



**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
AS OF 30.09.2012.**

Sarajevo, November 2012.

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1. INTRODUCTION

The Banking Agency of Federation of BiH (in further reading; the Agency), as a regulatory institution which performs the supervision (examination) of the leasing companies, developed the Information on leasing sector in the Federation of BiH for the first half term of 2012 based on the analyses of the reports on performance that the leasing companies submit to the Agency on quarterly and monthly basis (indirect – off site examination of the performance) and data which it has at disposition from the on-site examinations.

Leasing companies' performance is regulated by the Law on leasing which came into effect on 03.01.2009. („Official Gazette of Federation of Bosnia and Herzegovina" number: 85/08 and 39/09). The law regulates establishment, performance and cease of operations of a leasing company, rights and obligations of the parties in the leasing operations, managing risks, financial reporting and supervision of the leasing company performance.

The supervision of the leasing companies was established after the issuing of the license for leasing operations to leasing companies with an aim to permanently monitor the performance and financial condition of each individual leasing company and leasing sector in the Federation of BiH as a whole, determining the compliance in the performance of the leasing companies with the regulations that are in effect, as well as analyzing and evaluating the financial reports of the leasing companies.

During 2011 and 2012 the economic trends in the environment negatively influenced the local economy through the overflowing of the debt crises from the euro zone and the region. The noted causes the trend of weakening of the local demand which was present in 2010, which slowed down the business activities of the leasing companies.

The aggregate balance sheet of the leasing sector as of 30.09.2012., was 707,488 thousand KM, which is by 7% or by 54,232 thousand KM less than as of 31.12.2011.

If the individual leasing companies aggregate balance sheet amounts are compared with the data as of 31.12.2011., it can be concluded that balance sheet of two companies is higher by 11,521 thousand KM, while five companies recorded a decline in a total amount of 65,753 thousand KM.

In the period from 01.01 to 30.09.2012, at the level of the leasing operations in the Federation of BiH as a performance result realized is a loss in the amount of 21,237 thousand KM. Three leasing companies reported a negative financial result in the amount of 24,525 thousand KM, while the remaining four leasing companies realized a positive financial result in the amount of 3,288 thousand KM.

The on-site examination of the leasing companies is performed by authorized individuals from the Agency through enhanced and targeted examinations – through examination in the leasing companies. Orders for implementing and correcting noted weaknesses are issued to the examined leasing companies upon completion of the report in order to further improve the leasing company's performance quality, their profitability, soundness and safety in performance of the leasing company.

The irregularities determined during the on-site examination in the period from 01.01 to 30.09.2012 referred mainly to lack of adherence to the provisions of the Law on leasing and pertaining regulations, inadequate policies and procedures which define the core risks in leasing companies' performance (credit risk, liquidity risk, operating risk, market risk, concentration risk and other risks) and the manner in which the risks are managed, inadequate existence and operation of the internal control system, business activities which are not in compliance with the provisions of the Articles 5. and 7. of the Law on Leasing, contract provisions which are unclear and one sided based on the conditions for changes of the variable interest rate and lack of respect for the provisions of the contract by the leasing companies on the noted bases, as well as submitting of the incorrect data to the Central Registry of loans in the Central bank of BiH.

Since the second quarter of 2012, the Sector is performing the examination of the performance in accordance with the Decision on the conditions and manner for leasing companies' actions in regard to the complaints of the lessees in order to protect the rights and interests of the lessees.

The adverse movements in the real sector in BiH had a negative impact on the leasing activities in the Federation of BiH, which during 2012 was marked with a slowing down of the volume of the operations, which was conditioned with a decrease of the individual and investment spending (investments), as well as problems in the collection of receivables. The leasing operations in the Federation of BiH recorded a decreased volume of performance (reviewed by number and value of the newly concluded contracts).

In accordance with the fact that the leasing companies in the Federation of BiH are oriented mostly towards the legal entities (87% of receivables from the financial leasing refer to the legal entities), it can be concluded that the movements in the leasing sector during 2012 are a reflection of the macroeconomic indicators in BiH.

Table 1. Macroeconomic indicators in BiH

Indicators	2010.	2011.	30.09.2012.
BDP (MLRD KM)	24,58	25,95	26,80 projection
Real growth rate (%)	0,70%	1,60%	0,60%
Average inflation on the annual level (%)	2,10%	3,70%	2,30%
Unemployment rate in BiH	27,20%	27,60%	28%

** Data obtained from the CBBiH*

In addition to the noted macroeconomic indicators, the level of the industrial production in BiH in the first nine months of the current year decreased by 5,6% in comparison to the same period last year (Data taken from CBBiH).

2. MARKET PARTICIPANTS

2.1. Number of leasing companies

Seven leasing companies registered in the Federation of BiH perform business activities in 21 organizational units – affiliates (of which 17 in the Federation of BiH and 4 in Republic Srpska). Leasing companies licensed for performing leasing operations in the Federation of BiH are:

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

The company Hypo-Alpe Adria Leasing d.o.o Banja Luka is registered in Republic Srpska and performs its business activities on the territory of the Federation of BiH through four registered branches (Sarajevo, Tuzla, Mostar and Vitez).

During the third quarter of 2012, the leasing companies on the territory of the Federation of BiH closed 7 affiliates due to the decreased volume of operations (ASA Aleasing d.o.o Sarajevo closed affiliates Bihać, Mostar and Banja Luka, while Euroleasing d.d. Mostar closed affiliates Livno, Tuzlu, Ljubuški and Sarajevo which in the previous periods existed formally, without business activities and employees).

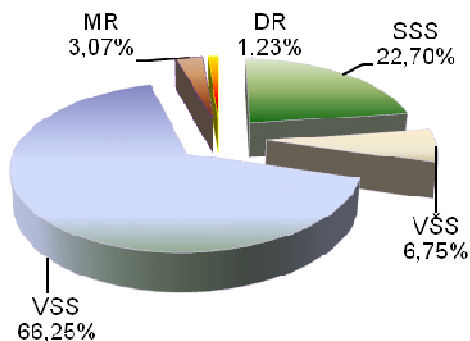
2.2. Ownership structure

Of seven leasing companies, there are three companies that have a 100% nonresident ownership of parent companies, while three are in majority ownership of their non-resident parent companies and/or local banks established with foreign capital. One company has a majority resident ownership. The detailed review in regard to the ownership structure of the leasing companies is provided in the Attachment 2 to this Information.

2.3. Number of employees in the leasing companies

As of 30.09.2012., in the leasing companies there were a total of 163 employees, which is by 6% or 10 employees higher than as of 30.06.2012. Apart from the listed number of employees, the leasing companies engage additional 34 employees through the student services and through the employment agency.

Graph 1. Qualification structure in the leasing sector



The efficiency of the employees, in the evaluation of the leasing companies' performance, is measured through the ratio between the assets and the number of employees (assets per employee). As of 30.09.2012, at the level of the leasing sector there are 4,340 thousand KM in assets that relate to each employee (30.06.2012. – 4,123 thousand KM per employee). Simultaneously, as of 30.09.2012, in the banking sector this indicator was 325 thousand KM per employee, and in the banking sector 2,073 thousand KM per employee.

3. BALANCE SHEET STRUCTURE

3.1. Structure of Assets

The total assets of all leasing companies in the Federation of BiH as of 30.09.2012., was 707,488 thousand KM, which in comparison to 31.12.2011., presents a decrease by 54,232 thousand KM or 7,12%. Individually reviewed, two leasing companies had an incline of the balance sheet in comparison to 31.12.2012 in the amount of 11,521 thousand KM.

In the structure of total assets, the most significant participation is of the net receivables from financial leasing which are 444,402 thousand KM or 62,81% of the total assets of leasing sector.

In comparison to 31.12.2011, the net receivables from the financial leasing decreased by 56,224 thousand KM or 11,23% while the gross receivables from the financial leasing decreased by 59,356 thousand KM or 9,69%. The two largest leasing companies (reviewed by size of assets) have 55,50% of total assets of the leasing companies.

The net receivables from the loans as of 30.09.2012 were 119.005 thousand KM or 16,82% of the amount of the total assets of the leasing sector.

In comparison to 31.12.2011, the net receivables from the loans increased by 3,720 thousand KM or 3,23% due to an inadequate classification of the receivables by one leasing company in the previous reporting periods. The noted was concluded during the enhanced examination of the performance of the leasing company performed by the employees of the Agency, upon which issued was an order for correction and adequate classification of the noted receivables.

Of the total amount of receivables from loans as of 30.09.2012, 78,477 thousand KM or 65,94% refer to receivables of two leasing companies to the subsidiaries or related legal entities with an

aim to finance the significant investment projects. The loans were granted before the Law on leasing came into effect. In the structure of total assets, the loans will remain in the balance sheet of the leasing company until the contracted deadlines for which they were agreed to do not pass.

The reported balance of the balance sheet position cash and cash equivalents as of 30.09.2012 was 15,677 thousand KM, which is by 14,160 thousand KM or 47,46% less than in comparison to 31.12.2011. The noted position with the end of the previous business year had a significant value due to the additional capitalization of one leasing company immediately before the end of the previous business year.

The participation of the noted position in the total assets decreased from 3,92%, which was at the end of 2011, to 2,22% as of 30.09.2012.

The net value of the core funds financed through the operating leasing as of 30.09.2012 was 31,483 thousand KM and it is by 2,850 thousand KM or 8,30% lower in comparison to 31.12.2011. Individually reviewed, two leasing companies had an increase of the net value of the fixed assets in the operating leasing in the amount of 64 thousand KM in reference to 31.12.2011.

The Table 1 of the Information gives a review of the data of the net balance positions for assets through the reporting periods.

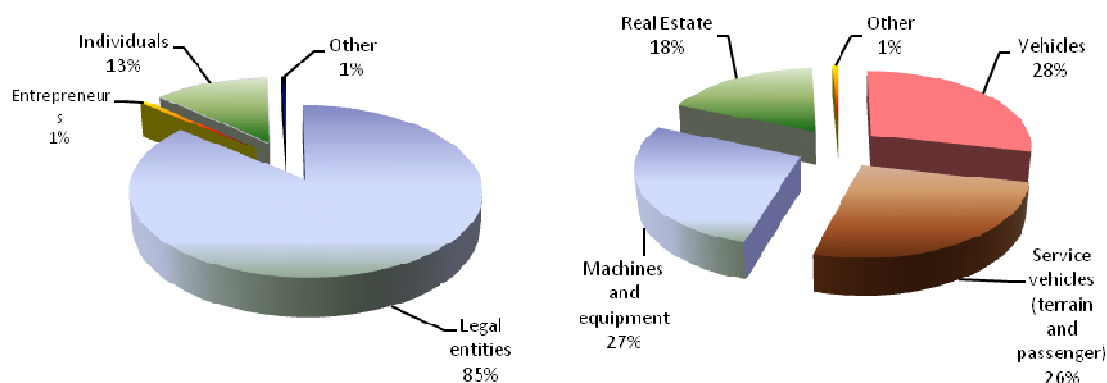
Table 1. Structure of the net balance positions of the assets through the reporting periods

(000 KM)

Balance Sheet positions	31.12.2011	% part. in assets	30.9.2012	% part. in assets	30.09.2012/ 31.12.2011
Financial leasing	500.626	66%	444.402	63%	-11%
Operating leasing	34.333	5%	31.483	4%	-8%
Borrowings	123.994	16%	119.005	17%	-3%
Other assets	102.766	13%	112.598	16%	9%
Total Assets	761.719	100%	707.488	100%	-7%

In the assets structure according to the lessee and leasing subject there were no significant changes in relation to the previous reporting periods.

Graph 2. Financial leasing structure according to the leasing subject and lessee as of 30.09.2012.



In the structure of the aggregate balance sheet of the financial sector supervised by the Agency, 4,39 of the total aggregate balance sheet refers to the leasing sector, while 92,49% refers to the banking sector and 3,12% to the microcredit sector.

3.2. Asset quality

In accordance with the leasing companies reports, the reserves for losses from financial leasing as of 30.09.2012 have been reported in the amount of 27,185 thousand KM and present an increase by 24,12% or 5,287 thousand KM in comparison to 31.12.2011. Reviewed individually, 4,064 thousand KM or 76,87% of total increase of the noted position refer to the increase of the reserves for losses by two leasing companies.

In the structure of the provisions for financial leasing losses, 23,915 thousand KM or 87,97% refers to reserves for losses established based on the receivables which are over 180 days past due. In comparison to 31.12.2011, the most significant increase of the established reserves for losses is reported in the category of receivables which are 180 days past due, in the amount of 8,738 thousand KM or 57,57% which indicates to the significant deterioration of the asset quality which refers to the receivables from financial leasing.

Reserves for loans as of 30.09.2012 were 5,806 thousand KM and they decreased by 33,33% or 2,903 thousand KM in comparison to 31.12.2011 when the provisioning for loans was 8,709 thousand KM. The reason for the significant decrease in the reserves for loan losses as of 30.09.2012 in comparison to 31.12.2011 are the write offs of the uncollected receivables and restructuring (reprogramming) of the receivables which in the previous period had a significant number of days in delinquency. Of the total amount of the established reserves for loans, 4,237 thousand KM or 72,98% refers to reserves established by one leasing company.

The total amount of written off receivables in the financial leasing and loans as of 30.09.2012 was 52,206 thousand KM and it increased by 18,284 thousand or 53,90% in comparison to 31.12.2011. Of the total reported amount of the written off receivables, 26,843 thousand KM or 51,42% refers to the write offs by one leasing company. The review of the structure of the written off receivables it can be concluded that during 2012 (up to 30.09.2012.) recorded were in the off balance sheet new receivables in the amount of 20,232 thousand KM, while 15,910 thousand KM or 78,64% refers to write offs by one leasing company. Reviewed in the same

period, based on the collection of the off balance sheet receivables, reported is the amount of 1,948 thousand KM.

As of 30.09.2012, the leasing companies had leasing subjects taken over in the value of 30,012 thousand KM, which were taken over due to the breach of the contract with the lessee or termination of the contract in which agreed were no purchases of the leasing subject upon the end of the leasing contract, which is by 2,773 thousand KM or 8,46% less than the balance reported as of 30.06.2012. Of the noted amount, 22,137 thousand KM or 73,76% refers to real estate (business buildings) which the leasing companies came to own due to the lack of implementation of the contracted terms by the lessee. The total amount of the noted position refers to three leasing companies, of which 57,14% or 12,651 thousand KM refers to the value of the taken over real estate of one leasing company.

As of 30.09.2012, there was a total of 136 leasing cases in the category of the leasing subject which are taken over (returned before time) or leasing subjects which were returned as a part of a regular ending of a leasing contract which did not include the purchase of the leasing subject, of which 87 cases or 63,97% refer to passenger vehicles and service vehicles (terrain and passenger).

*Table 3. Number and value of the leasing subjects taken over
(000 KM)*

No.	TYPE OF THE LEASING SUBJECT	Number of units	Estimated market value of the leasing subject (in 000 KM)
1.	Passenger vehicle	46	785
2.	Service vehicle (terrain and passenger)	41	978
3.	Machines and equipment	32	6.109
4.	Real Estate	16	22.137
5.	Tracks, floating and flying vehicles	1	3
6.	Household machines	0	0
7.	Other	0	0
Total		136	30.012

Reviewed individually, 25,714 thousand KM or 85,68% of the value of the leasing subjects which are in the ownership of the leasing company refers to two leasing companies.

The leasing companies refinance to the new lessees the leasing subject which they took over or they sell them to the interested buyers in compliance with the internally defined procedure.

3.3. Placements based on leasing subject and type of leasing

The value of the newly concluded placements in the period from 01.01. to 30.09.2012., was 158,269 thousand KM, which presents a decrease of 45,616 thousand KM or 22,37% in relation to the same period last year. Reviewed for the same period, the number of new placements was 4,192, which is a decline of 15,43 in comparison to the same period previous year. The average value of the contracts in the noted period in 2012 was 38 thousand KM and it is in decline in comparison to the average value of the contracts in the same period last year when it was 43 thousand KM.

Of the total realized value of the newly concluded contracts 147,667 thousand KM refers to financial leasing contracts with an average (risk weighted) nominal interest rate of 7,51% and a risk weighted effective interest rate of 10,20%.

In the Table 4. of the Information illustrated is the comparative structure of the financing amount based on the leasing subject and type of contract.

Table 3. The structure of the financing amounts according to the leasing subject for the three quarters in 2011. and 2012.

(000 KM)

	01.01.-30.09.2011.			01.01.-30.09.2012		
	Financial leasing	Operating leasing	TOTAL	Financial leasing	Operating leasing	TOTAL
Vehicles	124.973	14.660	139.633	105.704	9.812	115.516
Equipment	43.717	1.007	44.724	36.332	790	37.122
Real Estate	19.528	0	19.528	5.631	0	5.631
TOTAL	188.218	15.667	203.885	147.667	10.602	158.269

The financing amounts which are realized in the period from 01.01. to 30.09.2012. include the financing amount realized by a leasing company with a head office in Republic Srpska through its affiliates on the territory of the Federation of BiH. The noted company realized the majority of the business activities in the Federation of BiH.

In the structure of the new placements based on the type of the lessee a dominant position is held by the placements to legal entities (87% of total financing amount). One of important reasons is the fact that the financing through leasing for individuals is less favorable in comparison to the loan placements due to the obligation of VAT payments on interest, which presents an additional expense to the clients which are not VAT obliged otherwise.

The new placements based on the financial and operating leasing in the third quarter of 2012 were 54.099 thousand KM and refer to 1,332 activated contracts. In comparison to the same period previous year, the noted financing amount is lower by 17.036 thousand KM or 23,95%, while the number of the newly concluded contracts is lower by 121 or 8,33%. In comparison to the realization from the previous quarter in 2012, the total financing amount in the third quarter is lower by 9.524 thousand KM or 14,97%.

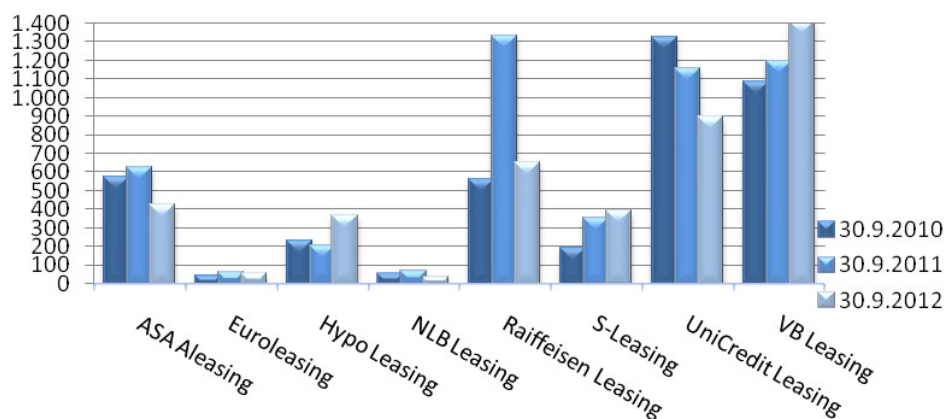
The market analyses of the neighboring countries, it was concluded that most of the countries through a change of the tax legal regulations freed the leasing companies from the obligation of VAT payment on the interest in contracts of the financial leasing, which caused positive effects on the financing of the individuals through leasing, as well as increasing the tax liabilities due to the increased turnover of the new leasing subjects.

The BIH Leasing association also started the initiative to exempt the leasing companies from VAT liability on interest in financial leasing contracts.

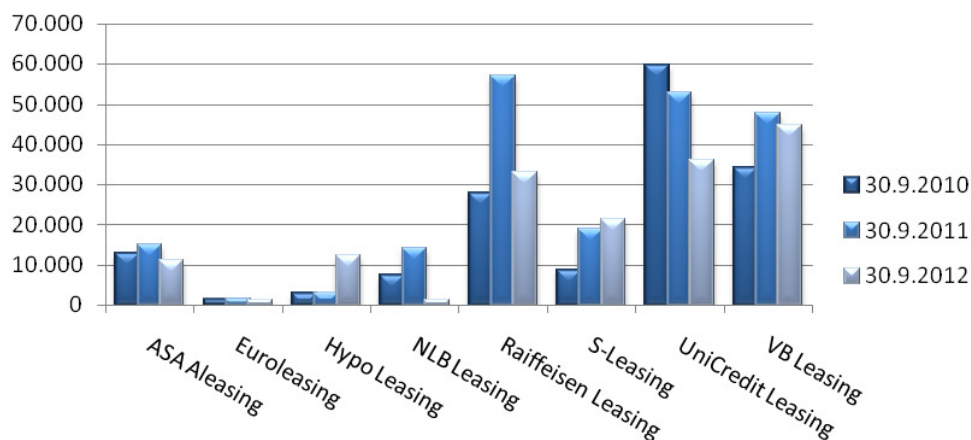
3.4. Market participation according to financial volume and number of contracts

The decrease of the economic activities during 2012 brought the decline of the investments and spending in general, which in turn influenced the decrease of business activities of the leasing companies.

Graph 3. Market participation based on the number of contracts



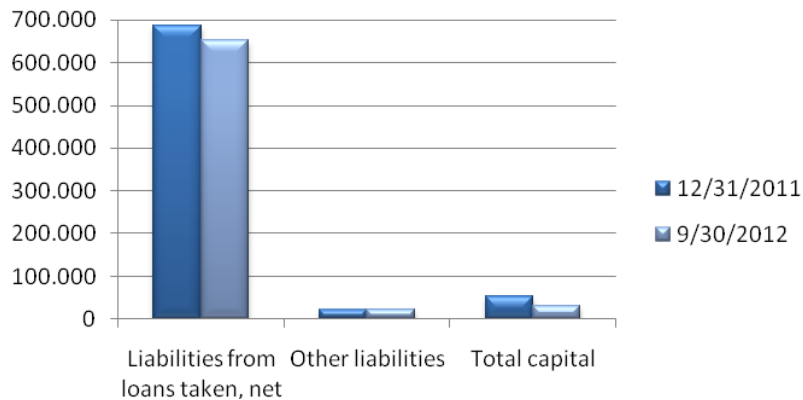
Graph 4. Market participation based on the volume (u 000 KM)



3.5. Structure of Liabilities

As of 30.09.2012., there were no significant changes in the structure of liabilities in comparison to previous reporting periods. Liabilities on taken loans still present a dominant position in the structure of total liabilities, 92% of the amount of total liabilities.

Graph 5. Structure of liabilities – parallel data (000 KM)



The total liabilities from loans as of 30.09.2012 were 652,064 thousand KM and they decreased by 34,602 thousand KM or 5,04% in comparison to 31.12.2011. Of the total amount of liabilities from loans taken, 606,981 thousand KM or 93% refers to long term liabilities.

In the funding sources structure, 57% refers to lending from commercial foreign and domestic banks, while 20% refers to lending from the parent company or related entities, while 23% refers to the lending from European and local development banks (EIB, EBRD, CEDB and DEG). The funds from these banks are by nature intended for a specific purpose and mostly refer to development of middle and small enterprises, and are secured by banking guarantees issued by parent banks or their holding companies.

The total risk weighted nominal interest rate which the leasing companies pay for the sources of funds in the period from 01.01. to 30.09.2012 is 3,83% on the annual level (interest rate calculated on the base of the average balance of the loans taken and interest expenses in the reviewed period).

As of 30.09.2012., the total capital of leasing companies was 31,931 thousand KM. In comparison to 31.12.2011 it decreased by 21,090 thousand KM or 39,78%, caused by the fact that the sector realized a loss.

Viewed individually, as of 30.09.2012, two leasing company reported the amount of total capital smaller than the minimum amount of the capital prescribed by the Law on leasing. The owners of the companies in which the total capital is lower than the amount prescribed by Law on leasing initiated activities for providing additional capital, with an aim to continue with their performance.

At the beginning of the fourth quarter, based on the decision of the founders, performed was the additional capitalization of one leasing company which brought the amount of capital of the noted company above the amount prescribed by the Law on leasing, while the additional capitalization of the other leasing company is expected until the end of 2012. The implementation of the additional capitalization process the amount of the sector's total capital position will return to the level reported at the end of the previous business year.

4. FINANCIAL RESULTS OF THE PERFORMANCE

At the level of leasing sector in the period from 01.01.2011., to 30.06.2012., reported was a loss in the performance in the amount of 7,587 thousand KM. In the same period last business year on the level of the sector realized was a loss in the amount of 32,031 thousand KM. If excluded are data of the company which license for performing leasing operations in FBiH was revoked, in the period from 01.01 to 30.06.2011 realized is a profit of 2,948 thousand KM.

If reviewed individually, the profit was realized by four leasing companies in the amount of 3,288 thousand KM, while loss was reported by three leasing companies in the amount of 24,525 thousand KM, of which 22,396 thousand KM or 91,32% refers to two leasing company. One of the two noted companies, according to the previous reporting period, also realized a loss higher than the amount of the total capital. The performance of the noted company is under a special attention of the Agency and during the fourth quarter the owner of the noted company performed the payment of the capital, which already in the next reporting period will influence the improvement of the financial indicators of the leasing sector as a whole.

The most significant category of income of the leasing companies is the interest income, which as of 30.09.2012 was 34,889 thousand KM. The noted position declined is by 1,813 thousand KM or 4,94% in comparison to the same period last year. If reviewed are individual positions of the interest income, income position based on the interest from the financial leasing was 25,927 thousand KM and by 2,329 or 8,24% decline in comparison to the same period previous business year. The position of other interest income increased in comparison to the same period previous year by 516 thousand KM or 6,11%.

The expenses from interests were 19,249 thousand KM, which is on the level from the same period previous year .

The total net income for the period 01.01. to 30.09.2012, was 15,640 thousand KM, which presents a decline by 1,752 thousand KM or 10,07% in comparison to the same period in 2011.

Within the category of expenses in the period from 01.01.to 30.09.2012, the most significant participation belongs to expenses for provisions for losses which were 37,957 thousand KM or 40,70% of total realized expenses. In comparison to the same period last year, the provisions expenses are higher by 18,866 thousand KM or 98,82%, of which 16,276 thousand KM or 86,27% refers to increase of reserves for losses reported by one leasing company.

In the structure of the total amount of the provisions for losses, provisioning expenses for financial leasing are 22,345 thousand KM or 58,87%, while 15,612 thousand or 41,13% refers to reserves for loan expenses.

5. RISK WEIGHTED NOMINAL AND EFFECTIVE INTEREST RATES

An effective interest rate presents a real relative cost of the leasing contract, reported on the annual level in compliance with the Decision on unified manner and method for accrual and reporting of the effective interest rate for the financial leasing contract.

In the third quarter of 2012, the total average nominal interest rate for the financial leasing contracts was 7,48%, and the effective interest rate was 10,19% on the annual level.

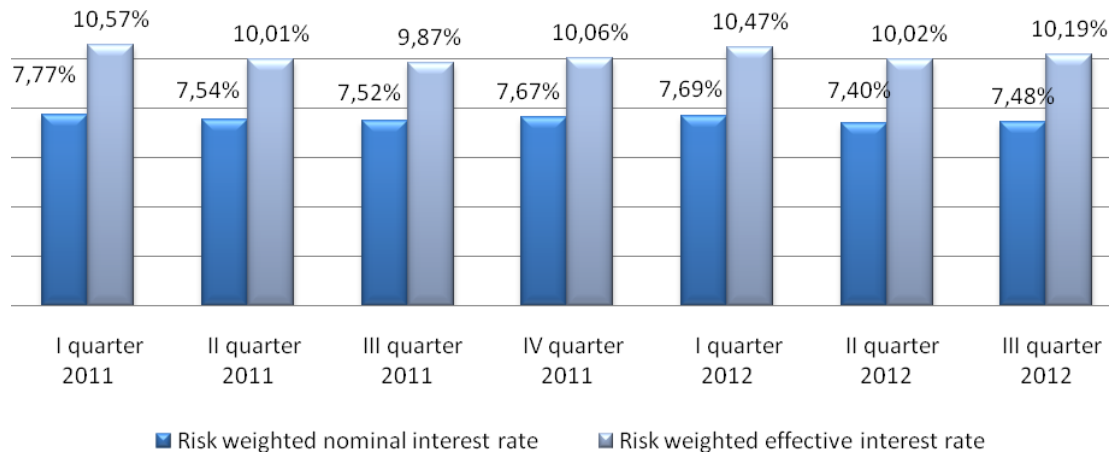
In Table 5 of this information presented are data about the financing amount, nominal and effective interest rate for the financial leasing contracts concluded in the third quarter of 2012.

Table 5. Average nominal and effective interest rates for the financial leasing contracts concluded in the third quarter of 2012.

No.	DESCRIPTION	Financing amount in (000) KM	Risk weighted nominal interest rate	Risk weighted effective interest rate
1.	Short term leasing contracts based on the leasing subject:	3.630	5,76%	9,49%
a.	Passenger vehicles	2.100	5,98%	10,88%
b.	Performance vehicles (terrain and passengers)	104	7,63%	13,89%
c.	Machinery and equipment	1.426	5,30%	7,13%
d.	Real Estate	0	0,00%	0,00%
e.	Track, floating and flying vehicles	0	0,00%	0,00%
f.	Household appliances	0	0,00%	0,00%
g.	Other	0	0,00%	0,00%
1.1.	Short term leasing contracts based on the lessee:	3.630	5,76%	9,49%
a.	Legal entities	3.507	5,72%	9,39%
b.	Entrepreneurs	0	0,00%	0,00%
c.	Individuals	122	7,06%	12,48%
2.	Long term leasing contracts based on the leasing subject:	47.951	7,61%	10,25%
a.	Passenger vehicles	17.209	7,85%	10,87%
b.	Performance vehicles (terrain and passengers)	17.244	7,30%	9,84%
c.	Machinery and equipment	10.968	7,58%	10,29%
d.	Real Estate	2.530	8,03%	8,42%
e.	Track, floating and flying vehicles	0	0,00%	0,00%
f.	Household appliances	0	0,00%	0,00%
g.	Other	0	0,00%	0,00%
2.1.	Long term leasing contracts based on the lessee:	47.951	7,61%	10,25%
a.	Legal entities	41.987	7,52%	10,07%
b.	Entrepreneurs	203	8,93%	12,85%
c.	Individuals	5.760	8,15%	11,42%
	TOTAL	51.580	7,48%	10,19%

If the risk weighted nominal and effective interest rates are reviewed with the values of the same in the previous reporting periods, concluded are no significant differences which is illustrated in the Graph number 6 of this Information.

Graph 7. Review of the average risk weighted nominal and effective interest rates for the contracts about the financial leasing through quarters during 2011 and 2012.



The significant difference between the nominal and effective interest rate is a consequence of the VAT on interest, which is an obligatory part of leasing contract for financial leasing (paid in advance by the lessee), creation of the financial leasing contract with the purchase value, as well as the additional cost of the leasing arrangement that are often integral part of the monthly rental for the leasing contract (Casco insurance etc.).

The leasing companies are obliged to report to the Agency on the monthly basis about the risk weighted nominal and effective interest rates in compliance with the proscribed methodology for the contracts on financial leasing that were approved in the reporting month. In such manner realized is the transparency and comparability of the financing through leasing.

6. CONCLUSIONS AND RECOMMENDATIONS

According to the indicators of the leasing companies' performance in FBiH, as of 30.09.2012, it can be concluded that the leasing sector in FBiH during the period from 01.01 to 31.12.2012 showed a decreasing trend in comparison to the previous year.

Some of the leasing companies still have difficulties in performance that are coming from the collection of the existing receivables that were generated in the previous periods.

The impact of the crises on the real sector is evident, and the consequences will certainly be reflected in the coming period on the economic environment in which the leasing companies operate.

Within their authorities in regard to the supervision of the leasing companies the Agency is guided by the principals of transparency, development of the trust in the leasing companies, as well as an adequate protection of the users of the financial services financed through leasing, with an aim to achieve the financial stability of the individual leasing companies and leasing operations of the level of the Federation of BiH.

In the third quarter of 2012, the Director of the Agency and the Director of the Department for the supervision of the leasing companies, held individual meetings with the management of seven leasing companies which operate on the territory of the Federation of Bosnia and Herzegovina. The goal of the visit was improvement and maintenance of a stable leasing sector as well as an adequate supervision of the leasing companies in regard to the performance in accordance with the laws and regulations. At the meetings presented were information on current events in respective leasing companies, possible problems which influence the development of the financing through the leasing operations, possibilities for improvement of the legal frameworks which regulates this area, as well as the supervision performed by the Agency as the regulator. It was agreed that the problems in regard to the development of the financing through the leasing operations will be resolved institutionally, or that the Agency, within its authorities, will support the proposal for changes and additions to the Law on leasing at the Ministry of finance of the Federation of BiH in regard to the permitted activity of the leasing company.

In the coming period the Agency will focus on the following aspects:

- continue the ongoing supervision of the leasing companies through on site and off site supervision,
- insist on capital enhancements for the leasing sector which refer to the performance and operations of the leasing companies,
- enhance the leasing sector regulations in the segment of protection of the users of the leasing services,
- monitor the activities of the leasing companies related to prevention of money laundering and terrorism financing and improve the cooperation with other institutions for examination and control;
- further improvement of the information technology system, which based on the reports of the leasing companies will provide an early warning system and preventive actions in regard to correcting the weaknesses in the performance of the leasing companies;
- improving the structure and quality of the data in the Central Register of loans in the Central Bank of BiH;
- continue the permanent education and professional specialization of the employees and
- improve the cooperation with the Association of the leasing companies in BiH, in reference to the providing of the professional assistance in the implementation of the provisions of the laws and regulations for the leasing companies and the proposals for the changes in the regulations.

In addition to the noted, at the beginning of the following year expected is adoption of the Law on the protection of the consumers – financial services. The Agency will with a regular control follow the performance of the leasing companies in accordance with the noted law.

In the coming period the leasing companies should put additional focus on the control of the past due receivables, that is the biggest attention should be given to the poor quality placements and taking activities in improving the collection of the past due receivables.

Leasing company activities should be directed towards:

- capital strengthening and defining parameters for protection of capital and capital adequacy;
- improvement of policies and procedure for managing the risks that the leasing companies are exposed to in their performance;
- establishment of the internal controls and the internal audit function as independent in performing their tasks;
- Update of computer support with an aim to provide adequate accounting records and better quality reporting;
- Improvement in regard to the protection of the users of the leasing services;
- Implementation of the responsible financing practices;
- informing the clients in more details about the products offered by the leasing companies with an aim of accomplishing a better understanding and a more serious approach to financing through leasing;
- Regular, timely and correct reporting of data to the Central Loan Registry at the Central Bank of BiH.

7. REGULATIONS OF THE AGENCY FOR THE PERFORMANCE OF THE LEASING COMPANIES

According to the Law on leasing, the issuing of the licenses for establishment and performance of leasing companies is regulated in details by the regulations of the Banking Agency of Federation of Bosnia and Herzegovina (in further reading Agency), that is by the decisions adopted by the Management Board of the Agency (published in the "Official Gazette of the Federation of Bosnia and Herzegovina " number: 46/09, 46/11 and 48/12), as well as the instructions adopted by the Director of the Agency.

The decisions of the Agency that regulate the establishment and issuing of the license for performance and operations of leasing companies are:

1. Decision on conditions and procedure for issuing and revoking the license for performing leasing operations,
2. Decision on condition and procedure for issuing and revoking approvals to a leasing company,
3. Decision on minimal standards for the activities of the leasing company on prevention of money laundering and terrorism financing,

4. Decision on unified manner and method for accrual and reporting of effective interest rate for financial leasing contracts,
5. Decision on unified manner and method for accrual and reporting of leasing fees for operating leasing contracts,
6. Decision on form and content of reporting that the leasing companies submit to the Banking Agency of Federation of BiH and reporting deadlines,
7. Decision on minimal amount and manner for allocation, managing and maintaining the reserves for losses and managing the leasing company risks,
8. Decision on supervision of leasing companies,
9. Decision on the fees that the leasing companies pay to the Banking Agency of Federation of BiH,
10. Decision on conditions and manner of performance for the leasing companies in regard to the complaints of the users of the leasing companies' services.
11. Instructions for implementation of the Decision on the unified manner and method for accrual and reporting of the effective interest rate for contracts on financial leasing and
12. Instructions for development of leasing companies' reports.

ATTACHMENTS

Attachment 1. Leasing companies' basic data as of 30.09.2012.

No.	Leasing company name	Address and head office	Director	Telephone	Date of issuing of the FBA license	No. of employees	Web address
1.	ASA Aleasing d.o.o. Sarajevo	Bulevar Meše Selimovića 16, Sarajevo	Abaza Dženamir	+ 387 33 771 222	22.03.2010	18	www.asa-aleasing.ba
2.	Euroleasing d.d. Mostar	Vukovarska 1, Mostar	Renata Perić	+ 387 36 394 500	03.02.2010	6	www.euroleasing.ba
3.	NLB Leasing d.o.o. Sarajevo	Trg Solidarnosti 2a, Sarajevo	Dalida Međedović	+ 387 33 789 345	19.03.2010	12	www.nlbleasing.ba
4.	Raiffeisen Leasing d.o.o. Sarajevo	Danijela Ozme 3, Sarajevo	Belma Sekavić - Bandić	+ 387 33 254 354	19.01.2010	56	www.rlbh.ba
5.	S-Leasing d.o.o. Sarajevo	Zmaja od Bosne 7 Sarajevo	Elma Hošo	+ 387 33 565 850	11.02.2010	11	www.s-leasing.ba
6.	UniCredit Leasing d.o.o. Sarajevo	Džemala Bijedića 2, Sarajevo	Denis Silajdžić	+ 387 33 721 750	16.03.2010	28	www.unicreditleasing.ba
7.	VB Leasing d.o.o. Sarajevo	Fra Anđela Zvizdovića 1, Sarajevo	Slobodan Vujić	+ 387 33 276 280	12.01.2010	32	www.vbleasing.ba
					TOTAL	163	

Attachment 2. Review of leasing companies' ownership structure 30.09.2012.

LEASING COMPANY	NAME OF THE OWNER	% participation
ASA ALEASING d.o.o. Sarajevo	ASA FINANCE d.d. Sarajevo	51,00%
	ALEASING d.o.o. Celje	49,00%
EUROLEASING d.d. Mostar	EUROLEASING d.o.o. Zagreb	27,24%
	EUROHERC osiguranje d.d. Sarajevo	17,66%
	EUROHERC osiguranje d.d. Zagreb	13,52%
	BSO d.d. Sarajevo	8,44%
	AGRAM životno osiguranje d.d. Zagreb	6,79%
	JADRANSKO osiguranje d.d. Zagreb	6,79%
	EUROAGRAM TIS d.o.o. Zagreb	6,50%
	EURO DAUS d.d. Split	6,50%
	EURODOM d.o.o. Osijek	6,50%
	AGRAM d.d. Ljubuški	0,06%
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	90,00%
	SPARKASSE BANK d.d. Sarajevo	10,00%
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. Review of provisioning for leasing loans as of 30.09.2012. (in 000 KM)

No.	Days of delinquency	Provisioning rate	Amount of receivables	Higher accrued allocated reserves	Total provisioning
1	0-60	0,05%	96.125	3.924	3.972
2	60-90	5%	26.732	0	1.337
3	90-180	10%	444	0	44
4	180-270	30%	1.510	0	453
5	270-360	50%	0	0	0
6	over 360	100%	0	0	0
TOTAL			124.811	3.924	5.806

Attachment 4. Review of provisioning for financial leasing (FL) of leasing companies as of 30.09.2012. (in 000 KM)

Days of delinquency	Provisioning rate for FL (movables)	Provisioning rate for FL (immovable)	Amount of receivables for movables	Amount of receivables for immovable	Amount of base for movables	Amount of base for immovable	Reserves		Surplus of accrued and allocated reserve	Total reserves
							For movables	For immovable		
0-60	0,50%	0,50%	324.926	49.524	54.944	5.756	275	29	356	660
60-90	10%	10%	14.199	3.338	4.655	316	466	32	20	517
90-180	50%	50%	12.103	11.576	2.729	1.193	1.365	597	132	2.093
over 180	100%	75%	35.777	20.144	20.916	3.608	20.916	2.706	293	23.915
over 360	100%	100%	0	0	0	0	0	0	0	0
TOTAL			387.005	84.582	83.244	10.873	23.021	3.363	801	27.185

Attachment 5. Consolidated Balance Sheet (000 KM)

No.	DESCRIPTION	31.12.2011		30.9.2012		% growth 30.09.2012/ 31.12.2011
		Amount	% in total assets	Amount	% in total assets	
	ASSETS					
1.	Cash and cash equivalents	29.837	3,92%	15.677	2,22%	-47,46%
2.	Placements to banks	98	0,01%	0	0,00%	-100,00%
3.	Receivables from financial leasing, net (3a-3b-3c-3d)	500.626	65,72%	444.402	62,81%	-11,23%
3a)	receivables from financial leasing, gross	612.257	80,38%	552.901	78,15%	-9,69%
3b)	reserves for losses	21.898	2,87%	27.185	3,84%	24,14%
3c)	deferred income from interest	89.572	11,76%	80.733	11,41%	-9,87%
3d)	deferred income from fees	161	0,02%	581	0,08%	260,87%
4.	Receivables from subsidiaries	0	0,00%	0	0,00%	0,00%
5.	Movable and immovable assets, net (5a+5b-5c-5d)	69.938	9,18%	76.456	10,81%	9,32%
5a)	movable and immovable property-personal funds	42.797	5,62%	53.881	7,62%	25,90%
5b)	movable and immovable property -operating leasing	52.039	6,83%	48.545	6,86%	-6,71%
5c)	correction of value -personal funds	7.192	0,94%	8.908	1,26%	23,86%
5d)	correction of value - operating leasing	17.706	2,32%	17.062	2,41%	-3,64%
6.	Long term investments	572	0,08%	52	0,01%	-90,91%
7.	Other assets	160.648	21,09%	170.901	24,15%	6,38%
7a)	Loans, net (7a1-7a2)	115.285	15,13%	119.005	16,82%	3,23%
7a1)	loans (past due rec.+not due principal)	123.994	16,28%	124.811	17,64%	0,66%
7a2)	Reserves for loans	8.709	1,14%	5.806	0,82%	-33,33%
7b)	Other assets	45.363	5,96%	51.896	7,34%	14,40%
	TOTAL ASSETS	761.719	100,00%	707.488	100,00%	-7,12%
	LIABILITIES					
9.	Liabilities from taken loans, net (9a+9b-9c)	686.666	90,15%	652.064	92,17%	-5,04%
9a)	liabilities from short term loans	52.405	6,88%	46.053	6,51%	-12,12%
9b)	liabilities from long term loans	635.386	83,41%	606.981	85,79%	-4,47%
9c)	cost and fees paid in advance	1.125	0,15%	970	0,14%	-13,78%
10.	Other liabilities	22.032	2,89%	23.493	3,32%	6,63%
	TOTAL LIABILITIES (9+10)	708.698	93,04%	675.557	95,49%	-4,68%
11.	Core capital	58.939	7,74%	60.288	8,52%	2,29%
12.	Reserves	5.528	0,73%	5.621	0,79%	1,68%
13.	Accumulated profit/loss	-11.446	-1,50%	-33.978	-4,80%	196,85%
	TOTAL CAPITAL (11+12+13)	53.021	6,96%	31.931	4,51%	-39,78%
	TOTAL LIABILITIES	761.719	100,00%	707.488	100,00%	-7,12%
	Written off receivables (opening balance)	26.453	3,47%	33.922	4,79%	28,23%
	New write off (+)	38.391	5,04%	20.232	2,86%	-47,30%
	Collection (-)	30.559	4,01%	1.948	0,28%	-93,63%
	Permanent write off (-)	363	0,05%	0	0,00%	-100,00%
	Written off receivables (final balance)	33.922	4,45%	52.206	7,38%	53,90%

Attachment 6. Consolidated income statement (in 000 KM)

No.	DESCRIPTION	30.9.2011		30.9.2012		% growth
		Amount (000 KM)	% in total income	Amount (000 KM)	% in total income	30.09.2012/ 30.09.2011
	FINANCIAL INCOME AND EXPENSES					
1.	Interest income (1a+1b)	36.702	53,87%	34.889	48,32%	-4,94%
1a)	Interest on financial leasing	28.256	41,47%	25.927	35,91%	-8,24%
1b)	Other interest income	8.446	12,40%	8.962	13,41%	6,11%
2.	Interest expenses	19.310	28,34%	19.249	26,66%	-0,32%
3.	Net income from interest (1.-2.)	17.392	25,53%	15.640	21,66%	-10,07%
	OPERATING INCOME AND EXPENSES					
4.	Operating income (4a+4b)	31.431	46,13%	37.313	51,68%	18,71%
5.	Operating leasing income	28.992	42,55%	36.063	49,95%	24,39%
5a)	Other operating income	6.159	9,04%	6.122	8,48%	-0,60%
5b)	Operating expenses (5a+5b+5c)	10.315	15,14%	10.631	14,72%	3,06%
5c)	Salary and contributions expenses	12.518	18,37%	19.310	26,74%	54,26%
6.	Business premises expenses	19.091	28,02%	37.957	52,57%	98,82%
6a)	Other operating expenses	15.911	23,35%	22.345	30,95%	40,44%
6b)	Expenses for reserves for losses	3.180	4,67%	15.612	21,62%	390,94%
7.	Income before tax (3+4-5-6)	740	1,09%	-21.067	-29,18%	-2.947%
8.	Income tax	220	0,32%	170	0,24%	-22,73%
9.	Net income	520	0,76%	-21.237	-29,41%	-4.184%

Attachment 7. Rating the aggregate balance sheet amount

31.12.2011					30.9.2012					
Rating	Leasing company	Balance Sheet amount (000 KM)	Participation 2011.	Cumulative parti.	Rating	Leasing company	Balance Sheet amount (000 KM)	Participation 30.09.2012.	Cumulative participation	Balance sheet amount ratio
1.	Raiffeisen Leasing d.o.o. Sarajevo	238.575	31,32%	31,32%	1.	Raiffeisen Leasing d.o.o. Sarajevo	211.647	29,92%	29,92%	89
2.	UniCredit Leasing d.o.o. Sarajevo	185.956	24,41%	55,73%	2.	UniCredit Leasing d.o.o. Sarajevo	180.984	25,58%	55,50%	97
3.	VB Leasing d.o.o. Sarajevo	108.874	14,29%	70,03%	3.	VB Leasing d.o.o. Sarajevo	113.565	16,05%	71,55%	104
4.	NLB Leasing d.o.o. Sarajevo	83.515	10,96%	80,99%	4.	Asa Aleasing d.o.o. Sarajevo	61.817	8,74%	80,29%	89
5.	Asa Aleasing d.o.o. Sarajevo	69.663	9,15%	90,14%	5.	NLB Leasing d.o.o. Sarajevo	58.550	8,28%	88,56%	70
6.	S-Leasing d.o.o. Sarajevo	47.810	6,28%	96,41%	6.	S-Leasing d.o.o. Sarajevo	54.640	7,72%	96,28%	114
7.	Euroleasing d.d. Mostar	27.326	3,59%	100,00%	7.	Euroleasing d.d. Mostar	26.285	3,72%	100,00%	96
TOTAL		761.719	100%		TOTAL		707.488	100%		93