



**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 31.12.2010.**

Sarajevo, March 2011

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## 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 (as 31.12.2010.) 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).

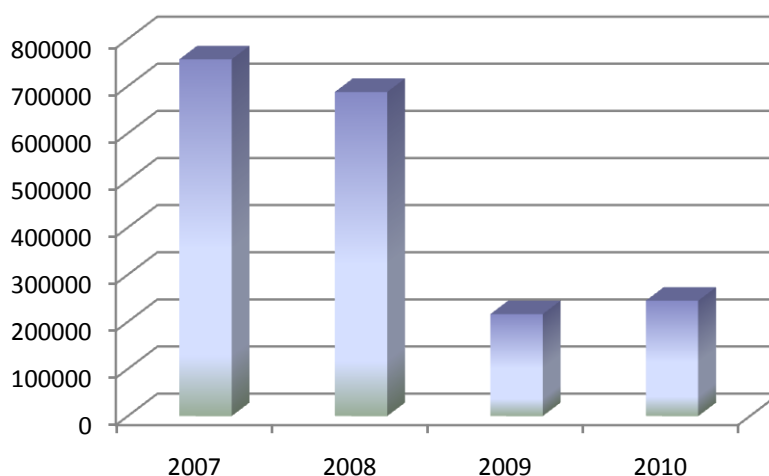
Leasing companies' performance is regulated by the Law on leasing which came into effect on 03.01.2009. („Official Gazette of Federation of Bosnia and Herzegovina" number: 85/08 and 39/09). The law regulates establishment, performance and cease of operations of a leasing company, rights and obligations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

The leasing companies on the territory of the Federation of BiH were obliged to comply their performance with the provisions of this Law, that is they had to receive from the Banking Agency of Federation of BiH a license for performing the leasing operations within 12 months. All eight leasing companies, which operate in the Federation of BiH, completed the process of compliance with the Law within the first quarter of 2010, and the Agency issued the resolutions approving performance of leasing operations.

At the end of 2008 the negative effects of the global economic and financial crises stopped the expansion of the growth of leasing companies, which had its peak in the period from 2006 to 2008.

In 2010, noted was a slight growth of the business activities in relation to 2009, however the financing level is far below the value from the period of maximum expansion of the leasing industry in the Federation of BiH (2006-2008).

**Graph 1. Graphic review of the total leasing sector's financing amount for the period 2007 – 2010**



As of 31.12.2010., the aggregate balance sheet of the leasing sector was 1.108 million KM which is lower by 21,45% or by 302.746 thousand KM when compared to 31.12.2009.

The listed information, as well as the other information on the leasing sector in the Federation of BiH indicates that the leasing companies are gradually adopting their performance to the current market situation and environment in which they are performing business activities. The decline of the aggregate balance sheet in 2010, is primarily conditioned by the significant write off of the receivables from loans, as well as a more realistic reporting of the value of receivable in relation to the previous periods before the coming into effect of the *Decision on the minimum amount and manner for establishing, managing and maintaining the provisions for loan losses and risk management of leasing companies* which the leasing companies in the Federation of BiH encountered considerably unprepared when it comes to preparation for the improvement of credit portfolio quality during 2009. Towards the end of the third quarter there was also a slowdown in the negative trend in this segment. The total loss of the leasing sector (101,96 million KM) is over the amount of the core capital of the leasing company, and at the end of 2010, the total capital of the sector was 19,3 million KM. Total written off assets were 158,2 million KM.

It is necessary to mention the fact that the poor financial picture of the overall sector is mostly generated by a poor financial position of one leasing company. The mentioned company, viewed on the cumulative basis, caused a loss that is higher than the amount of capital (which is even more evident if the company is viewed individually). During 2011, the company will with the owner find an acceptable solution for rehabilitation and overcoming of the existing problem. The performance of the mentioned company is under special attention of the Agency. If the balance sheet positions of the mentioned company are excluded from the cumulative positions, the remaining part of the leasing sector gains a completely different picture (total capital is 46,2 million KM, net losses 12,5 million KM, total written-off assets 26,4 million KM).

Concisely, the leasing performance in the Federation of BiH during 2010, can be characterized as a slight recovery in comparison to the previous year when it comes to new placements and increase of loan loss reserves in relation to previous years, which was caused by the decrease of liquidity of the participants in the economy and implementation of the Decisions of the Agency. As of 31.12.2010., four leasing companies reported negative financial result, of which two performed with loss higher than the capital amount. One of the mentioned companies that had a loss higher than the amount of capital is in the process of change of owners and additional capitalization (cover of losses). The noted process will be completed during the first quarter of 2011, which will allow the mentioned company to perform without obstructions. In addition, one leasing company had additional capitalization in the last quarter of 2010, caused by a loss above the capital level which was noted during the on-site examination by the Agency's examiners.

During 2010, the Association of the leasing companies in BiH had in the name of the leasing companies issued an initiative to the Management Board of the Institution for direct/indirect taxation of Bosnia and Herzegovina, for the changes and additions to the Guidelines for implementation of the Law on taxes for added value, by which the taxes calculated on financial leasing contracts would be excluded from the base for calculation of the VAT, which

would in turn increase the financial leasing product competitiveness in comparison to the banking loans.

The data in the Information that relate to the financial volume, number of contracts and market participation are obtained from the Association of the leasing companies in Bosnia and Herzegovina.

### ***1.1 Regulations of the Agency for leasing company performance***

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.

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 and
9. Decision on the fees that the leasing companies pay to the Banking Agency of Federation of BiH

The Agency issued the Instructions for implementation of the Decision on unified manner and method for accrual and reporting of effective interest rates for the contract on financial leasing and the Instructions for development of leasing company reports.

### ***1.2. Leasing sector supervision***

Based on the changes and additions to the Law on the Agency, Law on leasing and regulations issued by the Agency, the performance of the supervision of the leasing companies with headquarters in the Federation and outside of the Federation is assigned to the Agency. The performer of these duties of the Agency is the Department for supervision of the leasing companies (in further reading the Department), which performs the off-site examination and the on-site examination of the leasing companies performance.

The supervision of the leasing companies is established upon issuing the license for leasing companies' performance. The aim of the supervision is continuous monitoring of the performance and the financial condition of each individual leasing company and leasing system of the Federation of BiH as a whole, through examinations and determining the compliance of the leasing companies' performance with the valid regulations, as well as analyzing and reviewing the financial reports of the leasing companies.

The off-site supervision is based on collection, review and analyses of the regulatory financial reports which the leasing companies submit to the Agency on the monthly and quarterly basis.

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. A direct professional and expert approach by the examiners in the examination of a leasing company is directed towards further improvement of the leasing company's performance quality, their profitability, soundness and safety in performance, as well as the legal aspect of performance which is of mutual interest.

The irregularities determined in the on-site examination mostly referred to incompliance with the Law on leasing and regulations that were issued based on it, inadequate policies and procedures which define the basic risks in a leasing company's performance (collection risk, liquidity, operating, market and concentration risk and other) and manner of risk management, inadequate existence and performance of internal control systems and internal audit, inadequate and untimely reporting to the Agency, not following the Decision on minimum amount and manner for establishing the loss reserves, wrong classifications of the leasing contracts, lack of compliance with the Law on accounting audit in FBiH and international accounting standards.

The leasing companies adopted policies and procedures which define the obligations and activities for prevention of money laundering and terrorism financing. Also, performed was the appointment of the authorized individuals for coordinating the activities necessary for prevention of money laundering and terrorism financing. Based on this, it can be concluded that the leasing companies' implemented necessary measures with an aim to eliminate the risk from money laundering and terrorism financing activities, that could occur in their performance. However, in the coming period it will be possible to evaluate the efficiency of the actions performed by the leasing companies.

## **2. MARKET PARTICIPANTS**

### ***2.1. Number of leasing companies***

As of 31.12.2010., in the Federation of BiH there are no changes in the number of the leasing companies that have licenses to perform leasing operations in comparison to the previous quarter. A total of 8 leasing companies registered in the Federation of BiH perform business activities in 35 organizational units – affiliates (of which 28 in FBiH and 7 in RS). In 2010, two leasing companies

received approval to open organizational units in RS, while one leasing company closed its organizational unit in RS. 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. Hypo Alpe Adria Leasing d.o.o. Sarajevo,
4. NLB Leasing d.o.o. Sarajevo,
5. Raiffeisen Leasing d.o.o. Sarajevo,
6. S-Leasing d.o.o. Sarajevo,
7. UniCredit Leasing d.o.o. Sarajevo and
8. VB Leasing d.o.o. Sarajevo.

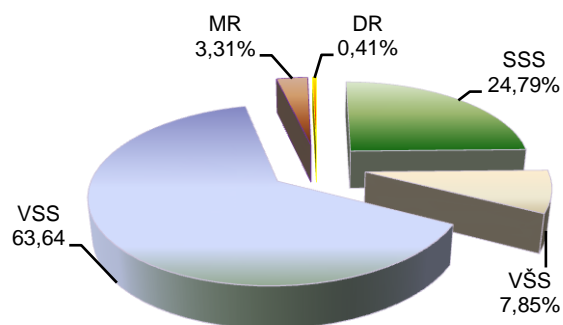
## ***2.2. Ownership structure***

Of 8 leasing companies, there are 3 companies that have a 100% nonresident ownership of parent companies, while four 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. In 2010, one company submitted request for a status change of the company that established it.

## ***2.3. Number of employees in the leasing companies***

As of 31.12.2010., in the leasing companies there were a total of 242 employees. The qualification structure as of 31.12.2010 is the following: : 1 PhD, 8 Master of Art, 154 with four year university degree, 19 with two year college degree and 60 employees with high school degree. The qualification structure of the employees in the leasing sector is satisfactory

***Graph 2. Qualification structure in the leasing sector***



One of the indicators that influence the evaluation of the leasing company performance and leasing sector is the efficiency of the employees, presented as a ratio between the assets and the number of employees (assets per employee). As of 31.12.2010, at the level of the leasing sector there are 4,6 million KM in assets that relate to each employee (30.06.2010. - 5,1 million KM, 30.09.2010. - 4,9 million KM per employee). Simultaneously, as of 31.12.2010, in the sector of microcredit organizations and funds this indicator was 377 thousand KM per employee and the banking sector 2 million KM per employee.

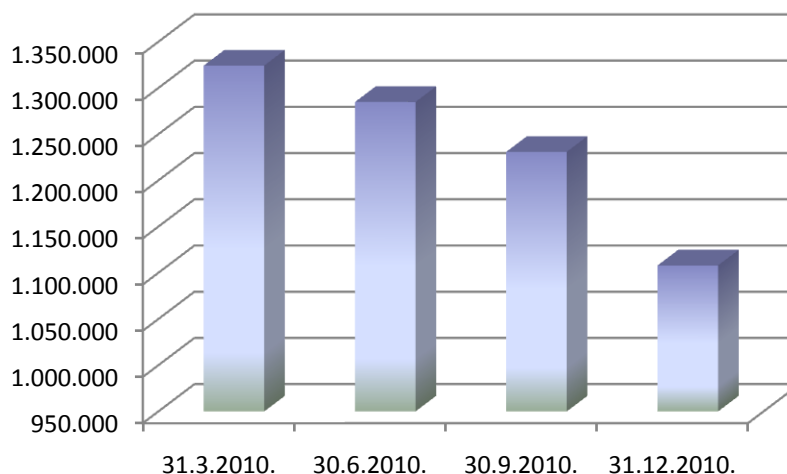
It should be noted that apart from the listed number of the employees, there are 45 employees that are working in the leasing companies and were engaged through student service, special contracts and through employment agencies.

### 3. BALANCE SHEET STRUCTURE

#### 3.1. Structure of Assets

The total assets of all leasing companies as of 31.12.2010., was 1.108 million KM, which in comparison to 31.12.2009., presents a decrease by 303 million KM or 21,5%. 70% of the leasing company aggregate balance sheet refers to three leasing companies. Through analyses of the assets, observed individually by leasing companies, two companies had an increase of their balance sheet in comparison to 31.12.2009., while three companies recorded an increase of their balance sheet in relation to the previous quarter.

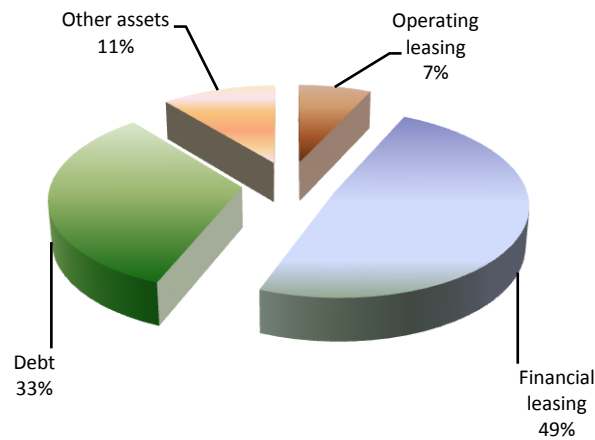
*Graph 2. Consolidated Assets of the leasing sector (in 000 KM)*



In the structure of total assets, the most significant participation is of the net receivables from financial leasing which are 541,4 million KM, and that presents 49% of the assets of leasing operations. In relation to 30.09.2010, the net receivables from financial leasing have decreased by 1,15%, while in relation to 31.12.2009 the decrease by 5,62%. The decrease is caused by the increase of the provisions for losses established for financial leasing, charge off of receivables and decreased lending of leasing companies from local, foreign banks and financial institutions.

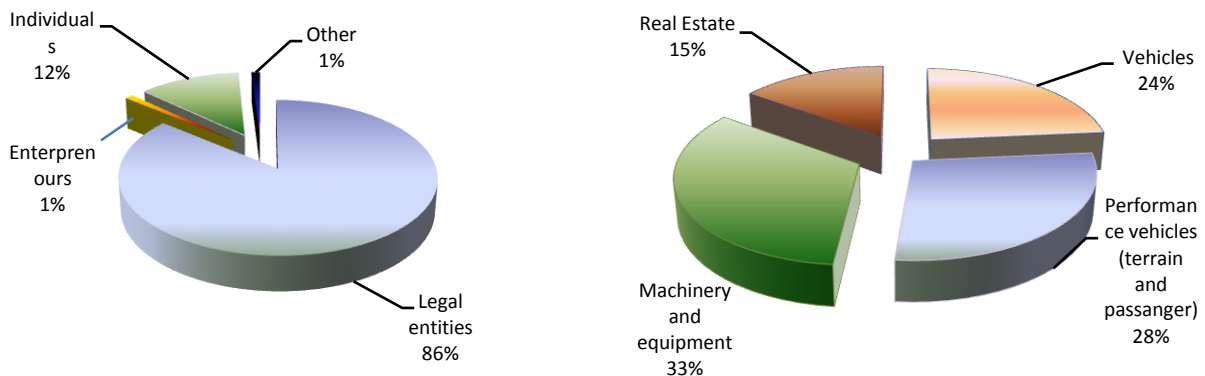


**Graph 4. Aggregate balance sheet of the leasing sector in the banking sector as of 31.12.2010.**



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

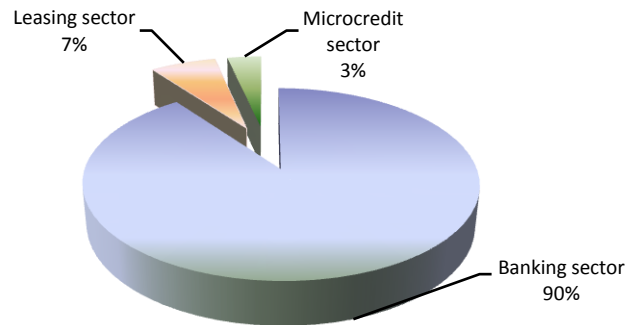
**Graph 5. Financial leasing structure according to the leasing subject and lessee as of 31.12.2010.**



As of 31.12.2010., in the structure of the total assets of the leasing companies, 368 million KM or 33% represent net loan receivables. Of the noted amount of loan receivables 63% is in the portfolio of one company. There is a decline of 16% in comparison to the previous quarter when the net loan receivables were 440 million KM, caused by establishment of new write offs of loan receivables and increased provisioning for loans during the fourth quarter of 2010. In the structure of the total assets the loans will remain in the leasing companies' balance sheet until the granted maturity.

In the financial sector's aggregate balance sheet structure that the Agency supervises 7% relates to the leasing sector, 90% to the banking sector and 3% of the aggregate balance sheet belongs to the microcredit sector.

**Graph 6. Structure of financial sector as of 31.12.2010.**



### **3.2. Asset quality**

The reserves for losses from financial leasing as of 31.12.2010 have been reported in the amount of 19,5 million KM and present an increase by 81% (8,7 million KM) in comparison to 31.12.2010. In comparison to the previous quarters, the reserves for loan losses from financial leasing decreased by 33%. The cause of the decline are significant charge offs of receivables from financial leasing in the fourth quarter of 2010, that increased in relation to the previous quarter by 18,2 million KM. Of the listed amount, 72% or 13 million KM are new charge offs by one leasing company.

In the reserve structure for the financial leasing according to the days of delinquency, as of 31.12.2010., dominating is the amount of receivables in the category over 180 days which is 15,26 million KM. This fact can be caused by the sole methodology for establishing the reserves in this delinquency category (the estimated market value of the receivable is not taken into account if the leasing company does not own the leasing subject). Taken the fact that it is a question of the financial leasing, it is assumed that the leasing companies in the coming period will gain ownership of the leasing subject, and that they will, through the sale of the leasing subject, significantly reduce the total amount of receivables, in other words the amount of the final charge off would be significantly under the current level of receivables.

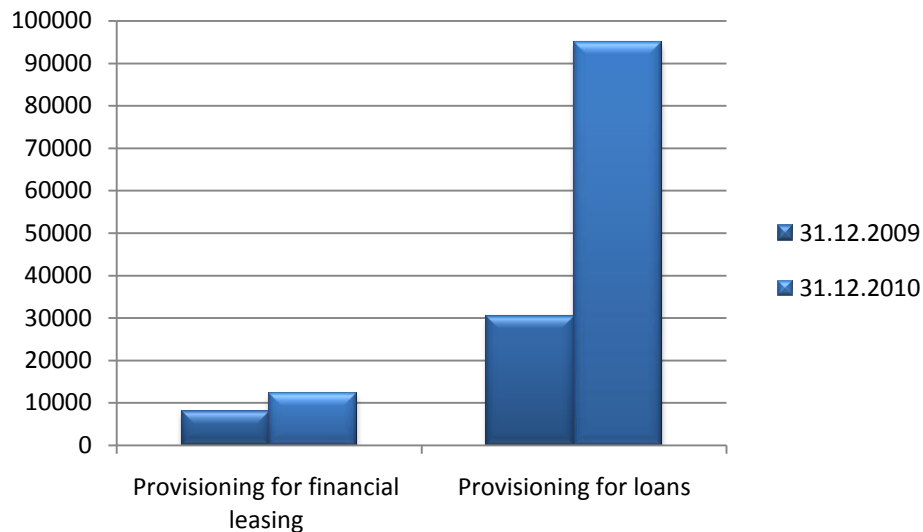
Provisioning for loans as of 31.12.2010., are 20 million KM and decreased by 18,6% (4,6 million KM) in comparison to 30.09.2010. The reason for the increase are the charged off receivables that occurred during the fourth quarter of 2010.

In the structure of the reserves for loan losses as of 31.12.2010., the most significant are the amounts of receivables in the category of 180-360 days, so it can be expected, taken the type of receivables and the more difficult ownership in this type of placement, that the following period will see a more significant spilling over into the delinquent category, where it is necessary to perform the charge off of the receivables. Of the total amount of receivables in the category of 180-360 days, 85% of the receivables refer to receivables of one leasing company.

The cause for the high level of provisioning and charge offs, or the high level of participation of provisioning in the total assets of the leasing companies is the fact that the leasing companies have not been allocating a sufficient level of reserves for losses due to deterioration of asset quality in the

periods before the obligation of implementing the Decision on minimum amount and manner for establishing, managing and maintaining the loan loss reserves and leasing companies risk management, and have not written off suspicious and doubtful receivables. Also, significant impact on the more difficult collection of the receivables financed through the leasing companies has the decrease of the economic activity of the business companies in BiH and the poor liquidity of the real sector in BiH.

**Graph 7. Expenses of reserves for losses from financial leasing and loans (in 000 KM)**



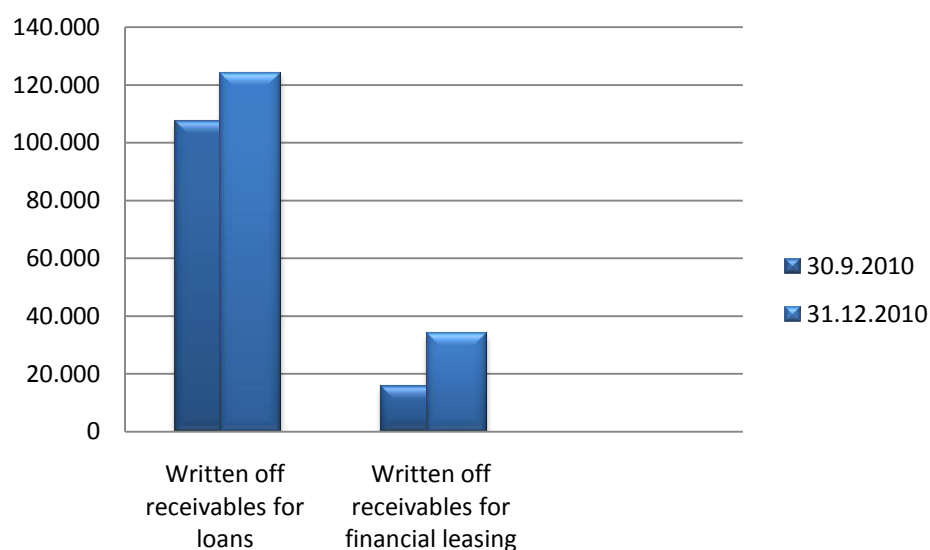
### **3.3. Off balance sheet – charged off receivables**

Total charged off receivables (off balance sheet) as of 31.12.2010. were 158 million KM. Of the mentioned amount, 97% or 124 million KM refers to charged off loan receivables, of which 83% charge doff receivables refers to one leasing company.

In the structure of the total charge off items, 21% or 34 million KM refers to receivables from financial leasing of which 64% refers to items charged off by 2 leasing companies.

From the total charge off loans, 97% are the charge offs performed during 2010.

**Graph 8. Charged off receivables from loans and financial leasing (in 000 KM)**



### **3.4. Placements based on leasing subject and number of contracts**

The performance of the leasing companies in 2010, on the level of the overall leasing activities, recorded a slight growth of the financial volume in the performance in comparison to 2009. The total amount of financing (financial and operating leasing) on the level of FBiH, in 2010, was 245 million KM, which presents an increase of 13,2% in relation to 2009. The number of active contracts in 2010, was 5.566, which presents an increase of 25,7% in relation to 2009. The trend of increase of contracts and financing amounts presents an increase of the demand for financing through leasing as well as a more active performance of the leasing companies on the BiH market.

In the structure of new placements, during 2010, 85% of the total financing amount refers to placements through financial leasing and the rest on the placements through operating leasing. In the previous year the structure of the placements was 94% for the financial leasing. In the last quarter of 2010, the ratio changed due to the activating of one operating leasing real estate contract in the amount of 24,2 million KM.

The largest amount of 144,8 million KM refers to financing of vehicles, 45,9 million KM was used for financing of equipment and 54,3 million KM for financing real estate.

The leasing companies' performance in 2010, viewed on the level of the leasing activity recorded a slight growth of the financial volume in performance in comparison to 2009.

**Table 1.** Review of financing and market participation according to leasing subjects

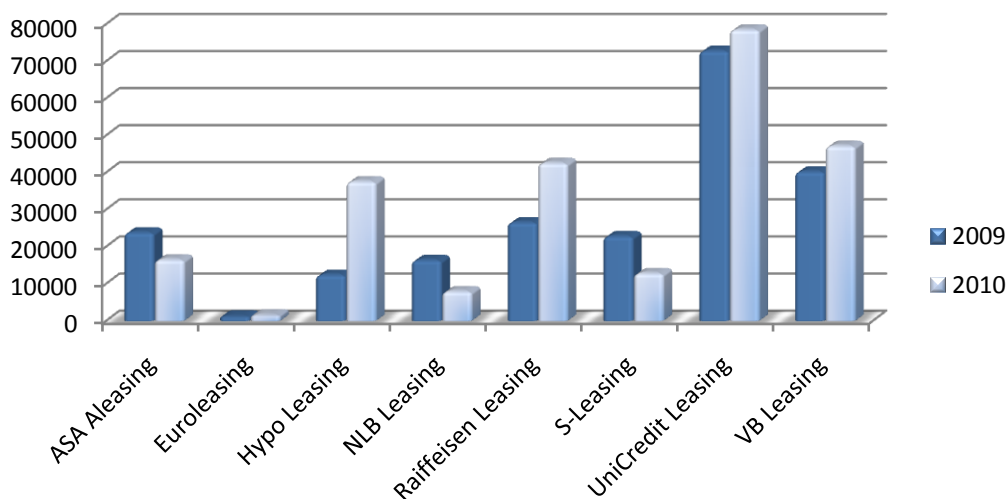
Leasing contracts according to the subject of leasing	2009				2010			
	Financial volume (000 KM)	Contract number	Market part. fin. volume %	Market part. no. of contract %	Financial volume (000 KM)	Contract number	Market part. fin. volume %	Market part. no. of contract %
Cars	67.273	2.543	51%	<b>69%</b>	79.712	3.438	55%	<b>70%</b>
Delivery vehicles	16.499	660	13%	18%	14.389	662	40%	13%
Trucks and trailers	26.169	391	20%	10%	43.932	693	30%	14%
Other	16.421	45	13%	1%	3.918	31	3%	1%
Cargo	3.405	92	3%	2%	2.861	97	2%	2%
<b>VOZILA UKUPNO</b>	<b>129.767</b>	<b>3.731</b>	<b>60%</b>	<b>84%</b>	<b>144.812</b>	<b>4.921</b>	<b>59%</b>	<b>89%</b>
Machines and ind. Equipment	27.687	211	<b>51%</b>	<b>32%</b>	22.120	215	<b>48%</b>	<b>37%</b>
Construction machines	14.776	139	27%	21%	16.509	157	36%	27%
IT and business equipment	2.087	19	4%	3%	1.051	18	2%	3%
Other	10.051	300	18%	44%	6.180	188	14%	33%
<b>TOTAL EQUIPMENT</b>	<b>54.601</b>	<b>669</b>	<b>25%</b>	<b>15%</b>	<b>45.860</b>	<b>578</b>	<b>19%</b>	<b>10%</b>
Industrial and business buildings	31.233	21	97%	77%	49.604	28	91%	42%
Residential buildings	831	5	3%	19%	4.009	38	8%	57%
Hotels	0	0	0%	0%	677	1	1%	1%
Other	10	1	0%	4%	0	0	0%	0%
<b>TOTAL REAL ESTATE</b>	<b>32.074</b>	<b>27</b>	<b>15%</b>	<b>1%</b>	<b>54.290</b>	<b>67</b>	<b>22%</b>	<b>1%</b>
<b>TOTAL EQUIPMENT</b>	<b>216.442</b>	<b>4.427</b>			<b>244.962</b>	<b>5.566</b>		

If we analyze the financial amounts' movements during 2010, in the countries in the region (Serbia, Croatia, Slovenia), according to the available data for the first three quarters of 2010, there is an evident decline of the financial volume in relation to the same period of the last year. As an example, there is the leasing market in Republic of Croatia, which in the period from 01.01. to 30.09.2010., recorded a decline of 41% in relation to the same period in 2009, while the financial volume realized in the three quarters of 2009, decreased by 43% in relation to the same period in 2008. Similar situation is in the other countries of the region. In the same period, in the countries in Europe, recorded is a slight increase of the financing amount through leasing arrangements in relation to the previous year (growth of 1% - 5%).

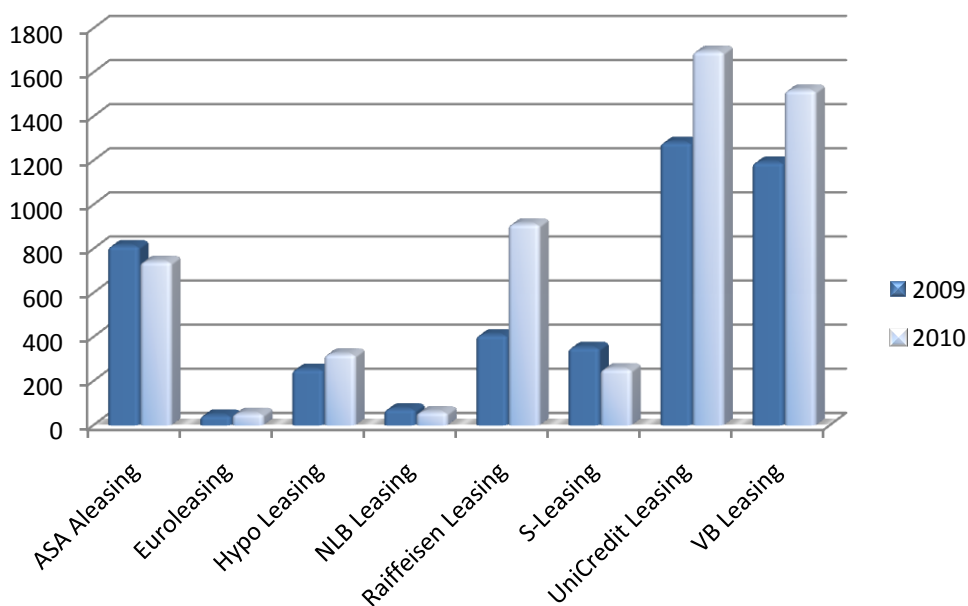
### 3.5. Individual market participation according to financial volume and number of contracts

In 2010, three leasing companies realized 69% of total financial volume and 74% of total number of active contracts.

**Graph 9. Market participation according to the volume (in 000 KM)**



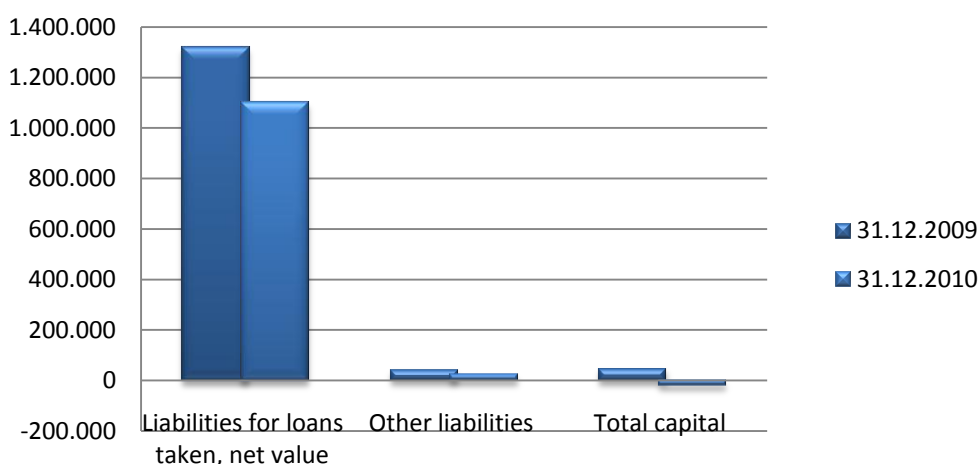
**Graph 10. Market participation according to the number of contracts**



### 3.6. Structure of Liabilities

As of 31.12.2010., there were no significant changes in the structure of liabilities. Liabilities on taken loans still present a dominant position in the structure of total liabilities.

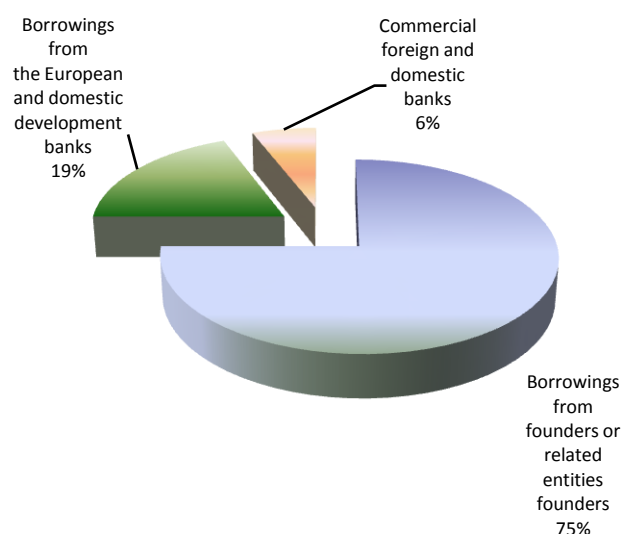
*Graph 11. Structure of Liabilities*



Of the total amount of liabilities from taken loans 96% refers to long term liabilities. The total liabilities from loans decreased by 17% in relation to 31.12.2009., due to payment of the existing loans of the leasing companies as well as the decrease of credit activities. Also, the deteriorated borrowing position on the money market caused the decrease of leasing companies loan liabilities, so leasing companies have not concluded new credit arrangements

As of 31.12.2010., the structure of the liabilities from loans is similar to the structure from the previous periods. In the funding sources structure, 75% refers to lending from the parent company or related entities, while 19% refers to lending from European and local development banks (EIB, EBRD, CEDB, DEG, Development bank of FBiH etc.). 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. Due to a more poor condition of the leasing companies' performance, the lending from the European development banks is more difficult. Also, in the funding structure, 6% refers to commercial foreign and domestic banks debt.

**Graph 12. Structure of the funding sources as of 31.12.2010.**



The total risk weighted nominal interest rate that the leasing companies paid for financing sources in 2010 was 3,55% on the annual level (interest rate calculated on the basis of the average positions of the taken loans and expenses related to interest for 2010.). The risk weighted interest rate that the companies paid for the financing sources in 2009. (calculated in the same manner as for the first nine months of 2010.) was 4,17% annually. The downfall is caused with the decrease of the related interest rates on the money market.

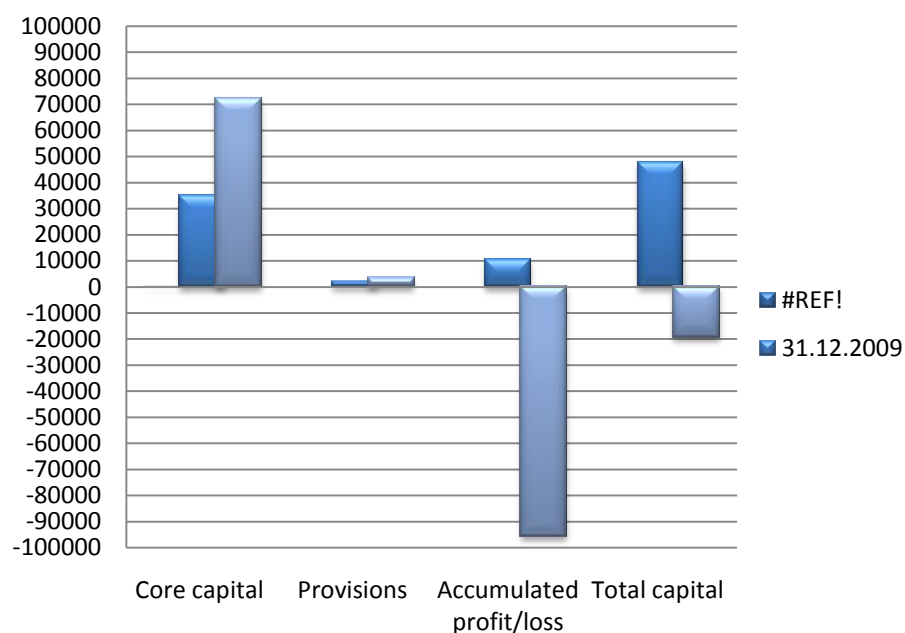
#### Indebtedness

The core capital of the leasing sector as of 31.12.2010 is 72,6 million KM and has increased in relation to 31.12.2009., by 106% (37,4 million KM). The listed increase of the core capital (additional capitalization) happened in three companies during 2010. The analysis of the core capital of the leasing companies indicates that 80% of the core capital refers to three leasing companies.

As of 31.12.2010., the total capital of leasing companies was negative in the amount of 19,3 million KM. The negative total capital is a consequence of extremely high losses of one leasing company.



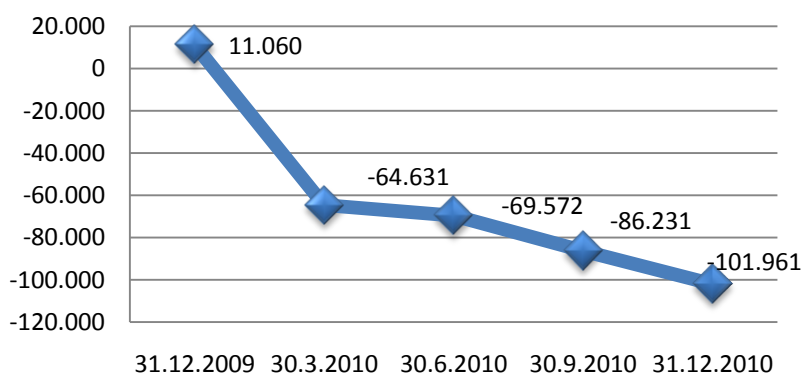
**Graph 13. Leasing sector capital structure**



**4. FINANCIAL RESULTS OF THE PERFORMANCE**

At the level of leasing sector in the period from 01.01. to 31.12.2010., reported was a loss in the performance in the amount of 101,96 million KM, which presents an increase in relation to the previous quarter by 15,5% Profit after taxes was realized by four leasing companies in the amount of 2 million KM, while loss has been reported by 4 leasing companies in the amount of 104 million KM.

**Graph 14. Review of profit/loss of the leasing sector through periods**



Interest income from financial leasing (average on the monthly basis) in 2010 decreased by 16% in comparison to the income realized in 2009. The decline is conditioned by the significant decrease of the interest bearing assets due to the charge off of receivables and decline of the credit activities of the leasing company. The total net interest income in the fourth quarter of 2010 was 51,68 million KM, while as of 31.12.2009 the total interest income was 52,4 million KM which present a decrease by 1,37%.

Risk weighted nominal interest rate for financial leasing placements for the first nine months of 2010 was 8% (calculated based on the average positions and interest income from financial leasing), while in the second quarter the risk weighted nominal interest rate was 8,61%. The decrease of the risk weighted nominal interest rate for financial leasing was impacted by the decrease of the related interest rates on the money market (EURIBOR and LIBOR) and the reprogramming of leasing loans that were performed in the third quarter of 2010.

In comparison to the same period from previous year, evident is a decline of the operating income as well as of the operating expenses, which is caused by the decreased volume of operations and activities of the leasing companies on the decrease of the operating expenses as one of the measures during the economic crises.

The increase of the provisioning for losses is caused by the fact that the leasing companies allocated insufficient amount of reserves for losses in the previous performance periods. Also, the coming into effect of the Decision on the minimum amount and manner for allocation, managing and maintaining of reserves for losses and risk management in the leasing companies, found the majority of the companies in the portfolio with past due receivables with many days of delinquency, and that caused significant amount of charge offs and increase of loss provisioning expense.

## **5. RISK WEIGHTED NOMINAL AND EFFECITVE 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.

The average nominal interest rate in the fourth quarter of 2010, for short term leasing contracts was 7,40%, and the effective interest rate 9,33%.

In the fourth quarter of 2010, in comparison to the previous quarter, evident is a slight decline of the nominal and effective interest rates of the newly concluded contracts.

The significant difference between the nominal and effective interest rate is a consequence of the VAT on interest, which is a obligatory part of leasing contract for financial leasing (paid in advance by the lessee), 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 comparison of the financing amount from the third and fourth quarter of 2010 lead to conclude that there was an increase of the financing amount in the fourth quarter of 19,07% in relation to the third quarter. The largest increase is recorded in the long term real estate financing.

**Table 2** – Comparison of the nominal and effective interest rates for the third and fourth quarter of 2010:

		III QUARTER			IV QUARTER		
No.	DESCRIPTION	Amount of financing in (000) KM	Risk weighted nominal interest rate	Risk weighted nominal interest rate (average)	Amount of financing in (000) KM	Risk weighted nominal interest rate	Risk weighted nominal interest rate (average)
1.	<b>Short term leas. contract acc. to the subject of leas</b>	<b>1.575</b>	<b>8,38%</b>	<b>13,03%</b>	<b>2.230</b>	<b>7,72%</b>	<b>14,25%</b>
a.	Legal entities	1.257	8,25%	12,51%	2.061	7,64%	14,22%
b.	Entrepreneurs	0	0,00%	0,00%	6	9,55%	19,03%
c.	Individuals	318	8,92%	15,08%	163	8,63%	14,39%
2.	<b>Long term leas.contract acc. to the leasing subject</b>	<b>63.175</b>	<b>8,32%</b>	<b>10,84%</b>	<b>74.867</b>	<b>7,23%</b>	<b>8,98%</b>
a.	Legal entities	53.299	8,24%	10,62%	63.403	7,07%	8,62%
b.	Entrepreneurs	513	9,05%	12,88%	389	8,92%	12,69%
c.	Individuals	9.363	8,73%	11,95%	11.075	8,08%	10,92%
	<b>TOTAL</b>	<b>64.750</b>	<b>8,31%</b>	<b>10,95%</b>	<b>77.097</b>	<b>7,40%</b>	<b>9,33%</b>

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 RECOMENDATIONS

According to the indicators of the leasing companies' performance in FBiH in 2010, it can be concluded that the leasing sector in FBiH is still faced with significant difficulties in performance that are coming from the collection of the existing receivables that were generated in the previous periods.

A difficult collection that dominated in the leasing sector in the period up to the implementation of the Decisions of FBA, negative effects of the recession and slowing down of the economic activities in BiH, less accessible borrowings on the local and foreign money market, and the illiquidity of the parent banks are the key factors that influenced the existing condition.

A slight incline trend of the macroeconomic indicators (in BiH, but also in the neighboring countries and EU) and with that a slight increase of the demand for the financing through leasing, as well as the reorganization of the performance within leasing companies related to adjustment of performance under the conditions of crises and compliance with the regulatory

demands, are the factors that can significantly impact the end of the negative trends that dominate within the sector and stabilize the existing situation in the context of revitalization of the leasing sector in the Federation of BiH.

The largest impacts on the leasing companies' performance have loans that were granted by leasing companies up to 01.01.2009. The analyses of leasing companies' reports, submitted to the Agency during 2010, indicate that the leasing companies that did not grant loans have significantly less problems and succeed to maintain good financial indicators.

The financial leasing portfolio can be evaluated as satisfactory taken into account the objective market circumstances and the condition in BiH economy.

In the following period, the Agency will focus on the following:

- Taking up measures and activities within its authority to overcome and reduce the negative effects of the global financial crises on the leasing sector in the Federation of BiH,
- continue the ongoing supervision of the leasing companies through on site and off site supervision,
- enhance the leasing sector regulations that relate to the performance and operations of the leasing companies,
- 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;
- establish an information system which will be based on the leasing companies' reports provide early warning system and preventive actions in correcting weaknesses in the leasing companies performance;
- define the electronic form for submitting data and creating application support for activities related to on-site supervision of the leasing companies;
- continue the permanent education and professional specialization of the employees; and
- improving the cooperation with the Association of the leasing companies in BiH, as well as offering professional assistance in implementation of the law and regulations for leasing companies.

Having in mind the decrease of the business and economic activities in FBiH, and in order to protect the performance quality, the leasing companies should put an additional focus on the past due uncollected receivables, in other words the highest attention should be given to poor quality placements, as well as a more efficient collection of the due receivables.

Leasing company activities should be directed towards:

- Policies and procedure for managing credit, operational and market risks;
- Cover the reported losses that occurred during 2010., through increase of core capital;
- Establishment of internal controls and the internal audit function independent in performing their tasks;

- Update of computer support with an aim to provide adequate accounting records and quality reporting;
- 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. ATTACHMENTS

### *Attachment 1. Leasing companies' basic data*

No.	Leasing company name	Address and head office	Director	Tel.	Issue date FBA license	No. of empl.	Web address
1.	ASA Leasing d.o.o. Sarajevo	Bulevar Meše Selimovića 16, Sarajevo	Abaza Dženamir	+ 387 33 771 222	22.03.2010	21	www.asa-leasing.ba
2.	Euroleasing d.d. Mostar	Vukovarska 1, Mostar	Renata Perić	+ 387 36 394 500	03.02.2010	6	www.euroleasing.ba
3.	Hypo Alpe Adria Leasing d.o.o. Sarajevo	Trg solidarnosti 12, Sarajevo	Alma Nefić	+ 387 33 702 100	16.03.2010	70	www.hypo-leasing.ba
4.	Raiffeisen Leasing d.o.o. Sarajevo	Zmaja od Bosne 11, Sarajevo	Belma Sekavić - Bandić	+ 387 33 254 354	19.01.2010	68	www.rlbh.ba
5.	NLB Leasing d.o.o. Sarajevo	Zmaja od Bosne 14c, Sarajevo	Amela Kalisi	+ 387 33 716 135	19.03.2010	10	www.nbleasing.ba
6.	S-Leasing d.o.o. Sarajevo	Dženetića čikma 1, Sarajevo	Katarina Sabol	+ 387 33 565 850	11.02.2010	7	www.s-leasing.ba
7.	UniCredit Leasing d.o.o. Sarajevo	Džemala Bijedića 2, Sarajevo	Denis Silajdžić	+ 387 33 721 750	16.03.2010	26	www.unicreditleasing.ba
8.	VB Leasing d.o.o. Sarajevo	Fra Anđela Zvizdovića 1, Sarajevo	Slobodan Vujić	+ 387 33 276 280	12.01.2010	34	www.vbleasing.ba
					<b>TOTAL</b>	<b>242</b>	

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

LEASING COMPANY	NAME OF THE OWNER	participation%
<b>ASA ALEASING d.o.o. Sarajevo</b>	ASA FINANCE d.d. Sarajevo	51,00%
	ALEASING d.o.o. Celje	49,00%
<b>EUROLEASING d.d. Mostar</b>	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	8,40%
	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%
<b>HYPO ALPE ADRIA LEASING d.o.o. Sarajevo</b>	HYPO ALPE ADRIA LEASING HOLDING AG. Klagenfurt	100,00%
<b>RAIFFEISEN LEASING d.o.o. Sarajevo</b>	RAIFFEISEN LEASING INTERNATIONAL GmbH, Vienna	51,00%
	RAIFFEISEN BANK d.d. Sarajevo, BiH	49,00%
<b>NLB LEASING d.o.o. Sarajevo</b>	NLB LEASING d.o.o. Ljubljana	100,00%
<b>S-LEASING d.o.o. Sarajevo</b>	STEIERMAERKISCHE BANK UND SPARKASSEN AG, Graz	90,00%
	SPARKASSE BANK d.d. Sarajevo	10,00%
<b>UNICREDIT LEASING d.o.o. Sarajevo</b>	UNICREDIT LEASING S.p.A., Milan	100,00%
<b>VB LEASING d.o.o Sarajevo</b>	VB LEASING INTERNATIONAL GmbH, Vienna	51,00%
	VOLKSBANK d.d. Sarajevo	49,00%

**Attachment 3. Review of provisioning for leasing loans as of 31.12.2010. (in 000 KM)**

Number	Days of delinquency	Provisioning rate for loans	Amount of receivables for loans	Total provisioning
1	0-60	0,05%	242.896	121
2	60-90	5%	72.097	3.605
3	90-180	10%	15.271	1.527
4	180-270	30%	23.508	7.052
5	270-360	50%	13.331	6.666
6	over 360	100%	1.075	1.075
<b>TOTAL</b>			<b>368.178</b>	<b>20.046</b>

**Attachment 4. Review of provisioning for financial leasing (FL) of leasing companies as of 31.12.2010. (in 000 KM)**

No.	Days of delinquency	Provisioning rate for FL (movables)	Provisioning rate for FL (immovable)	Amount of receivables for movables	Amount of receivables for immovable	For movables	For immovable	Total provisioning
1	0-60	0,50%	0,50%	51.607	5.746	418	29	446
2	60-90	10%	10%	8.037	118	898	11	911
3	90-180	50%	50%	4.133	173	2.318	87	2.404
4	over 180	100%	75%	15.257	0	15.257	0	15.257
5	over 360	100%	100%	108	384	108	384	492
<b>TOTAL</b>				<b>79.142</b>	<b>6.421</b>	<b>18.999</b>	<b>511</b>	<b>19.510</b>



*Attachment 5. Consolidated Balance Sheet through periods (000 KM)*

No.	DESCRIPTION	31.12.2009		31.12.2010		% growth
		Amount	%	Amount	%	31.12.2010 31.12.2009
	<b>ASSETS</b>					
1.	<b>Cash and cash equivalents</b>	<b>31.834</b>	<b>2,26%</b>	<b>22.080</b>	<b>1,99%</b>	<b>-30,64%</b>
2.	<b>Placements to banks</b>	<b>45.000</b>	<b>3,19%</b>	<b>20</b>	<b>0,01%</b>	<b>-99,96%</b>
3.	<b>Receivables from financial leasing, net (3a-3b-3c-3d)</b>	<b>573.587</b>	<b>40,65%</b>	<b>541.367</b>	<b>48,84%</b>	<b>-5,62%</b>
3a)	receivables from financial leasing, gross	682.342	48,35%	658.443	59,41%	-3,50%
3b)	reserves for losses	10.769	0,76%	19.510	1,76%	81,17%
3c)	deferred income from interest	97.323	6,90%	97.306	8,78%	-0,02%
3d)	deferred income from fees	663	0,05%	260	0,02%	-60,78%
4.	<b>Receivables from subsidiaries</b>	<b>84.333</b>	<b>5,98%</b>	<b>82.798</b>	<b>7,47%</b>	<b>-1,82%</b>
5.	<b>Movable and immovable assets, net (5a+5b-5c-5d)</b>	<b>96.097</b>	<b>6,81%</b>	<b>112.670</b>	<b>10,17%</b>	<b>17,25%</b>
5a)	movable and immovable property-personal funds	46.938	3,33%	46.165	4,17%	-1,65%
5b)	movable and immovable property - operating leasing	74.146	5,25%	97.524	8,80%	31,53%
5c)	correction of value -personal funds	8.118	0,58%	10.146	0,92%	24,98%
5d)	correction of value - operating leasing	16.869	1,20%	20.873	1,88%	23,74%
6.	<b>Long term investments</b>	<b>27.352</b>	<b>1,94%</b>	<b>43.928</b>	<b>3,96%</b>	<b>60,60%</b>
7.	<b>Other assets</b>	<b>552.931</b>	<b>39,17%</b>	<b>305.527</b>	<b>27,56%</b>	<b>-44,74%</b>
	<b>TOTAL ASSETS (1+2+3+4+5+6+7)</b>	<b>1.411.134</b>	<b>100,00%</b>	<b>1.108.390</b>	<b>100,00%</b>	<b>-21,45%</b>
	<b>LIABILITIES</b>					
9.	<b>Liabilities from taken loans, net (9a+9b-9c)</b>	<b>1.321.031</b>	<b>93,61%</b>	<b>1.102.321</b>	<b>99,45%</b>	<b>-16,56%</b>
9a)	liabilities from short term loans	49.964	3,54%	48.950	4,42%	-2,03%
9b)	liabilities from long term loans	1.271.813	90,13%	1.054.236	95,11%	-17,11%
9c)	cost and fees paid in advance	746	0,05%	865	0,08%	15,95%
10.	<b>Other liabilities</b>	<b>42.470</b>	<b>3,01%</b>	<b>25.372</b>	<b>2,29%</b>	<b>-40,26%</b>
	<b>TOTAL LIABILITIES (9+10)</b>	<b>1.363.501</b>	<b>96,62%</b>	<b>1.127.693*</b>	<b>101,74%*</b>	<b>-17,29%</b>
11.	<b>Core capital</b>	<b>35.170</b>	<b>2,49%</b>	<b>72.555</b>	<b>6,55%</b>	<b>106,30%</b>
12.	<b>Reserves</b>	<b>1.975</b>	<b>0,14%</b>	<b>3.424</b>	<b>0,31%</b>	<b>73,37%</b>
13.	<b>Accumulated profit/loss</b>	<b>10.488</b>	<b>0,75%</b>	<b>-95.282</b>	<b>-8,60%</b>	<b>-1008,14%</b>
	<b>TOTAL CAPITAL (11+12+13)</b>	<b>47.633</b>	<b>3,38%</b>	<b>-19.303</b>	<b>-1,74%</b>	<b>-140,45%</b>
	<b>TOTAL LIABILITIES (9+10+11+12+13)</b>	<b>1.411.134</b>	<b>100,00%</b>	<b>1.108.390</b>	<b>100,00%</b>	<b>-21,45%</b>

*\*Note: Listed total liabilities are higher than the total liabilities due to the negative value of the total capital.*

*Attachment 6. Core performance indicators*

Core performance indicators	31.12.2009	31.12.2010
Assets per employee (000 KM)	5.677	4.580
Total liabilities in relation to total capital (in %)	28,77	- 58,53
Total liabilities in relation to core capital (in %)	37,73	15,54
CIR (Expenses profit ratio)* (in %)	79,61%	81,71%
Provisioning expense ratio and average assets	1,68%	9,93%

\* **Note:** the expenses do not include the provisioning expense.

*Attachment 7. Consolidated Income Statement through periods (in 000 KM)*

No.	DESCRIPTION	31.12.2009		31.12.2010		% growth 31.12.2009 31.12.2010
		Amount (000 KM)	% in total income	Amount (000 KM)	% in total income	
	<b>FINANCIAL INCOME AND EXPENSES</b>					
1.	Interest income	113.879	70%	95.965	74%	-16%
2.	Interest expenses	61.479	38%	44.283	34%	-28%
3.	Net interest income (1.-2.)	52.400	32%	51.682	40%	-1%
	<b>OPERATING INCOME AND EXPENSES</b>					
4.	Operating income	49.080	30%	32.978	26%	-33%
5.	Operating expenses	68.248	42%	61.076	47%	-11%
5a)	Salary and contributions expenses	10.678	7%	11.623	9%	9%
5b)	Business premises expenses	15.962	10%	15.644	12%	-2%
5c)	Other operating expenses	41.608	26%	33.809	26%	-19%
6.	Expenses for reserves for losses	20.365	12%	125.157	97%	515%
7.	Income before taxes (3+4-5-6)	12.867	8%	-101.573	-79%	-889%
8.	Income taxes	1.807	1%	388	0%	-79%
9.	Net profit (7-8)	11.060	7%	-101.961	-79%	-1022%

**Attachment 8. Balance sheet rating**

31.12.2009					31.12.2010					
Rating	Leasing company	Balance Sheet (000 KM)	Participation 2009.	Cum. Part.	Rating	Leasing company	Balance Sheet (000 KM)	Participation 2010.	Cum. Part.	Balance Sheet Index
1.	Hypo Alpe-Adria-Leasing d.o.o.	592.668	41,87%	41,87%	1.	Hypo Alpe-Adria-Leasing d.o.o.	366.900	33,10%	33,10%	62
2.	Raiffeisen Leasing d.o.o.	307.525	21,84%	63,94%	2.	Raiffeisen Leasing d.o.o.	229.030	20,66%	53,77%	74
3.	UniCredit Leasing doo	156.608	11,12%	75,07%	3.	UniCredit Leasing doo	178.336	16,09%	69,86%	114
4.	VB Leasing d.o.o.	111.350	7,91%	82,98%	4.	VB Leasing d.o.o.	105.273	9,50%	79,35%	95
5.	NLB Leasing d.o.o. Sarajevo	88.887	6,31%	89,29%	5.	NLB Leasing d.o.o. Sarajevo	81.003	7,31%	86,66%	91
6.	Asa Abanka Leasing d.o.o.	76.407	5,43%	94,72%	6.	Asa Abanka Leasing d.o.o.	72.319	6,52%	93,19%	95
7.	S-Leasing d.o.o. Sarajevo	44.048	3,13%	97,85%	7.	S-Leasing d.o.o. Sarajevo	46.006	4,15%	97,34%	104
8.	Euroleasing d.d. Mostar	33.641	2,39%	100,00%	8.	Euroleasing d.d. Mostar	29.523	2,67%	100,00%	88
<b>TOTAL</b>		<b>1.411.134</b>	<b>100%</b>		<b>TOTAL</b>		<b>1.108.390</b>	<b>100%</b>		<b>79</b>