation of BiH, unless specifically stated otherwise.

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

1. STRUCTURE OF THE LEASING SECTOR

1.1. Status, Number and Network of Branches

The leasing activities in the Federation of B&H were performed by 6 leasing companies as of 31.03.2014, while in a period between 2010 and 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, of which 16 branches are located in the Federation of B&H and 4 branches are located in Republika Srpska.

The following leasing companies are licensed for leasing activities:

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 i
6. VB Leasing d.o.o. Sarajevo.

1.2. Ownership Structure

During the first quarter of 2014, the ownership structure of the leasing companies did not see any changes over the past reporting period.

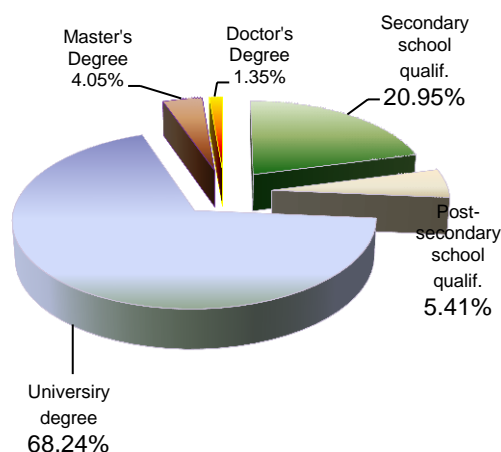
Three leasing companies are 100%-owned by non-resident legal entities, two leasing companies are in majority ownership (over 51%) on non-resident legal entities, while one leasing company is in majority ownership of resident legal entities. Detailed information on overview of ownerships structure of leasing companies is provided in the Annex 2 of Information.

1.3. Human Resources

The leasing sector has had 148 employees as of 31.03.2014, a decrease by 4,52% or seven employees over the year-end 31.12.2013. The total amount of employees does not account for seven employees of leasing companies seated in the Republica Srpska who work in the Federation of BiH.

Additionally, the leasing companies had 28 employees recruited via student services and organisations mediating in employment as of 31.03.2014, thereof 71,43% or 20 employees have been recruited in one leasing company. If compared to YE 31.12.2013, number of temporary employed staff fell by 3 employees or 9,68%.

Chart 1. Qualifications structure of the leasing sector employees



Efficiency of employees for evaluation of performance of a leasing company is measured by ratio between assets and headcount (assets per employee). As of 31.03.2014, this ratio is KM 3.665 ths of assets per employee at the level of the leasing sector (as of 31.12.2013 – KM 3.754 ths per employee). Individual ratios of leasing companies are between KM 2.096 and KM 5.510 ths of assets per employee. Parallel with that, this ratio in the segment of microcredit organisations and foundations was KM 337 ths as of 31.03.2014 and KM 2.170 ths of assets per employee in the banking sector.

2. FINANCIAL RATIOS

2.1. Balance Sheet

Total balance sheet volume of the leasing companies in the Federation of B&H as of 31.03.2014 was KM 542.384 ths, which is KM 35.717 ths or 6,18% less over 31.12.2013. If observed individually, two leasing companies saw an increase in the balance sheet volume in the total amount of KM 1.674 ths, while four leasing companies saw a decrease of the balance sheet volume amounting to KM 37.391. Thereof, the amount of KM 25.565 ths or 68,37% accounts to one leasing company. A considerable decrease in the balance sheet volume of one leasing company is caused by the fact that it is facing the organisational changes and restructuring of sales strategy (sales network via the branches of the founder's bank).

The two largest leasing companies (observed by size of assets) account for 57,20% of the total assets of leasing companies.

The highest share in the structure of total assets of leasing companies accounts for net receivables from financial leasing accounting for KM 343.958 ths or 63,42% of total assets of the leasing sector. If compared to the figures as of 31.12.2013, net receivables for financial leasing fell by KM 23.224 ths or 6,32%, while gross receivables for financial leasing fell by KM 26.932 ths or 6,03%.

Net receivables from loans as of 31.03.2014 were KM 59.468 ths or 10,96% of the amount of total assets in the leasing sector. Compared to the figure as of 31.12.2013, net receivables for loans fell by KM 4.489 ths or 7,02%, while gross receivables fell by KM 2.808 ths or 3,93%.

Out of the total declared amount of net receivables for loans, KM 56.788 ths or 95,49% relates to receivables of one leasing company with significant amount of loan receivables in its portfolio. Thereof, KM 43.448 ths or 76,50% relates to receivables from subsidiaries, that had been used for R/E construction projects before the Law on Leasing was passed.

Within the structure of receivables relating to loans, 76,87% accounts for loans approved for R/E financing.

Declared BS item Cash and Cash Equivalents as of 31.03.2014 were KM 46.956 ths, KM 5.181 ths or 12,40% more over the figure as of 31.12.2013. Share of this BS item in total assets rose from 7,23%, at YE 2013 to 8,66% as of 31.03.2014. Declared balance of placements to banks was KM 12.694 ths as of 21.03.2014, KM 2,767 ths or 17,90% less over YE 31.12.2013. This item mostly relates to the funds deposited with commercial banks. Balance of items mentioned above indicates rising liquidity of the sector as a whole and increase in loan potential of leasing companies due to decreased volume of business activities of the leasing companies.

Net value of fixed assets financed via operational leasing as of 31.03.2014 was KM 25.915 ths, KM 618 ths or 2,44% higher over 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 1.891 ths, while it fell with 4 leasing companies in the amount of KM 1.273 ths.

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

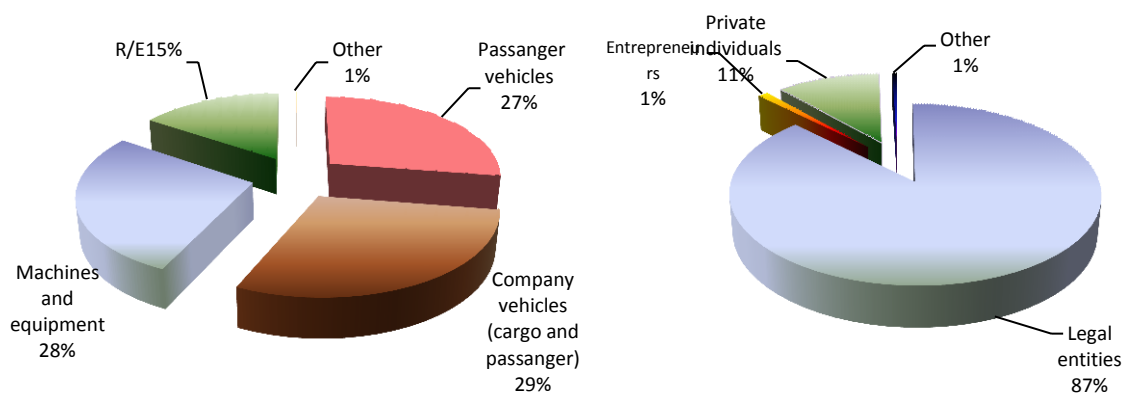
Table 1. Structure of net balance sheet positions of the assets

(KM 000)

Balance sheet positions	31.12.2013	% share in assets	31.03.2014	% share in assets	31.03.2014 / 31.12.2013
Financial leasing – net	367.182	63,52%	343.958	63,42%	-6,32%
Operational leasing - net	25.297	4,38%	25.915	4,78%	2,44%
Loan – net	63.957	11,06%	59.468	10,96%	-7,02%
Other assets	121.665	21,05%	113.043	20,84%	-7,09%
Total assets	578.101	100,00%	542.384	100,00%	-6,18%

There were no significant changes in structure of receivables by lessees and leasing objects over the past reporting periods.

Chart 2: Structure of receivables from financial leasing broken down by leasing objects and lessees as of 31.03.2014



The leasing sector accounts for 3,34% of the total balance sheet volume in the financial sector supervised by the FBA, while the banking sector and microcredit sector account for 93,83% and 2,88% respectively.

2.1.1. Assets Quality

According to the data in the report of leasing companies, loan loss reserves for financial leasing as of 31.03.2014 are declared in the amount of KM 24.965 ths, which represents a decrease by KM 1,664 ths or 7,14% over 31.12.2013. If we take into account the fact that

total gross receivables for financial leasing fell by 6,03% over 31.12.2013, we may conclude that a quality of the portfolio of leasing companies deteriorated over the previous reporting period. This is confirmed by the fact that the structure of receivables for the financial leasing as of 31.03.2014 includes the amount of KM 17.576 ths of past due receivables. If compared to the amount of KM 15.171 ths declared in the previous reporting period, this is an increase by 18,85% over 31.12.2013.

We have found through a detailed analysis of reports provided by leasing companies that a significant amount of formed provisions for losses for financial leasing as of 31.03.2014 is also caused by the fact that the leasing companies declared losses of KM 4.272 ths above calculated and allocated reserves (reserves formed in the amount higher than minimum prescribed amount). This amount relates to provisions formed by two leasing companies. Thereof, KM 3.879 ths or 90,80% relates to one leasing company out of the total amount of additional calculated and allocated reserves. The reserves were allocated based on evaluation of the leasing company in terms of expected difficulties in collection of receivables from some financial leasing arrangements and difficulties in entry into possession and sale of repossessed leasing objects.

The Table 2 of the Information shows a parallel review of formed reserves by default categories.

Table 2: Parallel review of formed reserves for the financial leasing by categories of default

(KM 000)

Days past due	Total reserves 31.12.2013	Total reserves 31.03.2014	% change
0-60	701	904	28,98%
60-90	385	369	-4,15%
90-180	9.425	6.834	-27,49%
over 180	12.444	16.490	32,51%
over 360	346	366	5,78%
TOTAL	23.301	24.964	7,14%

If observed individually, the two largest leasing companies (by assets size) account for 68,17% of total formed reserves for loan losses. Five leasing companies recorded an evident increase in formed reserves over 31.12.2013 totaling to KM 3.623 ths, thereof one leasing company accounts for KM 3.239 ths or 89,40%.

Loan loss reserves as of 31.03.2014 were KM 9.207 ths and rose by KM 1.681 ths or 22,34% over YE 31.12.2013, when the reserves for loans were KM 7.526 ths. If we take into account the fact that total gross receivables for loans fell by 3,93% over YE 31.12.2013, we may state that the loan portfolio quality deteriorated over the past reporting period. Out of the total amount of formed loan loss reserves as of 31.03.2014, KM 9.085 ths or 98,67% accounts for reserves formed by one leasing company with the most significant amount of receivables for

loan agreements from subsidiary companies. In 2013, the loan portfolio quality of subsidiaries referring to the commercial R/E financial leasing arrangements approved to the lessees before the Law on Leasing was passed deteriorated significantly, which finally led to inability of subsidiary companies to settle their payables to the leasing company.

Total amount of written-off receivables for financial leasing and loans as of 31.03.2014 was KM 89.195 ths and rose by KM 2.801 ths or 3,24% over YE 31.12.2013. Out of total declared amount of written-off receivables, KM 45.477 ths or 50,98% accounts for write-offs formed by one leasing company.

A review of the structure of written-off receivables revealed that additional amount of KM 3.314 ths was posted in the off-balance in the first quarter of 2014, thereof KM 2.299 ths or 69,37% refers to the write-offs formed by one leasing company.

During the same period, the amount of KM 501 ths was posted for collection of off-balance receivables, indicating a difficult collection of written-off receivables in the leasing companies, as the approval criteria were either inadequate, or internally defined procedures referring to the financing approval process were not adhered to (non-functioning of the internal control system).

Market value of repossessed leasing objects as of 31.03.2014 due to termination of leasing arrangements with lessee or expiry of arrangements with no contracted purchase of leasing objects was KM 31.474 ths and fell by KM 2.057 ths or 6,13% over YE 31.12.2013. Declared value relates to 169 repossessed units, one more leasing object compared to YE 31.12.2013. The Table 3 of the Information declares a parallel structure of repossessed leasing objects as of 31.12.2013 and 31.03.2014.

Table 3: Number and value of repossessed leasing objects

No.	TYPE OF LEASING OBJECT	31.12.2013		31.03.2014	
		Number of units	Appraised market value of leasing object	Number of units	Appraised market value of leasing object
1.	Passenger vehicles	98	1.713	105	1.825
2.	Vehicles for main activity (cargo and passenger)	31	429	31	286
3.	Machinery and equipment	18	6.613	16	6.687
4.	Real estate	21	24.776	17	22.676
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		Total	33.531	169	31.474

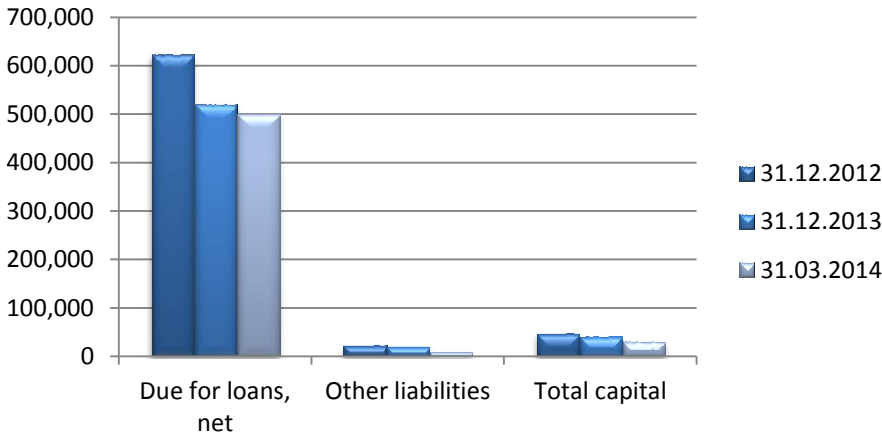
If observed individually, KM 28.730 ths or 91,28% of the total value of leasing objects owned by the leasing companies relates to two leasing companies.

Out of the total value of repossessed leasing objects as of 31.03.2014, 72,04% relates to real estate (commercial real estate) repossessed by leasing companies due to non-compliance with legal obligations by lessees. Total amount of this item relates to two leasing companies. Current market situation and inadequate financing approval criteria cause difficult sales or new financing of repossessed R/E, especially if we take into account the fact that repossessed R/E are mostly production and commercial facilities.

2.2. Structure of Liabilities

Liabilities for loans as of 31.03.2014 are still a predominant position in the structure of total liabilities of leasing companies (92,47% of the total amount of balance sheet volume). The Chart 3 of the Information below provides a parallel structure of liabilities of the sector as of 31.12.2013 and 31.03.2014.

Chart 3: Structure of liabilities – comparison (KM 000)



Total liabilities for loans as of 31.03.2014 are KM 501.524 ths and they fell by KM 19.101 ths or 3,67% over 31.12.2013. Out of the total amount of loan liabilities, KM 436.690 ths or 87,07 relates to the long-term liabilities.

Within the structure of funding sources, indebtedness with commercial foreign and local banks that are usually members of groups that own these leasing companies accounts for 59,46% of total credit liabilities, while 16,71% accounts for direct indebtedness with the founders, while 23,83% relates to indebtedness with local banks (EIB, EBRD, CEDB and DEG). The proceeds of these banks are mostly purpose funds and relate to development of small and medium enterprises and they have been provided through parent banks or their holding companies.

Total weighted nominal interest rate paid by leasing companies on sources of funds in a period from 1 January to 31 March 2014 was 2,97% per annum (interest rate calculated on the

basis of an average balance of taken loans and interest expenses in the accounting period) and it at the level of the past year. This is a result of the fact that the interest rates on sources of funds of leasing companies are mostly linked to a variable index EURIBOR whose value in 2013 and in the first quarter of 2014 saw no major oscillations.

Total capital of leasing companies as of 31.03.2014 was KM 30.408 ths. If compared to 31.12.2013, this item fell by KM 5.554 ths or 15,44%. This is caused by the fact that the sector operated with loss as of 31.03.2014.

Two leasing companies declared a total capital that is lower than a minimum amount prescribed under the Leasing Law due to losses in their business operations caused by deteriorated portfolio quality (increase in costs of reserves for losses) and effects of alignment of posted value of repossessed leasing objects with their market value.

2.3. Profitability

Total losses of KM 5.555 ths were generated at the level of leasing sector in a period from 1 January to 31 March 2014. The losses generated in the same period last year at the level of sector amounted to KM 321 ths (this data refers to seven leasing companies). The analysis of individual operating results of leasing companies resulted in findings that generated losses are a result of adjustment of book values of repossessed leasing objects with the market (fair) value, as well as new value adjustments and write-offs of receivables under the leasing arrangements.

If observed individually, five leasing companies posted negative financial result in the amount of KM 6.196 ths, while one leasing company declared positive financial result of KM 641 ths.

Interest income as of 31.03.2014 was KM 7.828 ths. This item saw a decrease of KM 1.561 ths or 16,63% over the same period in the previous year. A look at individual positions of interest income reveals that interest income from financial leasing was KM 6.055 ths, KM 1.290 ths or 17,56% less over the same period in the past business year. A falling interest income may be explained by decrease in interest-bearing assets of leasing companies (decrease in active portfolio) and new business activities, as well as low amount of variable index to which the placements to leasing companies are linked (EURIBOR). The item of other interest income fell over the same period last year by KM 261 ths or 16,57%. This item is dominated by interest income from approved loans, whose volume fell significantly over the same period last year, causing a downward trend of total interest income.

Interest expenses were KM 3.791 ths, a decrease by KM 464 ths or 10,90% over the same period in the past business year. Lower interest expenses are caused by much lower amount of credit liabilities due to a downward trend of lending activities of leasing companies and low level of variable index to which the sources of funds of leasing companies are linked (EURIBOR).

Total net level of interest income posted in a period from 1 January to 31 March 2014 was KM 4.037 ths, a decrease by KM 1.097 ths or 21,37% over the same period in 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 a prolongation of payment of credit liabilities for credit lines from which these disputed receivables were financed. Difficult marketability of repossessed leasing objects additionally deteriorated the financial position of the leasing companies.

Item of operating income fell by KM 8.991 ths or 65,10% over the same period last year as some leasing companies posted appraised value of repossessed leasing objects on this item in 2013 (parallel with write-off of receivables to the off-balance records).

Within the item of expenses, costs of reserves for losses in the first quarter this year were posted in the amount of KM 6.638 ths and they rose by 119 ths or 1,83% over the same period last year. A fact that the portfolio fell significantly over the same period last year indicates deteriorated portfolio quality of leasing companies. The deterioration is also visible in proportion between non-performing assets (default of over 90 dpds) and total receivables (as of 31.03.2014, ratio between non-performing assets and total receivables from the financial leasing arrangements was 15,33%, while in the same period last year, this ratio was 14,50%).

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

3.1. Structure of Placements by Leasing Objects and Types

The leasing business saw a continued downward trend of business activities in the first quarter of 2014 and slower growth of a business volume.

Value of newly-concluded financial and operational leasing arrangements in a period from 1 January to 31 March 2014 was KM 30.590 ths and it fell by KM 11.808 ths or 27,85% over the same period in the previous year. A total of 760 new arrangements were concluded, 219 or 22,37% less over the same period in the previous year.

Average value of arrangements in the first quarter 2014 was KM 40,25 ths and it fell slightly over an average value of the arrangements in the same period last year, when it was KM 43 ths.

Out of the total generated value of newly-concluded arrangements, KM 26.519 ths or 86,69% refers to the financial leasing arrangements with an average (weighted) nominal IR of 6,76% and weighted effective IR of 9,38%.

The Table 5 of the Information provided below shows a parallel review of new financings broken down by leasing objects and type of arrangement.

Table 5. Structure of leasing amounts by leasing objects for the first quarters of 2013 and 2014

(KM 000)

	31.03.2013			31.03.2014		
	Financial leasing	Operational leasing	TOTAL	Financial leasing	Operational leasing	TOTAL
Vehicles	26.811	2.100	28.911	19.282	4.071	23.353
Equipment	13.203	0	13.203	5.205	0	5.205
Real estate	240	0	240	2.032	0	2.032
Other	44	0	44	0	0	0
TOTAL	40.298	2.100	42.398	26.519	4.071	30.590

The total amount of new financings generated in a period from the 1 January to 31 March 2014 includes the amount of financing generated by the leasing company seated in the Republika Srpska through its branches located in the Federation of B&H (this company generates most of its revenues in the Federation of BiH).

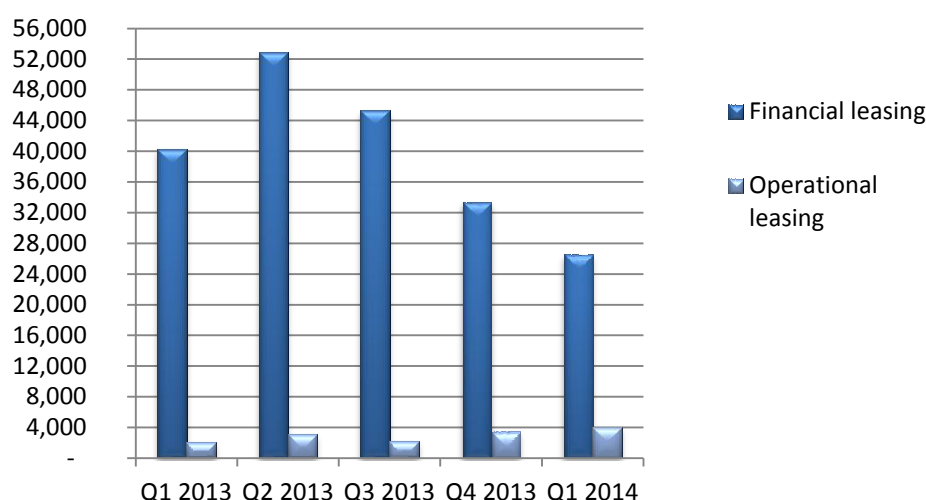
Please note that, under the owner's decision, one leasing company terminated new financings to stabilise its business and recover the existing non-performing facilities.

Within the structure of new facilities broken down by type of lessee, the facilities to legal entities are predominant (89,93% of total amount of financing in the first quarter 2014). One of the important reasons is the fact that financing through leasing arrangements for private individuals is less favourable than loan facilities due to payment of VAT on interest rate, which poses additional costs for customers that are not VAT payers.

Compared to the fourth quarter 2013, there was a decrease in value of newly-concluded arrangements on financial and operational leasing in the amount of KM 6.257 ths or 16,98%, while number of newly-concluded arrangements fell by 268 arrangements or 26,07%.

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

**Chart 4. Parallel overview of values of newly-concluded arrangements in 2013 and 2014
(In KM 000)**



The data presented in the Chart 4 of this Information clearly show the largest volume of financing through the operational leasing arrangements in the first quarter 2014 compared to the relevant reporting periods, as well as over an average quarterly volume generated in 2013 that was KM 2.467 ths. Compared to the same period in the past business year, volume of financing via operational leasing arrangements rose by 93,86% or KM 1.971 ths.

3.2. Market Share by Financial Volume and Number of Arrangements

Parallel overview of individual market shares by total volumes and number of newly-concluded financial and operational leasing arrangements is provided in the Charts 5 & 6 of this Information.

Chart 5. Market share by volumes (KM 000)

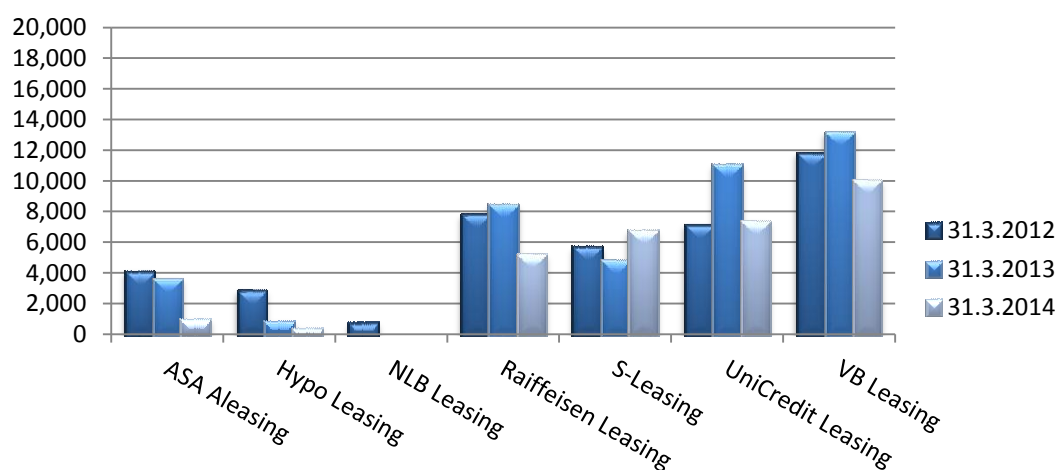
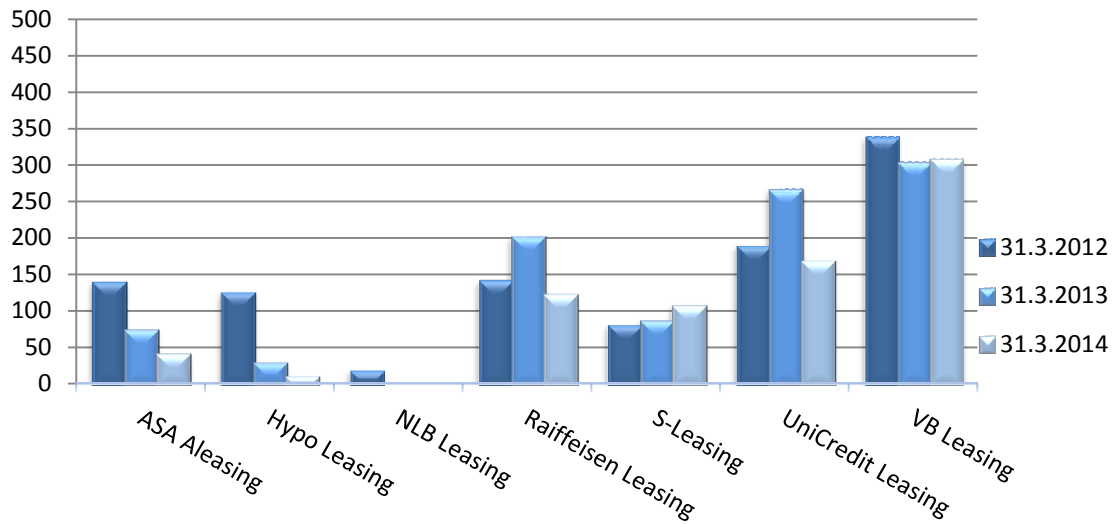


Chart 6. Market share by number of arrangements



The Charts presented above show that the total amount of financing generated in the first quarter of 2014 with one leasing company is higher than total sales in the same period last year, while with the remaining six leasing companies, a decrease in volume of new financings is evident ranging between 23,82% do 73,82%.

3.3. Weighted Nominal and Effective Interest Rate

Effective interest rate is an actual relative price of leasing arrangement expressed at annual level and it is declared under the Decision on Uniform Manner and Method of Calculation and Disclosure of Effective Interest Rates for Financial Leasing Agreements.

Total average nominal interest rate for the financial leasing arrangements concluded in the first quarter 2014 was 6,68% for ST and 6,77% for LT arrangements, while the effective interest rate for ST and LT arrangements on an annual level was 11,65% and 9,34% respectively. Total weighted nominal interest rate for the relevant period was 6,76%, while the effective interest rate was 9,38% per annum. Compared to the same period in the past business year, when the total weighted nominal interest rate was 7,19% and effective interest rate was 9,86% per annum, there is an evident decrease in interest rates on the financial leasing arrangements.

The Table 6 of the Information provides the data on the amount of financing, nominal and effective interest rate for the financial leasing arrangements concluded in the first quarter of 2014.

Table 6. Average nominal and effective interest rate for the financial leasing arrangements concluded in the first quarter 2014

No	DESCRIPTION	Number of arrangements	Amount of financing in KM (000)	Weighted nominal interest rate	Weighted effective interest rate
1.	ST leasing arrangements by leasing object:	22	446	6,68%	11,65%
a.	Passenger vehicles	14	332	6,56%	11,19%
b.	Company vehicles (cargo and passenger vehicles)	7	91	6,73%	11,79%
c.	Machinery and equipment	1	23	8,25%	17,71%
1.1.	ST leasing arrangements by type of lessee:	22	446	6,68%	11,65%
a.	Legal entities	18	414	6,58%	11,15%
b.	Entrepreneurs	0	0	0,00%	0,00%
c.	Private individuals	4	32	8,02%	18,03%
2.	LT leasing arrangements by leasing object:	674	26.073	6,77%	9,34%
a.	Passenger vehicles	390	10.463	6,79%	9,59%
b.	Company vehicles (cargo and passenger vehicles)	190	8.396	6,69%	9,20%
c.	Machinery and equipment	92	5.182	7,04%	10,22%
d.	R/E	2	2.032	6,23%	6,45%
g.	Other	0	0	0,00%	0,00%
2.1.	LT leasing arrangements by type of lessee:	674	26.073	6,77%	9,34%
a.	Legal entities	546	23.440	6,82%	9,36%
b.	Entrepreneurs	21	550	6,51%	9,64%
c.	Private individuals	107	2.083	6,26%	9,08%
	TOTAL	696	26.519	6,76%	9,38%

A trend of decrease in nominal and effective interest rates in the first quarter of 2014 compared to 2012 and 2013 is also evident if we have a look at weighted nominal and effective interest rates at quarterly level, which is caused by decrease in variable index (EURIBOR) to which input and exit interest rates are linked.

The Chart 7 below of this Information shows weighted nominal and effective interest rates per quarters.

Chart 7 . Overview of average nominal and effective interest rates for the financial leasing arrangements by quarters in 2012, 2013 and 2014



Previously presented nominal interest rates are the 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 between the leasing company and 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 nominal and effective interest rate is a consequence of VAT paid on interest rate, that is a mandatory part of the financial leasing arrangement and that is paid in advance by the lessee, 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. Objections of Lessees

Control of compliance with the Decision on Conditions and Manner of Customer Complaints Management by Leasing Companies for the purpose of protection of rights and interests of lessees is conducted started from the second quarter of 2012.

A total of 18 objections were recorded by lessees in the reports delivered to the FBA in the first quarter of 2014. The objections were raised against three leasing companies.

Out of the total number of delivered objections by lessees in the first quarter of 2014, 10 objections refer to a single leasing company, or 55,55% of the total number of objections of lessees.

Table 7: Structure of objections of lessees in the first quarter of 2014

No.	Status of objections	31.03.2103			
		Private individuals	Legal entities	Total in 2014	% share in the structure
1.	Positively resolved objections	3	1	4	22,22%
2.	Negatively resolved objections	6	6	12	66,67%
3.	Objections in the processing	0	0	0	0%
4.	Objections in the processing for more than 30 days	0	0	0	0%
5.	FBA received a request to provide its opinion	2	0	2	11,11%
TOTAL		11	7	18	100,00%

Three leasing companies did not have any objections by lessees in the first quarter of 2014.

III CONCLUSIONS AND RECOMMENDATIONS

Based on the business indicators of leasing companies in the Federation of B&H as of 31.03.2014, we may conclude that the business operations of the leasing companies in the first quarter of 2014 in the Federation of B&H still have a downward trend over the same period in the past business year.

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

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.

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

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

- Continuous supervision of the leasing companies through direct and indirect examinations,
- Insist on capital strengthening of leasing companies and internal defining of capital protection and capital adequacy parameters,
- Amending legal regulations and by-laws for the leasing sector that refer to actions and mediation of the leasing companies,
- Protection of lessees for the purpose of achieving the financial stability of the leasing sector as a whole,
- Monitoring activities of the leasing companies on anti-money laundering and counter-terrorism financing and improve cooperation with other supervision and control institutions,
- Improve the structure and data quality of the Central Loan Registry with the Central Bank of B&H,
- Continue with permanent education and professional training of staff, and
- Improve cooperation with the Association of Leasing Companies in B&H in terms of rendering support in implementation of laws and regulations referring to leasing companies and proposals for the amendments in legal regulations.

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

Activities of leasing companies should be focused on the following:

- Strengthening capital and defining parameters for capital hedge and capital adequacy,
- Improving policies and procedures for management of risks to which the leasing companies are exposed in their business operations,
- Improving the scope of products offered in the market and finding new sales channels,
- Establishing the system of internal controls and functioning of the internal audit as an independent audit of fulfilment of their tasks,
- Improving IT support for the purpose of more adequate accounting records and better reporting quality,
- Improvements in the context of protection of lessees,
- Implementation of the practice of responsible financing,
- Detailed informing of customers on products offered by leasing companies for the purpose of better understanding and more serious approach to financing through leasing arrangements, and
- Regular, up-to-date and precise submitting of the data to the Central Loan Registry with the Central Bank.

IV FBA'S REGULATIONS FOR BUSINESS OPERATIONS OF LEASING COMPANIES

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

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

1. Decision on Conditions and Process of Issuance of Operating License to Leasing Companies,
2. Decision on Conditions and Process of Issuance and Revocation of Approvals to/from Leasing Companies,
3. Decision on Minimum Standards for Activities of Leasing Companies on Anti-Money Laundering and Counter-Terrorism Financing,
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 by the Leasing Companies with the Banking Agency of the Federation of B&H 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 that Leasing Companies Pay to the FB&H Banking Agency,
10. Decision on Conditions and Manner of Handling Objections of Lessees by the Leasing Companies,
11. Instructions for Implementing the Decision on Uniform Manner and Method of Calculation and Disclosure of Effective Interest Rates for Financial Leasing Arrangements, and
12. Instructions for Producing the Reports by Leasing Companies.

Ref. No.: U.O.-59-9/14
Sarajevo: 30.05.2014

ATTACHMENTS

Attachment 1. Main data on leasing companies as of 31.03.2014

No.	Name of the leasing company	Address and seat	Director	Phone	Issuance date of FBA license	Headcount	Web address
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	Belma Sekavić - Bandić	+ 387 33 254 354	19.01.2010	48	www.rlbh.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	26	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	148	

Attachment 2: Overview of the Ownership Structure of Leasing Companies as of 31.03.2014

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%

Attachment 3: Overview of reserves for leasing loans as of 31.03.2014 (KM 000)

No.	Days past due	Provisioning rate	Amount of receivables	Total reserves
1	0-60	0,05%	54.439	2.263
2	60-90	5%	515	26
3	90-180	10%	1.476	148
4	180-270	30%	7.821	2.346
5	270-360	50%	0	0
6	preko 360	100%	4.424	4.424
TOTAL			68.675	9.207

Attachment 4: Overview of reserves for financial leasing as of 31.03.2014 (KM 000)

Dpds							Reserves			
	Provisioning rate for financial leasing (movables)	Provisioning rate for financial leasing (immovables)	Amount of receivables for movables	Amount of receivables for immovables	Principal amount for movables	Principal amount for immovables	For movables	For immovables	Additional calculated and allocated reserves	Total reserves
0-60	0,50%	0,50%	259.488	25.261	45.830	4.429	229	22	653	904
60-90	10%	10%	17.511	10.085	2.642	41	264	4	101	369
90-180	50%	50%	23.404	7.268	12.702	425	6.351	213	271	6.835
over 180	100%	75%	12.441	13.099	11.179	2.752	11.179	2.064	3.247	16.491
Over 360	100%	100%	366	0	366	0	366	0	0	366
TOTAL			313.210	55.713	72.719	7.647	18.389	2.303	4.272	24.965

Attachment 5: Consolidated Balance Sheet (KM 000)

No.	DESCRIPTION	31.12.2013		31.03.2014		% growth
		Amount	% in total assets	Amount	% in total assets	31.03.2014/ 31.12.2013
	ASSETS					
1.	Cash and cash equivalents	41.775	7,23%	46.956	8,66%	12,40%
2.	Placements with banks	15.461	2,67%	12.694	2,34%	-17,90%
3.	Receivables for financial leasing, net (3a-3b-3c-3d)	367.182	63,52%	343.958	63,42%	-6,32%
3a)	Receivables for financial leasing, gross	446.269	77,20%	419.337	77,31%	-6,03%
3b)	Loan loss reserves	23.301	4,03%	24.965	4,60%	7,14%
3c)	Deferred interest income	55.504	9,60%	50.164	9,25%	-9,62%
3d)	Deferred fee income	282	0,05%	250	0,05%	-11,35%
4.	Receivables from subsidiaries	2	0,00%	2	0,00%	0,00%
5.	Tangible and intangible assets, net (5a+5b-5c-5d)	33.783	5,84%	34.251	6,31%	1,39%
5a)	Tangible and intangible assets – own assets	13.696	2,37%	13.735	2,53%	0,28%
5b)	Tangible and intangible assets – operational leasing	42.375	7,33%	42.478	7,83%	0,24%
5c)	Value adjustment – own assets	5.210	0,90%	5.399	1,00%	3,63%
5d)	Value adjustment – operational leasing	17.078	2,95%	16.563	3,05%	-3,02%
6.	LT investments	119	0,02%	119	0,02%	0,00%
7.	Other assets (7a+7b)	119.779	20,72%	104.404	19,25%	-12,84%
7a)	Loans, net (7a1-7a2)	63.957	11,06%	59.468	10,96%	-7,02%
7a1)	Loans (due receivables + non-due interest)	71.483	12,37%	68.675	12,66%	-3,93%
7a2)	Loan loss reserves	7.526	1,30%	9.207	1,70%	22,34%
7b)	Inventories	33.212	5,75%	30.966	5,71%	-6,76%
7c)	Other assets	22.610	3,91%	13.970	2,58%	-38,21%
	TOTAL ASSETS	578.101	100,00%	542.384	100,00%	-6,18%
	LIABILITIES					
9.	Due for taken loans, net	520.625	90,06%	501.524	92,47%	-3,67%
9a)	Due for ST loans	65.064	11,25%	65.419	12,06%	0,55%
9b)	Due for LT loans	456.159	78,91%	436.690	80,51%	-4,27%
9c)	Prepaid costs and fees	598	0,10%	585	0,11%	-2,17%
10.	Other liabilities	21.514	3,72%	10.452	1,93%	-51,42%
	TOTAL LIABILITIES	542.139	93,78%	511.976	94,39%	-5,56%
11.	Core capital	90.502	15,66%	75.764	13,97%	-16,28%
12.	Reserves	8.829	1,53%	8.829	1,63%	0,00%
13.	Accumulated profit/loss	-63.369	-10,96%	-54.185	-9,99%	-14,49%
	TOTAL CAPITAL	35.962	6,22%	30.408	5,61%	-15,44%
	TOTAL LIABILITIES	578.101	100,00%	542.384	100,00%	-6,18%
	Written-off receivables (initial balance)	65.028	11,25%	86.394	15,93%	32,86%
	New write-offs (+)	23.545	4,07%	3.314	0,61%	-85,92%
	Collection (-)	2.091	0,36%	501	0,09%	-76,04%
	Permanent write-off (-)	88	0,02%	12	0,00%	-86,36%
	Written-off receivables (final balance)	86.394	14,94%	89.195	16,44%	3,24%

Attachment 6: Consolidated Profit and Loss Account (KM 000)

No.	DESCRIPTION	31.03.2013		31.03.2014		% growth 31.03.2014/ 31.03.2013
		Amount (KM 000)	% of total revenues	Amount (KM 000)	% of total revenues	
	FINANCIAL REVENUES AND EXPENSES					
1.	Interest revenues	9.389	40,47%	7.828	61,89%	-16,63%
1a)	Interest for financial leasing	7.345	31,66%	6.055	47,87%	-17,56%
1b)	Interest on placements with banks	63	0,27%	91	0,72%	44,44%
1c)	Fees (for processing leasing arrangements, etc.)	406	1,75%	368	2,91%	-9,36%
1d)	Other interest revenues	1.575	6,79%	1.314	10,39%	-16,57%
2.	Interest expenses	4.255	18,34%	3.791	29,97%	-10,90%
2a)	Interest on borrowed funds	4.161	17,94%	3.701	29,26%	-11,06%
2b)	Fees for loan processing	94	0,41%	89	0,70%	-5,32%
2c)	Other interest expenses	0	0,00%	1	0,01%	0,00%
3.	Net interest revenues	5.134	22,13%	4.037	31,92%	-21,37%
	OPERATING REVENUES AND EXPENSES					
4.	Operating revenues	13.811	59,53%	4.820	38,11%	-65,10%
4a)	Fees for services	19	0,08%	17	0,13%	-10,53%
4b)	Fees from operational lease	3.051	13,15%	2.961	23,41%	-2,95%
4c)	Revenues from sale of leasing facilities, net	422	1,82%	309	2,44%	-26,78%
4d)	Other operating revenues (4d1+4d2+4d3)	10.319	44,48%	1.533	12,12%	-85,14%
4d1)	Revenues from recoveries	8.740	37,67%	495	3,91%	-94,34%
4d2)	Revenues from notifications	157	0,68%	158	1,25%	0,64%
4d3)	Other	1.422	6,13%	880	6,96%	-38,12%
5.	Operating expenses	12.667	54,60%	7.703	60,90%	-39,19%
5a)	Salaries and contributions	2.000	8,62%	1.953	15,44%	-2,35%
5b)	Costs of business premises	3.437	14,81%	2.848	22,52%	-17,14%
5c)	Other operating expenses	7.230	31,16%	2.902	22,94%	-59,86%
6.	Costs of loan loss reserves	6.519	28,10%	6.638	52,48%	1,83%
6a)	Costs of loan loss reserves financial leasing	6.674	28,77%	4.958	39,20%	-25,71%
6b)	Costs of loan loss reserves borrowings	-155	-0,67%	1.680	13,28%	1183,87%
7.	Profit before tax	-241	-1,04%	-5.484	-43,36%	2176%
8.	Profit tax	80	0,34%	71	0,56%	-11,25%
9.	Net profit	-321	-1,38%	-5.555	-43,92%	1.631%

Attachment 7: Rating of balance sheet volume

31.12.2013					31.03.2014					
Rating	Leasing company	Balance sheet volume (KM 000)	Share 31.12.2013	Cumulative share	Rating	Leasing company	Balance sheet volume (KM 000)	Share 31.03.2014	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	166.994	30,79%	30,79%	87
2.	UniCredit Leasing d.o.o. Sarajevo	153.919	26,62%	59,93%	2.	UniCredit Leasing d.o.o. Sarajevo	143.253	26,41%	57,20%	93
3.	VB Leasing d.o.o. Sarajevo	110.709	19,15%	79,08%	3.	VB Leasing d.o.o. Sarajevo	111.320	20,52%	77,72%	101
4.	S-Leasing d.o.o. Sarajevo	53.651	9,28%	88,36%	4.	S-Leasing d.o.o. Sarajevo	54.714	10,09%	87,81%	102
5.	Asa ALeasing d.o.o. Sarajevo	35.718	6,18%	94,54%	5.	Asa ALeasing d.o.o. Sarajevo	35.624	6,57%	94,38%	100
6.	NLB Leasing d.o.o. Sarajevo	31.545	5,46%	100,00%	6.	NLB Leasing d.o.o. Sarajevo	30.479	5,62%	100,00%	97
TOTAL		578.101	100,00%		TOTAL		542.384	100,00%		94