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AGENCIJA ZA BANKARSTVO
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INFORMATION

ON THE BANKING SYSTEM ENTITIES OF THE FEDERATION OF
BOSNIA AND HERZEGOVINA AS OF 30.06.2018.

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BANKING AGENCY OF THE FEDERATION OF BOSNIA AND HERZEGOVINA

Abbreviations and terms:

DIA	Deposit Insurance Agency of Bosnia and Herzegovina
BiH	Bosnia and Herzegovina
CAMELS	Single internal system for assessment of banks that includes basic components: capital, asset quality, governance and management, profitability, liquidity and vulnerability to market risks
CBBH	Central Bank of Bosnia and Herzegovina
CEDB	Council of Europe Development Bank
COREP	Common Reporting Framework
CRC	Central Registry of Credits in BiH
DEG	Deutsche Investitions - und Entwicklungsgesellschaft
EBA	European Banking Authority
EBRD	European Bank for Reconstruction and Development
ECB	European Central Bank
EFSE	European Fund for Southeast Europe
EIB	European Investment Bank
EIR	Efektivna interest rate
EU	European Union
FBA	Banking Agency of the Federation of Bosnia and Herzegovina
FBiH	Federation of Bosnia and Herzegovina
FMF	Federal Ministry of Finance
FOO	Financial Intelligence Department of the State Investigation and Protection Agency
FSAP	Financial Sector Assessment Program
FX risk	Foreign Exchange risk
LCR	Liquidity Coverage Ratio
MCC	Microcredit company
MCF	Microcredit foundation
MCO	Microcredit organisation
IMF	International Monetary Fund
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
NIR	Nominal interest rate
NPL	Non-performing loans
GCR	General credit risk
PLL	Potential loan losses
LLP	Loan loss provisions
RS	Republika Srpska
WB	World Bank
AML/CTF	Anti-money laundering and counter-terrorism financing
SREP	Supervisory Review and Evaluation Process
BA BiH	Banks Association of Bosnia and Herzegovina
ALC BiH	Association of Leasing Companies of BiH
UO	Management Board of the Banking Agency of the FBiH
LoBA	Law on the Banking Agency of the Federation of Bosnia and Herzegovina
BL	Banking Law
LoF	Law on Factoring
LoL	Law on Leasing
LoMCO	Law on Microcredit Organisations
LoPUFS	Law on Protection of Users of Financial Services

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INTRODUCTION

Established in 1996 as an independent and autonomous institution, the FBA exercises its competences in accordance to the provisions laid down by the LoBA, the international standards, principles of supervision and professional rules. The work of the FBA is supervised by the Parliament of the FBiH, to which it is responsible for its performances.

The Management Board performs general supervision on the operations of the FBA and undertake measures for effective and rational performance of the activities from the FBA's scope, in accordance to its competences prescribed by the law.

In the context of regular performance of competences prescribed by the law, the FBA compiles and disclose to the public the information on the banking system entities, authorised by the Management Board of the FBA. The Information is published on the web site of the FBA, on quarterly basis, and its integral part is the analyse of the banking system entities in the FBiH.

In accordance with the aforementioned, the Information on the Banking System Entities of the FBiH, with situation as at 30.06.2018, has compiled on the basis of the reference sources, made of reporting data which the banking system entities submit to the FBA in the prescribed formats and deadlines, as well as other data and information submitted by the banking system entities to the FBA.

Methodology for collection and processing of data presented, is based on reporting formats that are prescribed by the FBA bylaws, and which the banking system entities are obliged to submit to the FBA.

Data expressed in the Information as a percentage, are shown with one decimal place, with the exception of data on NIR and EIR level with the banking system entities in the FBiH.

Considering that in the context of new banking regulation, a new supervisory reporting framework for banks (COREP) has entered into force and that 2018 is the period of parallel reporting according the previous regulatory framework and COREP reporting, and that the first quarter of 2018 saw banks in the FBiH submitting to the FBA the first COREP reports, and that in second quarter of 2018 the process of validation and analyses of new reporting formats continued, the presented business performance indicators of banks as of 30.06.2018 were provided on the basis of analysis of reports compiled under the previous regulatory framework.

In terms of the content, the Information is divided into two parts. The first part includes a detailed analysis of the banking sector of the FBiH in terms of its structure and financial performance indicators, as well as recommendations. The second part relates to a detailed analysis of the sector of non-deposit financial institutions, within which the microcredit sector, the leasing sector and factoring operations in the FBiH are processed as separate segments, with corresponding recommendations. In the part of the Information which concerns the supervision of the leasing companies operations in the FBiH, the terms used are the leasing system and the leasing sector, where the leasing system implies to aggregated information about leasing sector (the information on leasing companies in the FBiH with the operating licence issued by the FBA for performance of the leasing operations) and data presented in the reports of banks in the FBiH, which have claims on the basis of the financial leasing within their portfolio. In the part of the Information which relates to supervision of the factoring sector, a data presented relates to the banks which perform factoring operations and to the factoring company, which

activities in the first half of 2018, were directed to creation of the preconditions for the start of operations.

The segment of Compliance of the Banking System Entities in the FBiH with the prescribed AML/ CTF standards forms and integral part of the Information, in the related parts of information on banking sector and the sector of non-deposit financial institutions in the FBiH. An integral part of the Information is the segment of compliance of the banks in the FBiH in payment accounts and foreign exchange operations.

In the field of operations and supervision of the banking sector in the FBiH in 2018, following the period of adjustment with the BL, new regulations adopted in 2017 have entered into force, so that banks started applying new regulatory requirements and reporting to the FBA in accordance with the new standardised reporting framework. This was followed by intensive FBA activities in terms of interpreting the application of regulatory requirements prescribed by FBA's bylaws (decisions, instructions, guidelines). In connection with these extensive and complex processes, the FBA continued activities on strengthen institutional capacities, with the aim of full implementation of the new regulatory framework, in particular in terms of the SREP, recovery plans and bank resolution, as well as the establishment of a framework for supervisory stress testing. A particularly important segment relates to the continuation of the FBA regulatory activities referred to the establishment of a framework for the IFRS 9 application and monitoring of its implementation in the banks, which is in relation to regulatory requirements for classification of bank assets.

Given that upon new legal regulations entered into force (the BL and the LoBA), and the competences for the banking resolution were given to the FBA, important and demanding activities were conducted on the creation of bylaws for banking resolution in the FBiH, which in April 2018 resulted by the adoption and publishing of the set of the decisions, in accordance to the provisions of the legal regulations, as well as creation of assumptions to ensure independence, organizational division and separate management for the banking supervision and development bank, and operations related to the resolution and prevention of the conflict of interest, pursuant to the provisions of the LoBA. In accordance to the prescribed data and information, which banks are obliged to submit to the FBA for the purpose of drawing and updating of the resolution plan, the first reports shall be submitted with situation as at reporting date of 31.12.2017, and not later than 30.09.2018.

In regard to the prescribed obligations of the banks related to the recovery plans, the first recovery plans the banks are obliged to submit to the FBA as latest by 30.09.2018, including corresponding annexes, which assessment shall be performed by the FBA in accordance with the prescribed procedure, manner and time-limits (six months from the date of submission of the recovery plan).

Within the competences prescribed for the supervision of non-deposit financial institutions in the FBiH, it is continued with improvement of regulatory framework from this segment. In July 2018, the Government of the FBiH has defined the draft of the Law amending and supplementing the Law on leasing, which also includes supervision on banks in case they offer financial leasing services. The practice shows the need for change of the existing LoL provision, which regulates the termination of the agreement and clarified definition which ensure that users of the leasing services correctly understand their rights upon the contract termination. In May 2018, the Government of the FBiH established the draft of the new LoMCO. Within its competences, in the first half of 2018, the FBA changed and amended the bylaws in the segment of the supervision over the MCOs and the leasing companies in the

FBiH, and the process of changing the five existing FBA bylaws is ongoing, in accordance to the existing LoMCO, in order to ensure the compliance with the provision 48 of the LoA.

Within its legal competences, in the first half of 2018, the FBA adopted the general bylaw-decision, which shall apply to all entities of the banking system of the FBiH, and it is related to prescribing conditions and method to be followed upon the request of guarantor to be released from the guarantor's obligation, thus replaces the existing decision.

SUMMARY

Key Business Performance Indicators of the Banking Sector in the FBiH

15 commercial banks operated in the FBiH as of 30.06.2018, with 552 organisational units in which 6 718 persons were employed

Total net assets at the level of the banking sector amount to KM 21 billion as of 30.06.2018 and are up by KM 0.8 billion or 4% compared to 31.12.2017.

Loans, with a 65,6% share in the structure of total assets, recorded an increase in the amount of KM 620 million or 5% compared to the end of the previous year. Within sectoral lending, there was a slight trend of decrease in the share of lending to private companies in the first half of 2018, i.e. while the share of lending to the retail segment remains the same compared to the end of 2017. There was a trend of increase in the share of lending to public companies compared to the end of 2017.

Loans granted to private companies recorded an increase in the amount of KM 217 million or a 3% growth rate, thus reaching the amount of KM 6.5 billion as of 30.06.2018 and holding a 47.2% share in total loans. In the same period, retail loans recorded an increase in the amount of KM 295 million or a 5% growth rate, with the same share compared to the end of 2017 (48.2%) and they amounted to KM 6.7 billion as of 30.06.2018.

The share of NPLs decreased from 9.7% to 9% as a result of credit growth and a decrease in total NPL in the amount of KM 34 million or 3%. The share of non-performing corporate loans in relation to total corporate loans amounted to 10.9%, and the share of non-performing retail loans in relation to total retail loans was 6.9%.

Cash funds amount to KM 6.4 billion or 30.5% of total assets and are up by KM 617 million or 11% compared to the end of 2017.

Investments in securities amount to KM 1.2. billion in the first half of 2018, with a 5.9% share in assets.

Deposits reached the amount of KM 16.6 billion, having recorded an increase in the amount of KM 789 million or 5% and they remain the most significant source of funding, with a 78.9% share in total liabilities. Savings deposits, as the most significant and largest segment of the deposit and financial potential of banks, increased by KM 251 million or 3%, amounting to KM 8.5 billion.

Loan funds amount to KM 845 million and hold a 4% share in total liabilities, having a slight growth trend of 1% compared to the end of 2017.

As of 30.06.2018, total capital amounts to KM 2.9 billion, with share capital accounting for KM 1.2 billion thereof. The share of total capital in sources at the level of the banking sector amounts to 13.7%. Regulatory capital amounts to KM 2.6 billion and it is increased by KM 47 million or 2% compared to the end of 2017, without change in the structure. Core capital is increased by KM 37 million or 2%, while supplementary capital is up by KM 10 million or 3%, compared to the end of 2017.

The capital adequacy ratio of the banking sector, as one of the most important indicators of the strength and adequacy of banks' capital, amounted to 15.1% as of 30.06.2018, slightly down by 0.4 percentage points compared to the end of the previous year, that is result of risk-weighted assets growth and first application of IFRS 9. The capital adequacy ratio is up for 25.8% in relation to the legal minimum and represents satisfactory capitalisation of the overall system.

The financial leverage ratio amounts to 9.2% (prescribed minimum 6%) at the level of the banking sector as of 30.06.2018 and it has a slight downward trend compared to the end of the previous year (9.6%).

The liquidity of the banking sector is assessed to be satisfactory, given the share of liquid assets in total assets and the maturity adjustment of financial assets and financial liabilities

As of 30.06.2018, a positive financial result – profit in the amount of KM 174.8 million was recorded at the level of the banking sector, which is up by KM 23.1 million or 15.2% compared to the same period of the previous year.

Key Business Performance Indicators of the Microcredit Sector in the FBiH

12 MCOs operated in the Federation of BiH as of 30.06.2018, 11 of which are MCFs and one of which is an MCC. 1 501 persons were employed in the microcredit system.

Total assets of the microcredit system amounted to KM 563.3 million, KM 433.9 million or 77% of which relate to MCFs and KM 129.4 million or 23% relate to the MCC. Compared to the balance as of 31.12.2017, total assets are up by KM 36.4 million or 7%.

Total microloans amount to KM 435.5 million and account for 77% of total MCO assets and they are up by 6% compared to the end of the previous year.

Loan commitments amount to KM 272.7 million, holding a 48% share in total liabilities, and they are up by KM 26.7 million or 11% compared to the situation as of 31.12.2017.

Total capital amounts to KM 265.7 million or 47% of total liabilities and it is up by KM 10.6 million or 4% compared to the end of the previous year. MCF capital amounted to KM 229.6 million or 86.4%, while the capital of one MCC amounted to KM 36.1 million or 13.6%.

At the level of the microcredit sector, a positive financial result in the amount of KM 11.5 million was recorded, which is up by KM 1.8 million or 18% compared to the same period of the previous year.

MCF presented an excess revenue over expenditure in the total amount of KM 9.2 million, and MCS presented net profit in the amount of KM 2.3 million.

On the basis of Business Performance Indicators of Microcredit sector, that are based on the analyses of reports submitted by MCO as of 30.06.2018, it might be concluded that MCO

operations in the FBiH record an improvement compared to the end of the previous year, that is presented through assets growth, increase of microcredit portfolio (gross and net microcredits), stable quality indicators of microcredits (RKG), capital growth, but also growth of employees in microcredit sector in the FBiH.

Key Business Performance Indicators of the Leasing Sector in the FBiH

As of 30.06.2018, the seven leasing companies in the FBiH have the licence for performing leasing operations, which performed leasing operations at the company's territory of residence, and three branches registered in RS (the leasing sector). Out of the total number of registered leasing companies, as of reporting date, three leasing companies are active on the market, three leasing companies perform limited business activities (debt collection, with no new financing), while one leasing company granted a licence from the FBA in the second quarter of 2018, is still not active on the market. There are 107 persons employed in the leasing sector of the FBiH.

Total assets of the leasing sector as of 30.06.2018 amounted to KM 2274.4 million, up by KM 14.2 million or 5.5% compared to 31.12.2017. At the same time, the same period saw an increase in receivables for financial leasing in the amount of KM 19 million or 10.83%.

Total capital at the level of the leasing sector amounted to KM 40.1 million as of 30.06.2018 and it was down by KM 675 thousands or 1.7% compared to the 31.12.2017. All leasing companies in FBiH that performed leasing operations in the first half of 2018, reported a total capital amount above the minimum amount prescribed by legal provisions.

The value of newly-concluded financial and operational leasing arrangements recorded at the level of the leasing sector in FBiH, in the period from 01.01. to 30.06.2018 amounted to KM 89.3 million and it was up by KM 10.9 million or 13.9% compared to same period of the the previous business year. The number of newly-concluded leasing arrangements in the same period at the level of the leasing sector was 2247, which is up by 350 arrangements or 18.5% compared to the same period of the previous business year. Data on the increase in the value and number of newly-concluded arrangements in the first half of 2018 compared to the first half of 2017 are the result of leasing companies' activities to develop and improve leasing products in accordance with market needs. When observed according to the type of lessee, arrangements concluded with legal entities are dominant in the structure of newly-concluded leasing arrangements (94.3% of the total volume of newly-concluded arrangements in the period from 01.01. to 30.06.2018), while 50.2% refer to the financing of passenger vehicles in the structure of financing by leasing object.

A KM 4.2 million profit was recorded at the level of the leasing sector in the period from 01.01. to 30.06.2018.

During the first half of 2018, the leasing sector in the FBiH recorded increase in the scope of business (number and value of newly-concluded arrangements) compared to the same period of the previous business year, indicating that the leasing sector in the FBiH is stable.

Recorded results of the leasing sector in the FBiH indicate improvement of the situation, adjustment of the sector to the needs of the market and possibilities for further development.

Key Business Performance Indicators of Factoring Operations in the FBiH

In the first half of 2018, the factoring operations were performed by the four banks, while the first registered factoring company in the FBiH, with licence issued by the FBA, did not have concluded factoring arrangements, and the focus of its activities was on creation of the preconditions for the start of operations, thus it has recorded the operating loss in the amount of KM 0.2 million, and its core capital amounted to KM 0.8 million, as of 30.06.2018.

The total factoring portfolio recorded in banks as of 30.06.2018 amounted to KM 57.1 million, according to the nominal value of purchased monetary claims, and it is significantly decreased compared to the same period of the previous business year, when was amounted to KM 204 million.

Decrease in the value of purchased monetary claims, on the side of foreign factoring, is caused by the fact that the bank, which in the first half of 2017, had arrangements concluded in foreign factoring, in the same period of 2018, did not concluded such arrangements, while on the side of domestic factoring the value is increased by 78.5% or in the absolute amount by KM 25.1 million. The total factoring portfolio has a slight share in the balance sheet total of the banking sector.

The total recorded income from factoring services in the first half of 2018 amounted to KM 0.7 million and compared to the same period of 2017, when it amounted to KM 1.1 million, are decreased by 36.4% along with changes in the structure of income recorded by factoring type and residence, but income type as well.

Compliance of the Banking System Entities of the FBiH with the AML/CTF standards

On the basis of the inspections on banks' conduct upon the FBA orders, in the segment of the AML/CTF, it can be concluded that in the banking sector of the FBiH the quantity of risk of money laundering and financing of terrorist activities is moderate, the quality of the risk management is satisfactory, and there are no reasons for supervisor's concern in regard to the risk management of money laundering and financing of terrorist activities. The FBA monitors the compliance with the prescribed the AML/CTF standards and undertake a measures in accordance to competences laid down.

During the inspections of the MCOs compliance of operations with the AML/CTF standards, certain inconsistencies were detected, for which the orders are given to remedy them. The conclusion is that the quantity of risk of money laundering and financing terrorist activities is moderate, the risk management is satisfactory, and there are no reasons for supervisor's concern, i.e. the microcredit sector in the FBiH is to a large extent harmonised with the AML/CTF standards.

During the inspections of the leasing sector in the FBiH, compliance with the AML/CTF standards, it is concluded that the number and value of reported transactions has a growth trend, which indicates that the leasing companies in the FBiH improved their reporting function, and pay more attention to the transactions monitoring and customers' activity. Within reporting period, the leasing companies in the FBiH did not have suspicious clients.

In the course of the inspection of the orders' executions, it is identified that the leasing companies in the FBiH acted as per the FBA orders, i.e. conducted a measures and activities on its performances. Based on the status of the orders, which is identified during the inspection of

the orders' executions, and on the basis of the reports which leasing companies submitted to the FBA, it can be concluded that the quality of risk management of money laundering and financing of terrorist activities, has a growth trend, and that leasing sector in the FBiH improved the compliance of operations with the AML/CTF standards.

1. BANKING SECTOR

1.1. BANKING SECTOR STRUCTURE IN THE FBiH

1.1.1. Status, Number and Network of Branches

As of 30.06.2018, there were 15 commercial banks with a banking licence in the FBiH. A special law regulates the establishment and operations of the Development Bank of the Federation of BiH Sarajevo, which has the legal successor of the Investment Bank of the Federation of BiH d.d. Sarajevo since 01.07.2008.

The Annex 1. an overview of the main data on banks in the FBiH.

Banks have reorganised their networks of organisational units by changing the organisational form, membership or address of their existing organisational units, even closing of some organisational units and all that with the aim of rationalising and reducing operating costs. There was a total of six such changes with banks from the FBiH (5 on the territory of the FBiH and 1 in RS), a new organisational unit was established, 2 organisational units were closed, and three underwent changes. Also, there were two changes in the organisational units of RS banks in the FBiH (a new organisational unit was established, and one underwent changes).

With the aforementioned changes, banks from the FBiH (on the territory of the BiH) had a total of 549 organisational units (this figure does not include six organisational units of the Development Bank) as of 30.06.2018, which is down by 0.01% compared to 31.12.2017. There are 485 organisational units at the territory of the FBiH. The number of organisational units of RS banks in the FBiH (23) was slightly up compared to 31.03.2018.

As of 30.06.2018, seven banks from the FBiH had 53 organisational units in RS, while nine banks had 11 organisational units in the Brčko District. Three RS banks had 23 organisational units in the FBiH.

As of 30.06.2018, all banks had licences to effect interbank transactions within the domestic payment system, all 15 banks had secured deposits.

1.1.2. Ownership Structure and Market Share

The ownership structure of banks¹ in the FBiH as of 30.06.2018, assessed on the basis of available information and reviews conducted in the banks themselves, is as follows:

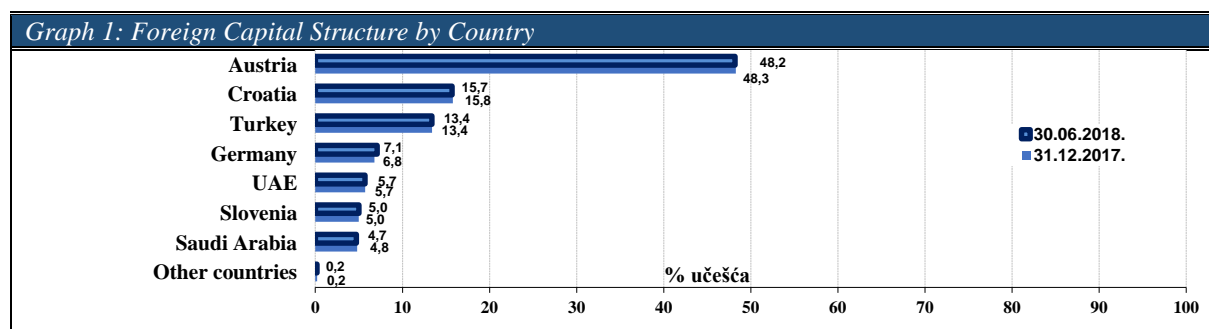
- In private or mostly private ownership - 14 banks,
- In state or mostly state ownership² - 1 bank.

¹ The criterion for this particular bank classification is ownership of share capital in banks

² State ownership refers to state-owned capital of the FBiH

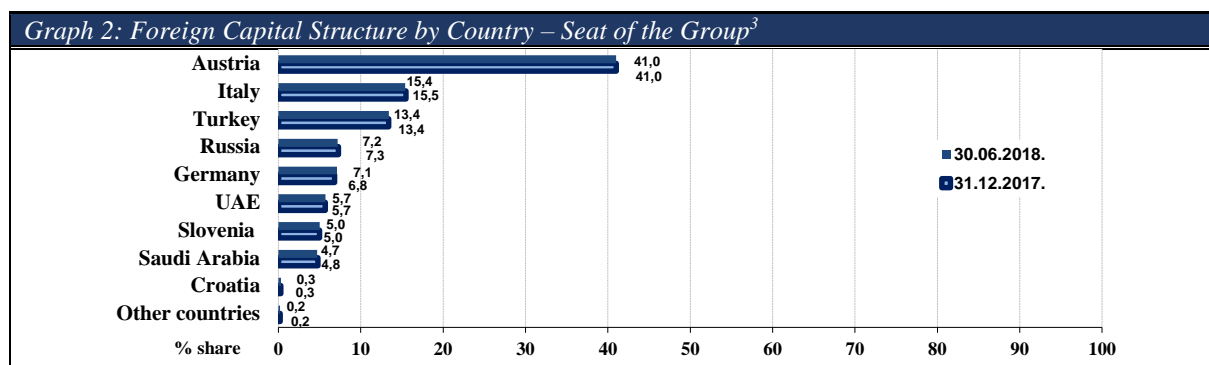
Out of the 14 banks in mostly private ownership, four banks are in majority ownership of local legal entities and natural persons (residents), while 10 banks are in majority foreign ownership.

The foreign capital structure by country is presented in the graph below:



If capital relations taken into account, the structure of foreign capital can also be observed using the criterion of the home country of the parent bank or banking group having majority ownership (direct or indirect via group members) of banks in the FBiH. According to this criterion, the situation is also unchanged, since the share of banking groups and banks from Austria amounts to 41%, followed by banks from Italy with a share of 15.4%, while the share of capital from Turkey amounts to 13.4%, Russia 7.2% and Germany 7.1%. Other countries hold individual shares below 7%.

The foreign capital structure by country – seat of the group presented in the graph below:



The ownership structure may also be observed from the aspect of the amount of total capital, as shown in the following table:

-in 000 KM-

Table 1: Ownership Structure by Total Capital

Banks	31.12.2016.		31.12.2017.		30.06.2018.		Index	
1	2		3		4		5 (3/2)	6 (4/3)
State-owned banks	52.499	2%	53.507	2%	53.748	2%	102	100
Private banks	2.655.621	98%	2.811.542	98%	2.830.134	98%	106	101
Total	2.708.120	100%	2.865.049	100%	2.883.882	100%	106	101

In the first semester of 2018, at the level of the banking sector, total capital remained at the level of KM 2.9 billion. The increase of KM 18.8 million is net effect on the basis of the current financial result of KM 175 million, recapitalization made with one bank in the amount of KM 4 million, and decrease on the basis of the recorded effects of the first application of IFRS 9 – Financial

³ In addition to home countries of parent banking groups whose members are banks from the FBiH, the graph also outlines countries of all other foreign shareholders of banks in the FBiH

Instruments⁴ in the amount of KM 97 million, and transfer to the liabilities for payment of dividends from 2017 profit, in the amount of KM 57 million with one bank, and the amount of KM 6 million on the basis of decreased value of securities which classified as per fair value through the overall profit.

If observed from the perspective of the share of state-owned, private and foreign capital in the banks' share capital, the result is a more detailed analytical overview of the capital ownership structure of banks in the FBiH, which is shown in the table and graph below:

-in 000 KM-

Table 2: Ownership Structure by Share of State-Owned, Private and Foreign Capital

Share Capital	31.12.2016.		31.12.2017.		30.06.2018.		Index	
	Amount	Share %	Amount	Share %	Amount	Share %	4/2	6/4
1	2	3	4	5	6	7	8	9
State-Owned Capital	31.647	2,6	31.619	2,6	31.619	2,6	100	100
Private Capital (residents)	137.557	11,3	142.109	11,6	139.528	11,3	103	98
Foreign Capital (non-residents)	1.046.673	86,1	1.052.061	85,8	1.058.552	86,1	101	101
Total	1.215.877	100,0	1.225.789	100,0	1.229.699	100,0	101	100

At the end of the first half of 2018, compared to the end of 2017 there was an increase of share capital due to recapitalization of one bank in the amount of KM 4 million.

As of 30.06.2018, the market share of banks in majority foreign ownership amounted to 90.7%, the market share of banks with majority private capital to 6.2%, and the market share with majority state-owned capital to 3.1%(one bank).

The table below provide an overview of the market shares of banks by ownership type (majority capital):

-u %-

Table 3: Market Shares of Banks by Ownership Type (Majority Capital)

Banks	31.12.2016.			31.12.2017.			30.06.2018.		
	No.of banks	Share in total capital	Share in total assets	No.of banks	Share in total capital.	Share in total assets	No.of banks	Share in total capital.	Share in total assets
1	2	3	4	5	6	7	8	9	10
Banks with majority state-owned capital	1	1,9	2,8	1	1,9	3,2	1	1,9	3,1
Banks with majority private capital of residents	4	6,6	6,4	4	6,4	6,3	4	5,8	6,2
Banks with majority foreign capital	10	91,5	90,8	10	91,7	90,5	10	92,3	90,7
U k u p n o	15	100,0	100,0	15	100,0	100,0	15	100,0	100,0

1.1.3. Human resources

As of 30.06.2018, at the level of the banking sector there were 6.718 employees, 2,9% of which were employed in banks with majority state-owned capital and 97,1% of which were employed in banks with majority private capital.

Annex 2 shows data on employees in banks of the FBiH, the table 4 provide an overview of employees and the table 5 presents qualification structure of the employees at the level of the banking sector:

Table 4: Employees in Banks of the FBiH

Banke	NUMBER OF EMPLOYEES						Index	
	31.12.2016.		31.12.2017.		30.06.2018.		3/2	4/3
1	2	3	4	5	6	7	8	9
State-owned banks	192	2,9%	192	2,9%	197	2,9%	100	103
Private banks	6.423	97,1%	6.463	97,1%	6.521	97,1%	101	101
Total	6.615	100%	6.655	100%	6.718	100%	101	101
Number of banks	15		15		15			

⁴ Starting from 01.01.2018, the new accounting standard IFRS 9 has replaced the previously applicable IAS 39

Table 5: Qualification Structure of Employees in Banks of the FBiH

Level of Qualification	NUMBER OF EMPLOYEES						Index	
	31.12.2016.		31.12.2017.		30.06.2018.		4/2	6/4
1	2	3	4	5	6	7	8	9
University degree	3.821	57,8%	3.970	59,6%	4.050	60,3%	104	102
Two-year post-secondary school qualification	555	8,4%	525	7,9%	519	7,7%	95	99
Secondary School Qualification	2.226	33,6%	2.149	32,3%	2.139	31,9%	97	100
Other	13	0,2%	11	0,2%	10	0,1%	85	91
Total	6.615	100,0%	6.655	100,0%	6.718	100,0%	101	101

Minor changes were recorded in the number of employees and the qualification structure, where the employees with university degrees still hold the highest share in the amount of 60.3%.

One of the indicators affecting the business performance assessment of individual banks and the banking sector as a whole is the ratio of assets over the number of employees, i.e. assets per employee, where a higher ratio is an indicator of better efficiency of both the bank's and the entire sector's operations.

The following table provide an overview of assets per employee by group of banks, according to the criterion of ownership and amount of assets:

Table 6: Assets per Employee

Banks	31.12.2016.			31.12.2017.			30.06.2018.		
	No.of empl.	Assets (000 KM)	Assets per Employee	No.of empl.	Assets (000 KM)	Assets per Employee	No.of empl.	Assets (000 KM)	Assets per Employee
State-owned	192	520.387	2.710	192	654.373	3.408	197	659.619	3.348
Private	6.423	17.861.647	2.781	6.463	19.555.478	3.026	6.521	20.390.499	3.125
Total	6.615	18.382.034	2.779*	6.655	20.209.851	3.037*	6.718	21.050.118	3.133*

Table 7: Assets per Employee by Group

Assets (000 KM)	31.12.2016.		31.12.2017.		30.06.2018.	
	No.of banks		No.of banks		No.of banks	
Up to 1.000	0		0		0	
1.000 to 2.000	5		2		2	
2.000 to 3.000	7		7		8	
Over 3.000	2		6		5	
Total	15		15		15	

Analytical indicators for individual banks range from KM 1.3 million to KM 4.5 million of assets per employee. There are five banks in which this ratio is better than the banking sector average, while this ratio exceeds the amount of KM 3.1 million in the three largest banks in the sector.

1.2. FINANCIAL PERFORMANCE INDICATORS

The off-site bank examinations are performed by means of reports defined by the FBA and reports of other institutions, which forming a database built up on three sources – information on:

- 1) the balance sheet for all banks submitted on a monthly basis, together with additional annexes on a quarterly basis, that contains details of cash funds, loans, deposits and off-balance sheet items, as well as basic statistical data
- 2) the solvency of banks, information on capital and capital adequacy, asset classification, concentrations of certain risk types, liquidity position, FX risk exposure, interest rates on loans and deposits, the source of which are reports prescribed by the FBA,
- 3) business results of banks (income statement according to the FBA model) and statements of cash flows, which banks submit to the FBA quarterly.

In accordance with the provisions of the Law on Opening Balance Sheet of Companies and Banks, banks with majority state-owned capital are required to report to the FBA on the basis of the “total” balance sheet divided into: liabilities, neutral items and active sub-balance. In order to present more realistic indicators of the banks' operations in the FBiH, further analysis of the banking sector will include indicators from the active sub-balance of banks with majority state-owned capital⁵.

1.2.1. Balance sheet

At the end of the first half of 2018, total assets of the banking sector amounted to KM 21 billion, with slight changes in key balance categories, assets and liabilities.

Annex 3 provides an overview of the balance sheet of banks in the FBiH according to the FBA model (active sub-balance), while Annex 4 shows an overview of assets, loans, deposits and financial results of banks in FBiH as of 30.06.2018.

The following table provides an overview of the balance sheet of the banking sector:

-000 KM-

Table 8: Balance sheet

DESCRIPTION	31.12.2016.		31.12.2017.		30.06.2018.		Index	
	Amount	Share %	Amount	Share %	Amount	Share %	8 (4/2)	9 (6/4)
1	2	3	4	5	6	7	8 (4/2)	9 (6/4)
Assets:								
Cash funds	5.204.564	28,3	5.794.664	28,7	6.411.978	30,5	111	111
Securities	1.226.163	6,7	1.228.432	6,1	1.246.413	5,9	100	101
Placements to other banks	96.569	0,5	350.980	1,7	56.573	0,3	363	16
Loans	12.270.228	66,8	13.178.860	65,2	13.798.478	65,6	107	105
Value adjustment	1.193.721	6,5	1.166.804	5,8	1.219.691	5,8	98	105
Net loans (loans minus value adjust.)	11.076.507	60,3	12.012.056	59,4	12.578.787	59,8	108	105
Business premises and other fixed assets	530.977	2,9	529.941	2,6	518.252	2,4	100	98
Other assets	247.254	1,3	293.778	1,5	238.115	1,1	119	81
Total assets	18.382.034	100,0	20.209.851	100,0	21.050.118	100,0	110	104
Liabilities								
Deposits	14.176.274	77,1	15.814.723	78,3	16.603.774	78,9	112	105
Borrowings from other banks	0	0	0	0,0	0	0,0	0	0
Loan commitments	848.001	4,6	835.667	4,1	845.086	4,0	99	101
Other liabilities	649.639	3,5	694.412	3,4	717.376	3,4	107	103
Capital								
Capital	2.708.120	14,8	2.865.049	14,2	2.883.882	13,7	106	101
Total liabilities (liabilities and capital)	18.382.034	100,0	20.209.851	100,0	21.050.118	100,0	110	104

The table below shows an overview of bank assets by ownership structure:

-000 KM-

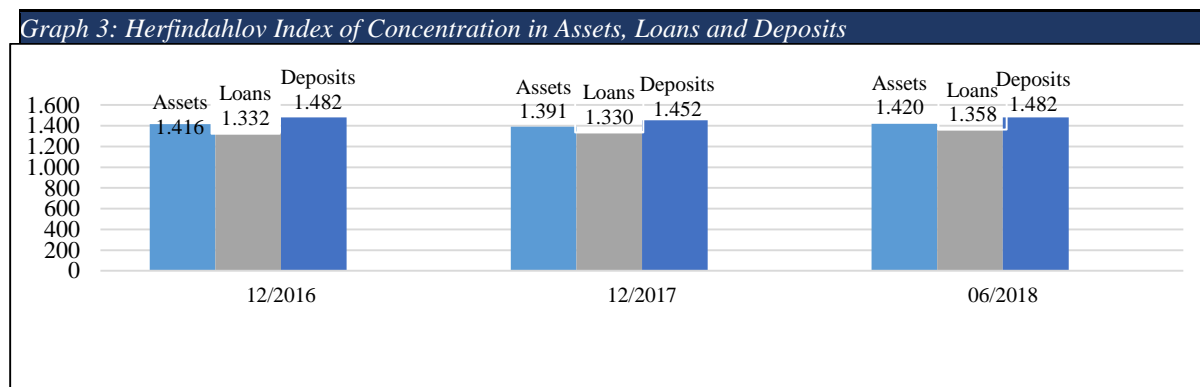
Table 9: Bank Assets by Ownership Structure

Banks	31.12.2016.		31.12.2017.		30.06.2018.		Index	
	No.of banks	Assets (000 KM)	No.of banks	Assets (000 KM)	No.of banks	Assets (000 KM)	8 (5/3)	9 (7/5)
1	2	3	4	5	6	7	8 (5/3)	9 (7/5)
State-owned	1	520.387 2,8%	1	654.373 3,2%	1	659.619 3,1%	126	101
Private	14	17.861.647 97,2%	14	19.555.478 96,8%	14	20.390.499 96,9%	110	104
Total	15	18.382.034 100%	15	20.209.851 100%	15	21.050.118 100%	110	104

⁵ Banks in majority state ownership post the „total“ balance sheet, meaning liabilities and neutral items, which the state will take over once the privatization process gets finalized. As of 30.06.2018, these items amounted to KM 704 million in the case of one bank with majority state-owned capital

The concentration indicator used for the three key segments of banking operations (assets, loans and deposits) is the Herfindahl index ⁶.

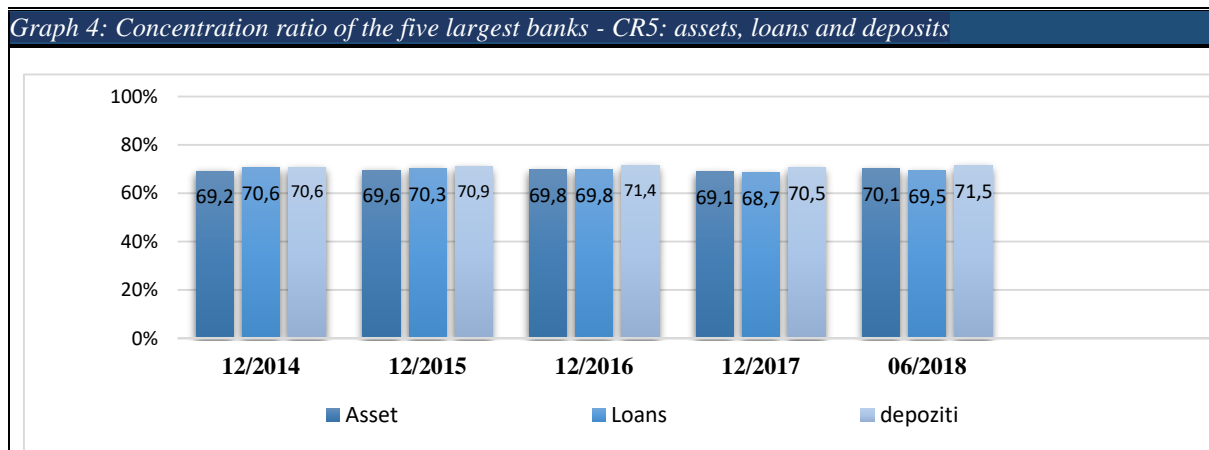
An overview of the aforementioned by period is provided in the graph below:



In the first six months of 2018, the Herfindahl index of concentration in all three relevant categories (assets, loans and deposits) was slightly increased, so that it amounted to 1 420 units for assets (+29), 1 358 units for loans (+28), and 1 482 units for deposits (+30) as of 30.06.2018, thus indicating a moderate concentration ⁷.

The second concentration indicator for the banking sector is the ratio of market concentrations, i.e. the concentration ratio⁸ (hereinafter: CR), which shows the total share of the largest institutions in the sector in selected relevant categories: assets, loans and deposits. Like the Herfindahl index of concentration, the CR5 also increased slightly in the reporting period of 2018, amounting to 70.1% for market share, 69.5% for loans, and 71.05% for deposits as of 30.06.2018. largest banks in the sector account for approximately 47% of the market (asset 47%, loans 44,2% and deposits 48,5%).

An overview of the concentration ratio of the five largest banks is shown in the graph below:



The banking sector can also be analysed on the basis of the criterium of belonging to groups formed according to asset size ⁹. Compared to the end of 2017, as of 30.06.2018 there were

⁶ This index is also called Hirschmann-Herfindahl index or HHI and is calculated according to this formula: $HHI = \sum_{j=1}^n s_j^2$. It represents a sum of squares of percentage shares of specific elements (e.g. assets, deposits, loans) of all market participants in the system. It should be noted that this index does not grow linearly and that the value of e.g. 3 000 does not mean that the concentration in the system is 30%. Hypothetically, if there were just one bank in the entire system, the HHI would be 10 000 at most.

⁷ If the value of the HHI is below 1 000, this shows no presence of the concentration on the market, while an index value between 1 000 and 1 800 shows moderate concentration, and a HHI value above 1 800 shows high concentration on the market

⁸ The concentration ratio (CR) rests on the number of institutions included in the calculation.

⁹ Banks are divided into five groups depended on the asset size

some changes in the structure i.e. share of the banking groups in relation to the total asset of the banking system.

The sector is dominated by three banks with a share in the amount of 56,6% (I group of banks with assets in the amount over KM 2 billion is consisted of the largest bank in the sector with KM 5.6 billion, one bank with KM 4.2 billion and another bank with amount slightly over KM 2 billion). It is followed by the share of 18.6% of the group which consists of three banks (II group of banks, with assets between KM 1 and 2 billion). The share of III group increased (+ 4,3 percentage points) due to one bank moving from group IV to this group of banks. The III group of banks is consisted of four banks with the total share of 16.5%. The share of the IV group (five banks, with assets between KM 100 and 500 million) of 8,3% is increased (+0,3 percentage points), due to one bank moving from group V (assets up to KM 100 million). As of 30.06.2018 no banks had assets below KM 100 million.

The table below provide an overview of the amounts and shares of groups of banks in total assets by period:

-000 KM-

Table 10: Share of Banking groups in Total Assets by Period

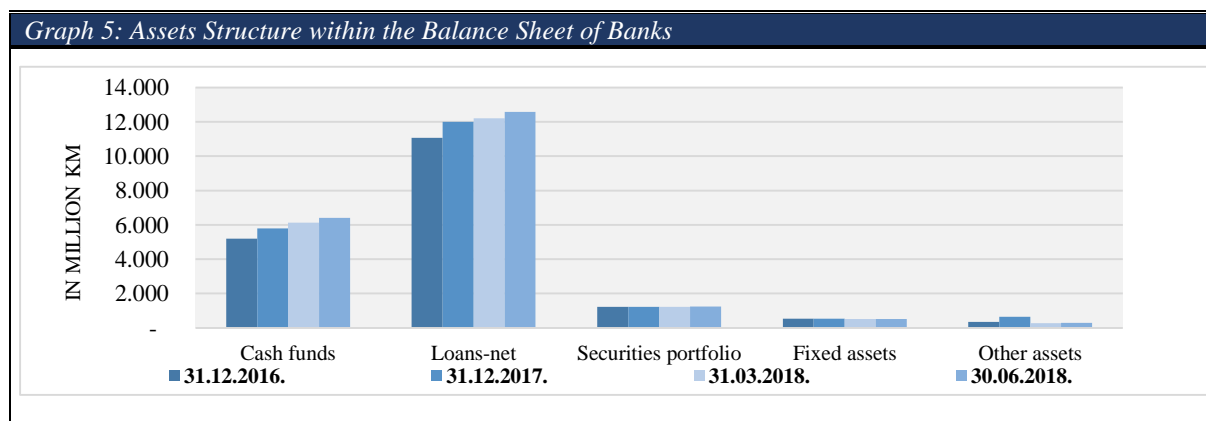
Assets	31.12.2016.			31.12.2017.			30.06.2018.		
	Amount	Share%	No.of banks	Amount	Share%	No.of banks	Amount	Share%	No.of banks
I - over 2.000	8.681.651	47,2	2	9.404.805	46,5	2	11.904.438	56,6	3
II - 1000 to 2000	4.142.732	22,5	3	6.626.507	32,8	5	3.910.212	18,6	3
III - 500 to 1000	4.015.627	21,9	5	2.465.564	12,2	3	3.477.766	16,5	4
IV - 100 to 500	1.449.350	7,9	4	1.613.136	8,0	4	1.757.702	8,3	5
V - below 100	92.674	0,5	1	99.839	0,5	1	-	-	0
Total	18.382.034	100,0	15	20.209.851	100,0	15	21.050.118	100,0	15

In the first half of 2018, the total assets increased by KM 840 million or 4%, compared to the end of 2017 and amounts to KM 21 billion. Within the balance sheet of banks, there was increase in cash funds, loans and deposits, as well as moderate increase of loan commitments and total capital, while decreasing trend is still evident in terms of placements to other banks.

Within the assets structure of of the banks' balance sheets, the share of loans represents the largest assets item (59.8%), cash funds (30.5%), securities (5.9%), fixed assets (2.4%) and other assets (facilities to other banks and other assets) with share of 1.4%.

The total gross loans amount to KM 13.8 billion and have increase of 5% compared to the end of 2017. Positive upward trend of 11% is recorded with cash funds as well.

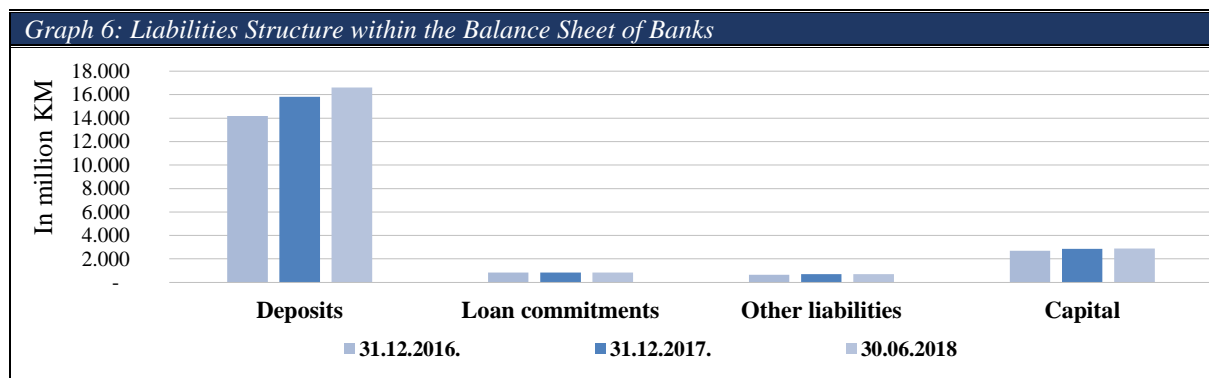
The following graph presents the structure of the key balance sheet items of bank assets:



Within the liabilities structure of the banks' balance sheets, deposits have the largest share (78.9%), capital (13,7%), loan commitments (4%), while other liabilities hold a share of 3.4%.

Within the liabilities structure of the banks' balance sheets, deposits still represent a dominant source of funding for banks in the FBiH. They amounted to KM 16.6 billion as of 30.06.2018 and record a growth of 5% compared to the end of 2017. The growth of other liabilities of 3% is also evident amounting to KM 717 million, as of 30.06.2018. In terms of capital amounted to KM 2.9 billion and loan commitments, slight growth of 1% is evident comparing to the end of 2017.

The graph below shows the structure of the key balance sheet items of bank liabilities:



Cash funds at the level of the banking sector amount to KM 6.4 billion and record the growth of KM 0.6 billion, compared to the end of the previous year.

An overview of cash funds at the level of the banking sector is provided in the table below:

-in000 KM-

Table 11: Cash Funds of Banks

Cash funds	31.12.2016.		31.12.2017.		30.06.2018.		Index	
	Amount	Share %	Amount	Share %	Amount	Share %	4/2	6/4
1	2	3	4	5	6	7	8	9
Cash	754.059	14,5	800.215	13,8	857.206	13,4	106	107
RR at CBBH	3.295.391	63,3	3.823.980	66,0	3.654.170	57,0	116	96
Accounts at deposit institutions in BiH	9.101	0,2	41.411	0,7	36.135	0,5	455	87
Accounts at deposit institutions abroad.	1.145.886	22,0	1.127.877	19,5	1.864.352	29,1	98	165
Cash funds in the process of collection	127	0,0	1.181	0,0	115	0,0	930	10
Total	5.204.564	100,0	5.794.664	100,0	6.411.978	100,0	111	111

In the second quarter of 2018, banks' cash funds in the CBBH reserves account were down by KM 170 million or by 4% and amounted to KM 3.7 billion or 57% of total cash funds, as of 30.06.2018.

Banks' funds in accounts of deposit institutions abroad were up by KM 736 million or 65% and amounted to KM 1.9 billion or 29,1% of total cash funds. Banks held cash funds in the amount of KM 857 million in vaults and treasuries as of 30.06.2018, which accounts for 13.4% of total cash funds.

These changes prompted a change in the currency structure of cash funds, since the share of local currency decreased from 76.6% to 67% in the reporting period, while cash funds in foreign currency increased simultaneously from 23.4 to 33%.

As of 30.06.2018, Securities portfolio amounted to KM 1.25 billion, that is 1% up, compared to 2017, having so 5.9% share in assets.

- 000 KM -

Table 12: Investments in Securities by Type of Instrument

INVESTMENTS IN SECURITIES	31.12.2016.		31.12.2017.		30.06.2018.		INDEX	
	Amount	Share %	Amount	Share %	Amount	Share %	4/2	6/4
1	2	3	4	5	6	7	8	9
Equity securities	1.637	0,1	1.773	0,1	5.401	0,4	108	305
Debt securities:	1.224.526	99,9	1.226.659	99,9	1.241.012	99,6	100	101
- BiH securities of all levels of government in BiH	824.300	67,2	751.163	61,2	742.979	59,6	91	99
- Government securities (other countries)	278.386	22,7	400.855	32,6	414.952	33,3	144	104
- Corporate bonds ¹⁰	121.840	10,0	74.641	6,1	83.081	6,7	61	111
U K U P N O	1.226.163	100,0	1.228.432	100,0	1.246.413	100,0	100	101

In terms of investments in debt securities, the most important item are securities of the entity governments, particularly securities issued by the FBiH¹¹ in the total amount of KM 524 million, as well as securities issued by RS in the amount of KM 211 million. In the first half of 2018, a decrease in investments in bonds issued by FBiH was recorded, but also an increase in investments in bonds issued by RS.

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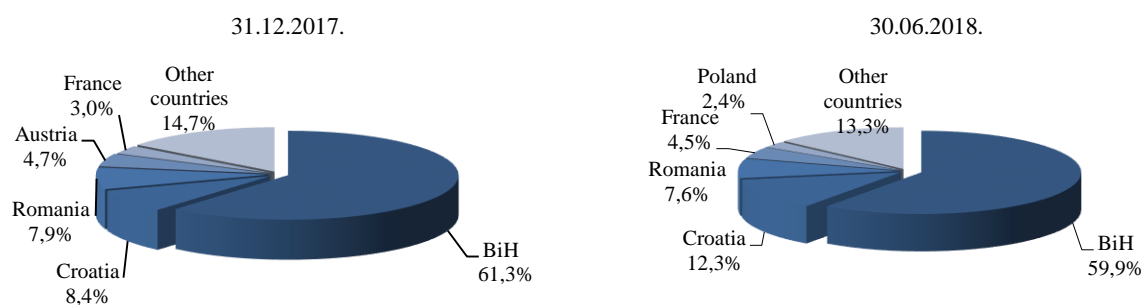
Table 13: Securities of the Entity Governments of BiH

INVESTMENTS IN SECURITIES	31.12.2016.		31.12.2017.		30.06.2018.		INDEX	
	Amount	Share %	Amount	Share %	Amount	Share %	4/2	6/4
1	2	3	4	5	6	7	8	9
Debt securities issued by the Federation of BiH:	676.832	82,1	587.687	78,9	523.892	71,3	87	89
- Treasury bills	118.031	14,3	99.949	13,4	79.984	10,9	85	80
- Bonds	558.801	67,8	487.738	65,5	443.908	60,4	87	91
Debt securities issued by Republika Srpska:	147.124	17,9	157.353	21,1	210.937	28,7	107	134
- Treasury bills	56.758	6,9	65.848	8,8	34.113	4,6	116	52
- Bonds	90.366	11,0	91.505	12,3	176.824	24,1	101	193
TOTAL	823.956	100,0	745.040	100,0	734.829	100,0	90	99

If the total investments in securities were analysed according to exposure by country, the largest share of 59.9% refers to issuers from BiH, followed by: Croatia with the share of 12.3%, Romania 7.6%, France 4.5%, Poland 2.4%, etc.

The structure of total investments of banks in securities according to exposure by country is shown in the graph below:

Graph 7: Structure of Investments in Securities According to the Criterion of the Issuing Country



¹⁰ The largest share of almost 97% refers to bonds of banks from EU

¹¹ All types of securities issued by the FBiH

1.2.2. Liabilities

At the end of second quarter of 2018 the share of deposits as the most significant source of funding for banks increased to 78.9% (+0,6 percentage points), while the share of loan commitments, the second-largest source, amounted to 4% (-0,1 percentage points).

In the reporting period of 2018, deposits had trend of increase in the amount of KM 789 million or 5%, amounting to KM 16.6 billion as of 30.06.2018.

The second-largest source, in terms of total amount, are loan funds, but with a significantly lower amount of KM 845 million and a 4% share, which record moderate growth trend of 1% compared to the end of 2017. These loan funds refer mostly to borrowings from foreign financial institutions. In the last few years, there has been a change in the strategic planning of the financial potential of banks, i.e. the structure of sources and the reorientation to domestic deposit sources, that is especially characteristic of banks that are members of foreign banking groups, with simultaneous return to foreign creditors through repayment of past due liabilities, which resulted in a decrease in the aforementioned (at the end of 2008 they amounted to KM 2.2 billion). If subordinated loans in the amount of KM 137 million, which the banks withdrew in the interest of strengthening the capital base and improving capital adequacy, were added to loan commitments, total loan funds would hold a share of 4.7% in total sources of funding.

As of 30.06.2018 banks held the largest amount of liabilities towards the following creditors, which account for almost 90% of total loan commitments: the EIB, TC Ziraat Bankasi a.s. (Turkey), Procredit Holding AG, the EFSE, the EBRD and Procredit Bank AG Frankfurt. According to the information submitted by banks, out of the total deposit amount at the end of the reporting period, only 5.8% relates to deposits collected in organisational units of banks from the FBiH, which are doing business in RS and the Brčko District.

The deposit structure by sector is shown in the table and graph below:

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Table 14: Deposit Structure by Sector¹²

Sectors	31.12.2016.		31.12.2017.		30.06.2018.		Index	
	Amount	Share %	Amount	Share %	Amount	Share %	4/2	6/4
1	2	3	4	5	6	7	8	9
Government institutions	1.200.513	8,5	1.482.708	9,4	1.584.550	9,5	124	107
Public companies	1.036.461	7,3	1.310.610	8,3	1.471.458	8,9	126	112
Private companies and enterprises	2.191.328	15,5	2.612.441	16,5	2.592.458	15,6	119	99
Banking institutions	647.901	4,6	847.965	5,4	1.101.455	6,6	131	130
Non-banking financial institutions	603.757	4,2	655.360	4,1	683.894	4,1	109	104
Retail	8.154.484	57,5	8.500.668	53,8	8.743.037	52,7	104	103
Other	341.830	2,4	404.971	2,5	426.922	2,6	118	105
Total	14.176.274	100,0	15.814.723	100,0	16.603.774	100,0	112	105

In the first half of 2018 changes were recorded in the deposit structure by sector, as a result of an increase in deposits of banking institutions, public companies, government institutions and retail deposits, and a slight decrease in deposits of private companies and enterprises.

Retail deposits, as the most important deposit source, with share of 52.7%, during the first half of 2018, recorded an increase in the amount of KM 242 million or 3%, amounting to KM 8.7 billion as of 30.06.2018.

¹²Information from the accompanying BS-D form, which banks submit on a quarterly basis in addition to the balance sheet (as based on the FBA model).

The second-largest source in terms of amount and share, although significantly lower than the retail sector, are deposits of private companies, which are down by KM 20 million or 1% and amounted to KM 2.6 billion or 15.6% as of 30.06.2018.

Deposits of government institutions recorded a growth of KM 102 million or 7%, amounting to the total of KM 1.6 billion or total share of 9.5%, as of 30.06.2018, while deposits of public companies recorded a growth of KM 161 million or 12%, amounting to the total of KM 1.5 billion or 8.9% as of 30.06.2018.

Deposits of banking institutions which share is 6.6% (KM 1.1 billion) recorded a growth of KM 253 million or 30%, while deposits of non-banking financial institutions which share is 4.1% (KM 0.7 billion) recorded a growth of KM 28 million or 4%. Financial support of the banking group is present with respect to nine banks in the FBiH, wherein roughly 86% of the total deposits of banking institutions correlated to financial support to those nine banks from a banking group. Such financing is still concentrated in four banks from the group of large banks.

Other sectors, with a low share in total deposits, recorded only slight changes.

The currency structure of deposits as of 30.06.2018 changed slightly. Deposits in KM increased by KM 413 million or 4,5%, while those in foreign currency recorded an increase in the amount of KM 376 million or 5,6%. Compared to the end of 2017 the currency structure of deposits changed for 0.3 percentage points, i.e. the share of deposits in local currency decreased 57.2%, and the share of deposits in foreign currency increased to 42.8%.

the structure of deposits by domicile status of depositors, at the end of second quarter of 2018, also changed slightly: resident funds in the amount of KM 15.2 billion had a share of 91.4% (- 1,5 percentage points), and non-residents deposits amounted to KM 1.4 billion, which is 8.6% of the total deposits. Changes in the structure are the result of an increase in resident deposits (3.4% or KM 495 million) and increase in non-residents deposits (KM 412 million or 26%).

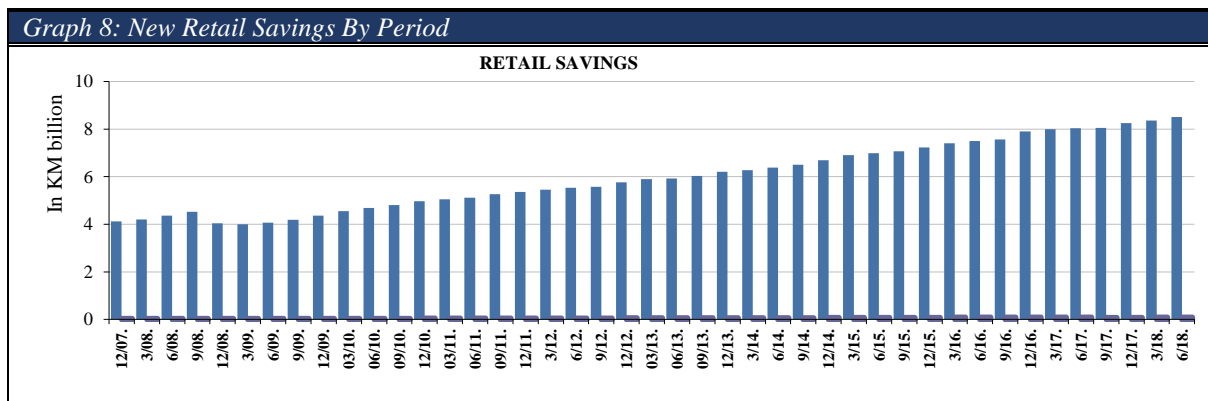
The long-standing trend of increase in savings deposits, as the most significant segment of the deposit and financial potential of banks, continued in the first half of 2018, considering that the increase was KM 251 million or 3%, they amounted to KM 8.5 billion as of 30.06.2018.

The trend of new retail savings is shown in the table and graph below:

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Banks	AMOUNT			Index	
	31.12.2016.	31.12.2017.	30.06.2018.	3/2	4/3
1	2	3	4	5	6
State-owned	86.481	83.530	86.286	97	103
Private	7.806.725	8.166.750	8.415.448	105	103
Total	7.893.206	8.250.280	8.501.734	105	103

Graph 8: New Retail Savings By Period



The two largest banks hold 55% of savings, while five banks hold individual shares of less than 2%, which amounts to 6% of total savings at the sector level.

Out of the total amount of savings, 46% refer to saving deposits in local currency and 54% to savings deposits in foreign currency..

Compared to the end of 2017, the maturity structure of savings deposits changed slightly due to an increase in short-term deposits by 7% or KM 295 million, which resulted in their share being up to 55,9% (+1,8 percentage points), as can be seen in the table below:

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Table 16: Maturity structure of retail saving deposits by period

Banks	AMOUNT						Index	
	31.12.2016.		31.12.2017.		30.06.2018.		3/2	4/3
	1	2	3	4	5	6		
Short-term savings deposits	4.071.231	51,6%	4.460.734	54,1%	4.755.620	55,9%	110	107
Long-term savings deposits	3.821.975	48,4%	3.789.546	45,9%	3.746.114	44,1%	99	99
Total	7.893.206	100,0%	8.250.280	100,0%	8.501.734	100,0%	105	103

Long-standing continuous growth and positive trends in the savings segment of banks in the FBiH, are the result of, on the one hand, better safety and stability of the overall banking sector, for which is of key importance the existence of functional, effective and efficient banking supervision implemented by the FBA, and, on the other hand, the existence of the deposit insurance system, the primary objective of which is increased stability of the banking, i.e. financial sector and the protection of savers.

1.2.3. Capital and Capital Adequacy

In the process of harmonisation of FBA regulations with the new legislation, a new Decision on Calculation of Capital in Banks entered into force at the end of 2017.

During 2018, a parallel reporting method is in force until the banks fully adjust, and further analysis is done according to the earlier regulatory reporting method.

Regulatory capital of banks in the FBiH as of 30.06.2018 amounted to KM 2.6 billion.

The following table shows the regulatory capital structure:

Table 17: Regulatory Capital

Description	31.12.2016.		31.12.2017.		30.06.2018.		Index	
1	2		3		4		5 (3/2)	6 (4/3)
1.a. Core capital before reduction	2.167.814		2.321.458		2.389.431		107	103
1.1. Share capital – common and permanent non-cumulative shares	1.215.668		1.225.580		1.229.491		101	100
1.2. Issue premiums	138.786		137.290		137.290		99	100
1.3. Reserves and retained profit	813.360		958.588		1.022.650		118	107
1.b. Deductible items	112.297		108.151		139.310		96	129
1.1. Uncovered losses from previous years	16.690		47.879		85.168		287	178
1.2. Current year loss	42.314		7.288		0		17	-
1.3. Treasury shares	3.034		81		229		3	283
1.4. Intangible assets	47.315		49.963		49.630		106	99
1.5. Deferred tax assets	1.881		1.494		1.716		79	115
1.6. Negative revalorised reserves	1.063		1.446		2.567		136	178
1. Core capital (1a-1b)	2.055.517	88%	2.213.307	88%	2.250.121	88%	108	102
2. Supplementary capital	284.917	12%	306.237	12%	316.373	12%	107	103
2.1. Share capital – common and permanent cumulative shares.	209		209		209		100	100
2.2. General loan loss reserves	170.420		186.830		195.562		110	105
2.3. Positive revalorised reserves	9.741		13.037		14.330		134	110
2.4. Amount of audited profit	0		0		0		-	-
2.5. Subordinated debt	103.122		104.733		104.844		102	100
2.6 Hybrid items and other instruments	1.425		1.428		1.428		100	100
3. Capital (1 + 2)	2.340.434	100%	2.519.544	100%	2.566.494	100%	108	102
4. Deductible items from capital	200.035		198.380		203.721		99	103
4.1. Bank's shares in capital of other legal entities above 5% of core capital.	0		0		0		-	-
4.2. Loan loss reserves shortfall at regulatory request	200.035		198.380		203.721		99	103
4.3. Other deductible items	0		0		0		-	-
5. Net capital (3-4)	2.140.399		2.321.164		2.362.773		108	102

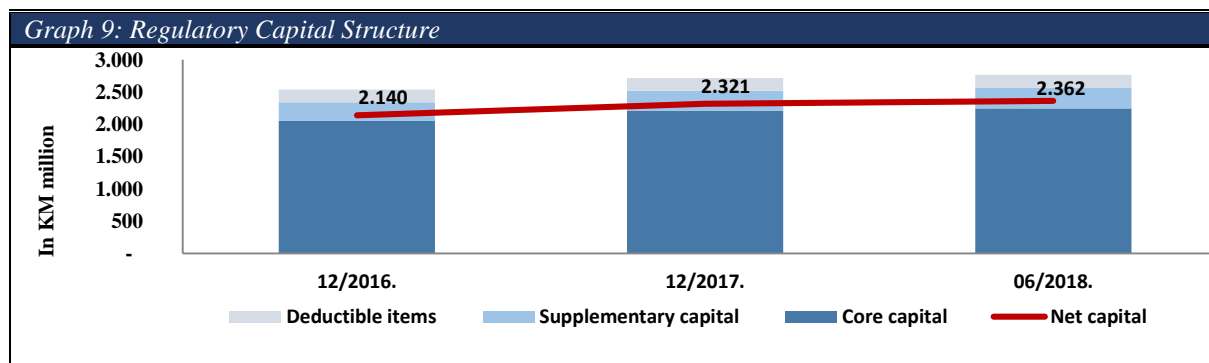
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In the first half of 2018, regulatory capital of the banking sector increased for KM 47 million or 2% compared to the end of 2017, without change in the structure (core capital 88% and supplementary capital 12%). The core capital increased by KM 37 million or 2%, while supplementary capital increase by KM 10 million or 3%.

Changes in regulatory capital are mainly due to the effects of first application of IFRS 9 in the amount of KM 97 million, distribution of profit from 2017 (into core capital KM 140 million), as well as recapitalization of one bank in the amount of KM 4 million.

Missing LLP under the regulatory requirement, as a deductible item from capital as of 30.06.2018, amounted to KM 204 million, up by KM 5 million or 3% compared to the end of 2017.

The graph below shows the regulatory capital structure:



Compared to the end of 2017, net capital increased by KM 42 million or 2% and amounted to KM 2.4 billion as of 30.06.2018.

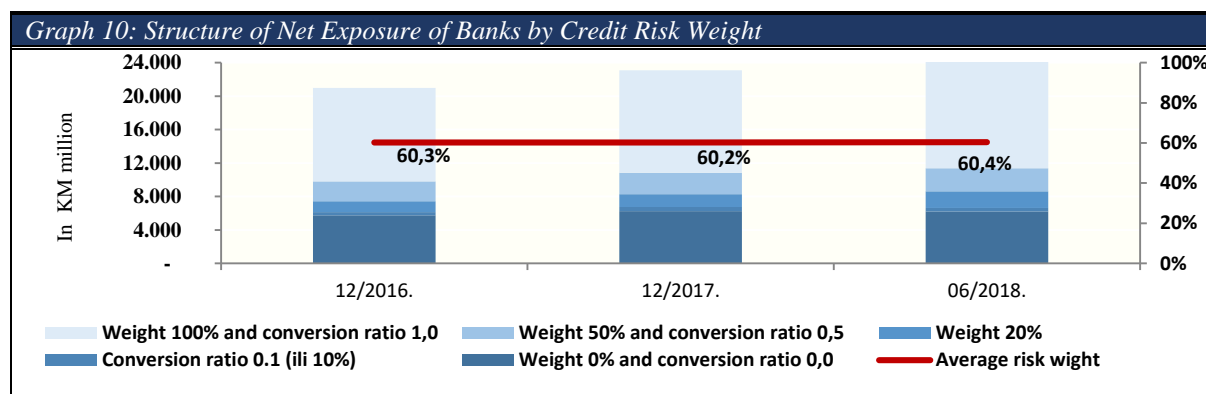
Capital adequacy of individual banks, i.e. the overall sector, depends, on the one hand, from the net capital level, and, on the other hand, on total risk-weighted assets (risk-weighted balance sheet and off-balance sheet assets and weighted operational risk).

The table and graph below provide a structure of the net exposure of banks by credit risk weight, i.e. by conversion ratios for off-balance sheet items:

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Table 18: Structure of Net Exposure of Banks by Credit Risk Weight

DESCRIPTION	31.12.2016.	31.12.2017.	30.06.2018.	Index	
1	2	3	4	5 (3/2)	6 (4/3)
Total exposures (1+2):	20.994.773	23.095.817	24.101.083	110	104
1 Balance sheet assets	17.863.737	19.692.604	20.539.953	110	104
2. Off-balance sheet items	3.131.036	3.403.213	3.561.130	109	105
Distribution by risk weight and conversion ratio					
Weight 0%	5.695.758	6.203.689	6.148.796	109	99
Weight 20%	1.309.962	1.515.686	1.968.856	116	130
Weight 50%	75.541	93.891	69.160	124	74
Weight 100%	10.782.476	11.879.338	12.353.141	110	104
Conversion ratio 0,0	43.699	57.604	55.105	132	96
Conversion ratio 0,1	396.664	481.880	443.016	121	92
Conversion ratio 0,5	2.291.106	2.473.318	2.671.791	108	108
Conversion ratio 1,0	399.567	390.411	391.218	98	100
Risk-weighted balance sheet and off-balance sheet assets	12.667.026	13.904.675	14.552.912	110	105
Average risk weight	60,3%	60,2%	60,4%	100	100



In the first half of 2018, total net exposure of banks (before being weighted) increased by 4%. The risk-weighted balance sheet and off-balance sheet items (after being weighted) amounted to KM 14.6 billion, with a 5% growth rate, as of 30.06.2018, which was primarily influenced by an increase in items with a 100% weight. As a result of the aforementioned, the average risk weight increased slightly from 60,2% to 60,4%.

The weighted operational risk (WOR) was up (5%) and amounted to KM 1.1 billion as of 30.06.2018. All of this resulted in an increase in the amount of total risk-weighted assets that amounted to KM15,6 billion or increase of 5%.

As of 30.06.2018, the share of risk-weighted balance and off-balance sheet assets (exposure to credit risk) amounted to 93%, and 7% on the basis of operational risk.

One of the key indicators of capital strength and adequacy ¹³ of banks is the capital adequacy ratio, which constitutes a ratio between net capital and total risk-weighted assets.

¹³Legal minimum of capital adequacy ratio is 12%

At the banking sector level, this ratio stood at 15.1% as of 30.06.2018, which is 0.4 percentage points down, compared to the end of 2017, due to the increase in risk-weighted assets and first application of IFRS 9.

Annex 5 provides a Report on the capital condition and adequacy of banks in the FBiH.

The ratio of the core capital (Tier I) and total risk-weighted assets amounted to 14.4% at the level of the banking sector as of 30.06.2018. Banks have the obligation to allocate part of the core capital above 9% of total risk assets to cover the risks related to preventive protection from potential losses in times of stressful situations through a capital conservation buffer that has been prescribed in the amount of 2.5% of the amount of total risk assets.

Banks are required to establish and maintain the financial leverage ratio as an additional security and a simple capital hedge, at least in the amount of 6%. The financial leverage ratio at the level of the banking sector amounted to 9.2% as of 30.06.2018 (at the end of 2017 it was 9.6%).

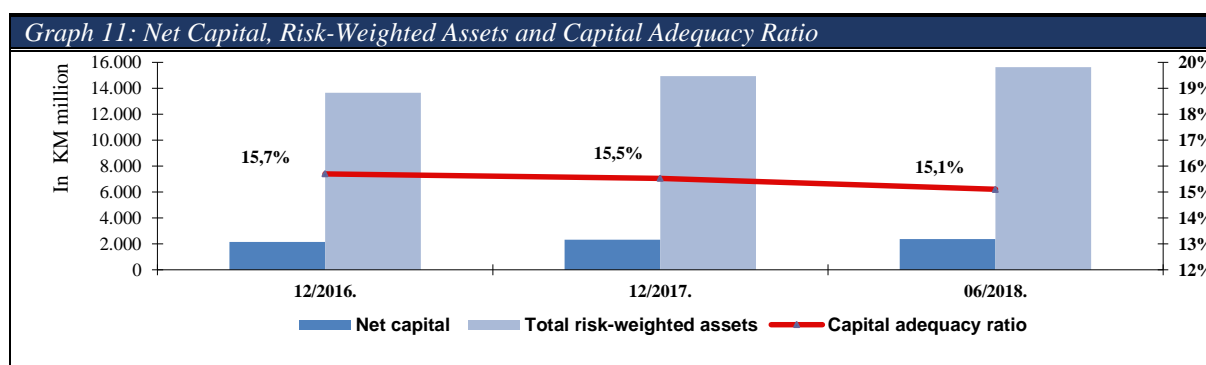
For the past few years, the capital adequacy of the banking sector has been continuously maintained at a level above 15%, which is a satisfactory capitalisation rate at the sector level. Banks have retained the largest portion of profit from previous years within their capital. In the previous period, several banks have also improved their capitalisation rate on the basis of recapitalisation.

The following table and graph provide an overview of net capital, risk-weighted assets and the capital adequacy ratio at the level of the banking sector:

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Table 19: Net Capital, Total Weighted Risks and Capital Adequacy Ratio

Description	31.12.2016.	31.12.2017.	30.06.2018.	Index	
1	2	3	4	5(3/2)	6(4/3)
1. Net capital	2.140.399	2.321.164	2.362.773	108	102
2. Risk-weighted balance sheet and off-balance sheet items	12.667.026	13.904.675	14.552.912	110	105
3. WOR (weighted operational risk)	1.001.018	1.042.691	1.092.596	104	105
4. Total risk-weighted assets (2+3)	13.668.044	14.947.366	15.645.508	109	105
5. Net capital ratio (capital adequacy) (1/4)	15,7%	15,5%	15,1%	99	97



The capital adequacy ratio of the banking sector as of 30.06.2018 was 15.1%, which is still quite above the legal minimum (12%) and represents a satisfactory capitalisation rate of the overall sector.

According to analytical data, ten banks had a capital adequacy ratio below the one at the end of 2017, while three banks had improved this ratio, and two banks kept the same ratio, compared to the end of 2017. Below is an overview of the capital adequacy ratios of banks compared to the legal minimum of 12%:

- Six banks had a ratio below 14,5%,
- Seven banks had a ratio between 14,6% and 16,4% and
- Two banks had a ratio 31,1% and 40,6%.

By supervising the operations and financial condition of banks in the FBiH in accordance with its legal competences and for the purpose of improving the safety of both individual banks and the banking sector as a whole, the FBA instructed banks to take appropriate measures to strengthen their capital base and ensure capital adequacy in terms of the level and profile of the existing and potential exposure to all risks inherent to banking operations, primarily credit risk, as the dominant risk banks are exposed to in their business operations .

The priority task continues to be the maintenance of a strong and adequate capital base of the banking sector in accordance with the risk profile of the banks' operations, with a focus on large banks in the sector, as well as on banks whose total business operations are under enhanced supervision.

1.2.4. Assets and Asset Quality

The Decision on Minimum Standards for Credit Risk Management and Asset Classification in Banks defines criteria for the assessment of banks' exposure to credit risk by means of asset quality assessment and assessment of adequacy of reserves for loan losses and other losses as per risk level of loans and balance sheet and off-balance sheet assets items. When assessing banks' exposure to credit risk, banks are required to continue calculating LLP in accordance with the criteria from the aforementioned Decision, thereby considering already formed value adjustments of balance sheet assets and loss provisions for off-balance sheet items recorded in the banks' books (calculated in accordance with the applicable IAS and IFRS), while also taking into account LLP formed from profit (found on capital accounts).

Since 01.01.2018, banks are required to apply the new financial reporting standard IFRS 9 – Financial Instruments, which has replaced IAS 39.

The following table provides an overview of assets, LLP according to the regulator and value adjustments according to IFRS:

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<i>Table 20: Assets (BS and off-BS), Loan Loss Provisions According to the Regulator and Value Adjustments According to IFRS</i>					
Opis	31.12.2016.	31.12.2017.	30.06.2018.	Index	
1	2	3	4	5(3/2)	6(4/3)
1. Risk-weighted assets ¹⁴	15.678.467	17.224.329	17.607.355	110	102
2. Calculated regulatory reserves for loan losses	1.533.712	1.492.475	1.488.064	97	100
3. Value adjustment and reserves for off-balance sheet items	1.294.471	1.262.277	1.340.130	97	106
4. Required regulatory reserves formed from profit for assessed losses	405.019	402.640	405.235	99	101
5. Formed regulatory reserves from profit for assessed losses	315.734	315.734	315.734	100	100
6. Shortfall of regulatory reserves formed from profit for assessed losses	200.035	198.771	203.721	99	102
7. Non-risk weighted items	7.175.607	7.699.195	8.395.374	107	109
8. Total assets (1+7)	22.854.074	24.923.524	26.002.729	109	104

¹⁴ Does not include amount of facilities and contingent liabilities of KM 252 million that is secured with a cash deposit

Total assets with off-balance sheet items (assets)¹⁵ of banks in the FBiH amounted to KM 26 billion as of 30.06.2018 and are up by KM 1.1 billion or 4% compared to the end of 2017. Risk-weighted assets amount to KM 17.6 billion and up for KM 383 million or 2% compared to the end of 2017. Non-risk weighted items amount to KM 8.4 billion or 32% of total assets with off-balance sheet items and up for KM 696 million or 9% compared to the end of 2017.

Total calculated LLP based on regulatory requirements remained at the almost same level and amount to KM 1.5 billion, while formed value adjustments for balance sheet assets and provisions for losses amount to KM 1.3 billion are up by KM 78 million or 6% compared to the end of previous year.

Required regulatory reserves¹⁶ amount to KM 405 million and are up by KM 2.6 million or 1%. Formed regulatory reserves from profit in the amount of KM 316 million remained at the same level as at the end of 2017. As of 30.06.2018, the shortfall of regulatory reserves¹⁷ amounts to KM 204 million, thus being up by KM 5 million or 2%, compared to the end of 2017.

The following table shows an overview of total assets, gross balance sheet assets, risk-weighted and non-risk weighted assets items at the level of the banking sector:

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Table 21: Total Assets, Gross Balance Sheet Assets, Risk-Weighted and Non-Risk Weighted Assets Items

Description	31.12.2016.		31.12.2017.		30.06.2018.		Index	
	Amount	Struct. %	Amount	Struct. %	Amount	Struct. %	8 (4/2)	9 (6/4)
1.	2	3	4	5	6	7		
Loans	10.850.532	84,2	11.910.826	83,6	12.416.025 ¹⁸	86	110	104
Interest	69.237	0,5	66.894	0,5	89.586	0,6	97	134
Past due receivables	1.164.973	9,0	1.036.949	7,3	1.028.330	7,1	89	99
Receivables on paid guarantees	26.537	0,2	31.080	0,2	30.128	0,2	117	97
Other facilities	138.995	1,1	400.584	2,8	209.342	1,4	288	52
Other assets	638.228	5,0	814.496	5,6	675.238	4,7	124	83
1.Risk-weighted balance sheet assets	12.888.502	100,0	14.260.829	100,0	14.448.649	100,0	111	101
2. Non-risk weighted balance sheet assets	6.745.740		7.172.606		7.903.958		106	110
3.Gross balance sheet assets (1+2)	19.634.242		21.433.435		22.352.607		109	104
4.Risk-weighted off-bs items	2.789.965		2.963.500		3.158.706		106	107
5.Non-risk weighted off-bs items	429.867		526.589		491.416		122	93
6.Total off-bs items (4+5)	3.219.832		3.490.089		3.650.122		108	105
7.Risk-weighted assets with off-bs items (1+4)	15.678.467		17.224.329		17.607.355		110	102
8. Non-risk weighted items (2+5)	7.175.607		7.699.195		8.395.374		107	109
9. Assets with off-bs items (3+6)	22.854.074		24.923.524		26.002.729		109	104

Gross balance sheet assets⁶ amount to KM 22.4 billion and are up by KM 919 million or 4% compared to the end of 2017. Risk-weighted balance sheet assets amount to KM 14.4 billion or 65% of gross balance sheet assets, with an increase of KM 188 million or 1%. Non-risk weighted balance sheet assets amount to KM 7.9 billion and are up by KM 731 million or 10%.

Off-balance sheet risk-weighted items in the amount of KM 3.2 billion are up by KM 195 million or 7% compared to the end of 2017, while non-risk weighted items amount to KM 491 million, and are down by KM 35 million or 7%.

¹⁵ Assets, as defined in Article 2 of the Decision on Minimum Standards for Credit Risk Management and Asset Classification in Banks (Official Gazette of the Federation of BiH, No. 85/11 – consolidated text and 33/12 – correction, 15/13).

¹⁶ Required regulatory reserves represent a positive difference between calculated loan loss provisions and value adjustments (calculated loan loss provisions are higher than value adjustments).

¹⁷ Shortfall of regulatory reserves represents a positive difference between required and formed loan loss provisions

¹⁸This does not include the loan amount of KM 192 million covered by a cash deposit (included in non-risk weighted assets of the balance sheet).

In the first half of 2018, credit growth in the amount of KM 620 million or 5% was recorded, compared to 31.12.2017. As of 30.06.2018, loans amounted to KM 13.8 billion. The trend and change in the share of individual sectors in the total loan structure is shown in the table below:

-in 000 KM-

Table 22: Loan Structure by Sector

Sectors	31.12.2016.		31.12.2017.		30.06.2018.		Index	
	Amount	Share%	Amount	Share%	Amount	Share%	8(4/2)	9(6/4)
1	2	3	4	5	6	7		
Government institutions	265.892	2,2	245.102	1,9	222.626	1,7	92	91
Public companies	226.891	1,8	210.461	1,6	319.927	2,3	93	152
Private companies and enterprises	5.756.280	46,9	6.295.558	47,8	6.512.881	47,2	109	103
Banking institutions	58	0,0	12	0,0	1.029	0,0	21	8575
Non-banking financial institutions.	40.365	0,3	58.992	0,4	75.421	0,5	146	128
Retail	5.972.074	48,7	6.358.707	48,2	6.653.597	48,2	106	105
Other	8.668	0,1	10.028	0,1	12.997	0,1	116	130
Total	12.270.228	100,0	13.178.860	100,0	13.798.478	100,0	107	105

The growth rate of loans to private companies amounted to KM 217 million or 3% (in 2017 an increase of KM 539 million or 9%), while at the same time their share is slightly decreased from 47.8% to 47.2%, thus the loans of this sector amounted to KM 6.5 billion, as of 30.06.2018. The increase in loans to the retail sector amounted to KM 295 million or 5% (in 2017 an increase of KM 387 million or 6%), while the share remained at the same level compared to the end of 2017 (48.2%) and amounted to KM 6.7 billion as of 30.06.2018..

According to information submitted by the banks as of 30.06.2018 the retail loan structure by purpose is almost the same as at the end of 2017: consumer loans hold a share of 81,4%, housing loans hold a share of 17%, while the remaining 1.6% refer to loans to small crafts, small businesses and agriculture. The three largest banks in the sector have approved, same as in 2017, 61% of retail loans, and 46% of loans to private companies out of the total number of loans approved to these sectors.

In the currency structure of loans, the largest share of 53.5% or KM 7.4 billion refers to currency clause loans (EUR: KM 7.3 billion or 99%, CHF: KM 59.2 million KM or 1%), local currency loans with a share of 45.9% or KM 6.3 billion, while the smallest share of just 0.6% or KM 76 million refers to foreign currency loans (almost the entire amount thereof refers to EUR: KM 75 million or 98%). The total amount of loans with a currency clause in CHF of KM 59.2 million has a 0.4% share in the total loan portfolio and refers almost entirely to one bank in the system.

The table below provides an overview of the quality of assets and off-balance sheet risk-weighted items, GCR, PLL by classification category:

-in 000 KM-

Table 23: Asset Classification, GCR and PLL

Classification category	31.12.2016.			31.12.2017.			30.06.2018.			Index	
	Classified assets	Share %	GCR PLL	Classified assets	Share %	GCR PLL	Classified assets	Share %	GCR PLL	11(5/2)	12(8/5)
1	2	3	4	5	6	7	8	9	10		
A	13.166.182	84,0	263.324	14.834.609	86,1	296.693	15.267.998	86,7	305.360	113	103
B	982.398	6,3	77.167	1.032.373	6,0	82.700	1.002.264	5,7	85.645	105	97
C	224.335	1,4	58.086	166.456	1,0	45.486	167.980	1,0	47.944	74	101
D	423.766	2,7	253.348	301.598	1,7	178.304	295.739	1,7	175.752	71	98
E	881.786	5,6	881.787	889.293	5,2	889.292	873.374	4,9	873.363	101	98

Risk-weighted assets. (A-E)	15.678.467	100,0	1.533.712	17.224.329	100,0	1.492.475	17.607.355	100,0	1.488.064	110	102
Classified (B-E)	2.512.285	16,0	1.270.389	2.389.720	13,9	1.195.782	2.339.357	13,3	1.182.704	95	98
Non-performing (C-E)	1.529.887	9,8	1.193.221	1.357.347	7,9	1.113.082	1.337.093	7,6	1.097.059	89	99
Non-risk weighted assets. ¹⁹	7.175.607			7.699.195			8.395.374			107	109
Total (risk-weighted and non-risk weighted)	22.854.074			24.923.524			26.002.729			109	104

Asset quality assessment is an evaluation of credit risk exposure of the banks' loans, i.e. the identification of PLL. The first and warning indicator of potential problems with loan repayment is an increase in past due receivables and their share in total loans. As of 30.06.2018, past due receivables amounted to KM 1.1 billion, which is less by 1% or KM 10 million compared to the end of previous year, and the share is decreased from 8.1% to 7.7%.

By analyzing the quality of risk-weighted assets through trends and changes of key indicators, it can be concluded that key indicators of asset quality continued the trend of improvement in the first half of 2018, largely due to the effect of credit growth.

Annex 6 and 6a provide a classification of balance sheet assets and off-balance sheet risk-weighted items.

As of 30.06.2018, classified assets amounted to KM 2.3 billion, non-performing assets to KM 1.3 billion. The classified assets (categories B-E) decreased by KM 50 million or 2% compared to the end of 2017 (in 2017 decrease of KM 123 million or 5%). Category B decreased by KM 30 million or 3%. Non-performing assets (categories C-E) decreased by KM 20 million or 1% (in 2017 non-performing assets decreased by KM 173 million or 11%), largely due to permanent asset write-off in the amount of KM 43 million.

The share of classified assets in risk-weighted assets amount to 13.3%, and drop for 0.6 percentage points compared to the end of 2017.

The most significant indicator of asset quality is the ratio between non-performing assets and risk-weighted assets, which amounts to 7.6%, that is drop by 0.3 percentage points compared to the end of 2017.

Sector-level data analysis is based on loan quality indicators for two key sectors: corporate and retail. The two aforementioned indicators for these sectors show major deviation and point to a higher exposure to credit risk and consequently to PLL regarding the corporate segment.

¹⁹ In accordance with Article 2, paragraph 2 of the Decision on Minimum Standards for Credit Risk Management and Asset Classification in Banks, assets items that are not classified and items for which no general LLP of 2% are calculated (as per Article 22, paragraph 8 of the same Decision)

The following table shows a detailed overview of the classification of retail and corporate loans:

-in 000 KM-

Table 24: Classification of Retail and Corporate Loans

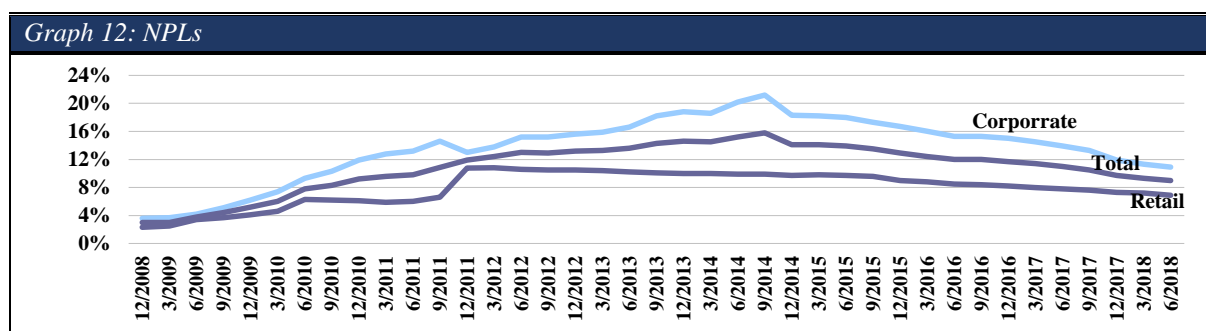
Classification category	31.12.2017.						30.06.2018.						Index
	Retail		Corporate		Total		Retail		Corporate		Total		
	Amount	Share %	Amount	Share %	Amount	Share %	Amount	Share %	Amount	Share %	Amount	Share %	
1	2	3	4	5	6 (2+4)	7	8	9	10	11	12 (8+10)	13	14(12/6)
A	5.732.970	90,1	5.356.474	78,5	11.089.444	84,2	6.038.312	90,8	5.715.277	80,0	11.753.589	85,2	106
B	163.628	2,6	651.859	9,6	815.487	6,2	154.887	2,3	649.704	9,1	804.591	5,8	99
C	61.371	1,0	98.470	1,4	159.841	1,2	63.617	1,0	99.736	1,4	163.353	1,2	102
D	46.850	0,7	243.681	3,6	290.531	2,2	47.442	0,7	234.423	3,3	281.865	2,0	97
E	353.889	5,6	469.668	6,9	823.557	6,2	349.339	5,2	445.741	6,2	795.080	5,8	97
Total	6.358.708	100,0	6.820.152	100,0	13.178.860	100,0	6.653.597	100,0	7.144.881	100,0	13.798.478	100,0	105
Class. loans.B-E	625.738	9,8	1.463.678	21,5	2.089.416	15,9	615.285	9,2	1.429.604	20,0	2.044.889	14,8	98
Non-perf. loansC-E	462.110	7,3	811.819	11,9	1.273.929	9,7	460.398	6,9	779.900	10,9	1.240.298	9,0	97
		48,2		51,8		100,0		48,2		51,8		100,0	
Individual sector's share in classified loans, non-performing loans and category B:													
Categories B-E		29,9		70,1		100,0		30,1		69,9		100,0	
Non-performingC-E		36,3		63,7		100,0		37,1		62,9		100,0	
Category B		20,1		79,9		100,0		19,3		80,7		100,0	

Loan quality indicators improved in the first half of 2018 and the share of classified loans dropped to 14.8% (-1.1 percentage points) due to, on the one hand, classified loans being down by KM 44.5 million or 2% and, on the other hand, the aforementioned increase in total loans. Classified loans of the retail sector saw an decrease in the amount of KM 10 million or 2%, while corporate loans went down by KM 34 million or 2%.

The share of NPL decreased from 9.7% to 9%, as a result of credit growth and a decrease in total NPL by KM 34 million or 3%. Corporate NPL decreased by KM 32 million or 4%, while in the retail segment decreased by KM 2 million or 0.4%, compared to the end of 2017.

Out of the total approved corporate loans in the amount of KM 7.1 billion, KM 1.4 billion or 20% of loans were classified within categories B to E as of 30.06.2018, while this indicator is much better for the retail segment, which correlates with the degree of risk associated with lending to these two sectors. Out of the total approved retail loans in the amount of KM 6.7 billion, there were KM 615 million or 9.2% of loans classified within categories B to E.

An overview of NPL by period is provided in the graph below:



The most important indicator of loan portfolio quality is the share of NPL. In the first half of 2018, the share of NPL in both the retail sector and the corporate sector decreased as a result of a decrease in corporate NPL (KM 32 million or 4%) and retail NPL (KM 1.7 million or 0.4%) as well as credit growth (KM 295 million or 5% retail and KM 325 million or 5% corporate).

Of the total approved corporate loans, NPL account for KM 780 million or 10.9%, which is down by 1.00 percentage points compared to the end of 2017 (in 2017, the share decreased by 3.1 percentage points). For the retail sector, the indicator of the share of NPL amounted to KM 460 million or 6.9%, down by 0.4 percentage points (in 2017, the share decreased by 0.9 percentage points).

A more detailed and comprehensive analysis is based on data on loan concentration by industry sector for the corporate segment (by sector) and for the retail segment (by purpose) and it is presented in the following table:

-in 000 KM-

Table 25: Concentration of Loans by Industry Sector

Description	31.12.2017.				30.06.2018.				Index	
	Total loans		Non-performing loans		Total loans		Non-performing loans			
	Amount	Share %	Amount	Share %	Amount	Share %	Amount	Share %		
1	2	3	4	5 (4/2)	6	7	8	9 (8/6)	10 (6/2)	11(8/4)
1. Corporate loans for:										
Agriculture (AGR)	206.554	1,6	30.860	14,9	189.259	1,4	33.590	17,7	92	109
Production (IND)	1.986.437	15,1	281.513	14,2	2.034.275	14,7	268.222	13,2	102	95
Construction (CON)	428.151	3,2	67.845	15,8	435.010	3,2	70.256	16,2	102	104
Trade (TRD)	2.589.004	19,6	290.802	11,2	2.689.658	19,5	269.133	10,0	104	93
Catering (HTR)	243.136	1,8	11.536	4,7	257.295	1,9	14.203	5,5	106	123
Other ²⁰	1.366.870	10,4	129.263	9,5	1.539.384	11,3	124.496	8,1	113	96
Total 1.	6.820.152	51,7	811.819	11,9	7.144.881	51,8	779.900	10,9	105	96
2. Retail loans for:										
General consumption	5.188.942	39,4	317.089	6,1	5.417.856	39,3	325.675	6,0	104	103
Housing	1.065.987	8,1	126.907	11,9	1.133.481	8,2	117.741	10,4	106	93
Business activities (small business owners)	103.779	0,8	18.114	17,5	102.260	0,7	16.982	16,6	99	94
Total 2.	6.358.708	48,3	462.110	7,3	6.653.597	48,2	460.398	6,9	105	100
Total (1. +2.)	3.178.860	100	1.273.929	9,7	13.798.478	100	1.240.298	9,0	105	97

The biggest share in total corporate loans refers to the trade sector (19.5%) and the production sector (14.7%), while the largest share in the retail segment is held by general consumption loans (39.3%) and housing loans (8.2%), which is approximately the same level as on 31.12.2017. The level of loans to the production sector in the amount of KM 2 billion increased slightly in the first half of 2018 (KM 48 million or 2%), while NPL decreased (KM 13 million or 5%) to the amount of KM 268 million, and the share, although down by 1.00 percentage points, is still as high as 13.2%.

Lending to the trade sector increased by KM 101 million or 4% in the first half of 2018, to the level of KM 2.7 billion. NPL in this sector decreased by KM 22 million or 5%, amounting to KM 269 million as of 30.06.2018. The share decreased by 1.2 percentage points, i.e. to 10%, which is a better indicator than in the production sector.

The share of NPL is particularly high in the construction sector – 16.2%, with a drop in the amount of 0.4 percentage points, and loans from this sector hold a low share in the amount of only 3.2% in the total corporate loans. In the agriculture sector, which has the lowest share of 1.4%, NPL hold a significant share of 17.7%, which increased by 2.8 percentage points compared to the end of the previous year.

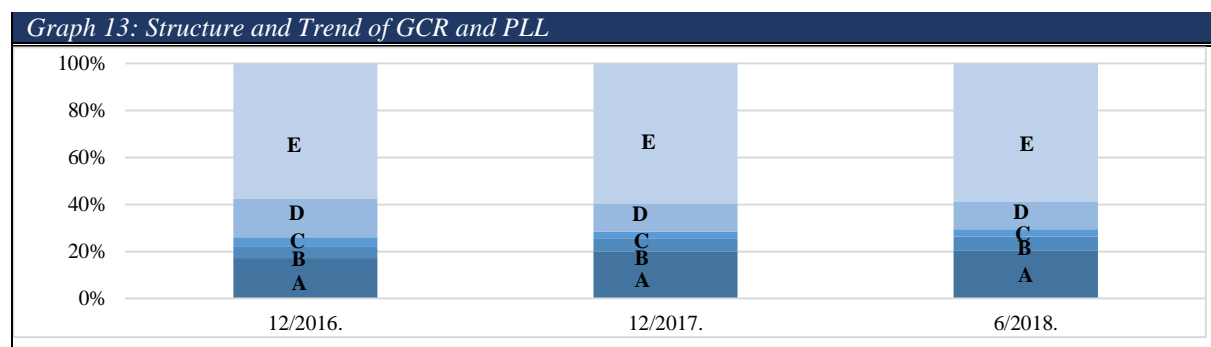
²⁰ This includes the following sectors: traffic, warehouse and communications (TRC); financial mediation (FIN); real estate, renting and business services (RER); public administration and defence, mandatory social insurance (GOV) and other

In the retail segment, general consumption loans hold the highest share, which amounts to 39.3% in total loans, with an increase in the amount of KM 229 million or 4%, while housing loans increased by KM 67 million or 6%. Housing loans hold a relatively high 10.4% share of NPL, while general consumption loans hold a 6% share of NPL.

The GCR level and estimated PLL by classification category, determined in accordance with the criteria and methodology defined by the decisions of the FBA, along with their trend and structure at the banking sector level, is provided in the table and graph below:

Table 26: Structure and Trend of GCR and PLL

Classification category	Amount (in 000 KM) and structure (in%)						Index	
	31.12.2016.		31.12.2017.		30.06.2018.		8 (4/2)	9 (6/4)
1	2	3	4	5	6	7		
A	263.324	17,2	296.693	19,9	305.360	20,5	113	103
B	77.167	5,0	82.700	5,5	85.645	5,8	107	104
C	58.086	3,8	45.486	3,1	47.944	3,2	78	105
D	253.348	16,5	178.304	11,9	175.752	11,8	70	99
E	881.787	57,5	889.292	59,6	873.363	58,7	101	98
Total	1.533.712	100,0	1.492.475	100,0	1.488.064	100,0	97	100



Based on an analysis of the calculated LLP in total and by classification category, compared to the end of 2017, the reserves for GCR (category A) and PLL remained at the same level of KM 1.5 billion. The reserves for category A increased by KM 8.7 million or 3% compared to the end of 2017.

Within the PLL, The reserves for categories B and C are increased (for category B increase of KM 2.9 million or 4%, and for category C increase of KM 2.5 million or 5%), while the reserves for categories D and E decreased (for category D are down by KM 2.5 million or 1%, and for category E are down by KM 15.9 million or 2%).

One of the key indicators of asset quality is the ratio between PLL and risk-weighted assets with off-balance sheet items. This ratio amounts to 7% and it down by 0.2 percentage points compared to the end of 2017. As of 30.06.2018, banks had on average calculated reserves in the amount of 9% for category B, 29% for category C, 59% for category D and 100% for category E, as was the case at the end of 2017.²¹

The credit risk is the dominant risk in most banks, which is why the focus of the supervisor is on the assessment of practices for credit risk management i.e. identification, measuring, monitoring and controlling of credit risk and on assets classification.

²¹According to the Decision on Minimum Standards for Credit Risk Management and Asset Classification in Banks, banks are required to calculate LLP by classification category bearing the following percentages: A-2%, B 5-15%, C 16-40%, D 41-60% and E 100%.

1.2.5. Profitability

At the level of the banking sector in FBiH, a positive financial result was recorded in the first half of 2018 – profit in the amount of KM 174.8 million, which is up by KM 23.1 million or 15.2% compared to the same period of the previous year.

Based on an analysis of the structure of profit and loss at the level of the banking sector, it is evident that positive financial result - profit, is the result of the following:

- Decrease of total non-interest expenses by KM 12.7 million or 3.5% compared to the same period of the previous year.
- Increase of total operating income in the amount of KM 7.7 million or 3.7% compared to the same period of the previous year;
- Increase of net interest and similar income in the amount of KM 2.8 million or 0.9%, along with an evident decrease of total interest and similar income, and parallel decrease of the total interest income and similar income by KM 7.1 million or 1%, and falls of the total interest expenses and similar expenses by KM 9.9 million or 12.9% compared to the same period of the previous year.

All 15 banks in the system recorded a positive financial result – profit, wherein nine banks in the system, which had positive financial result in the same period of the previous year, now recorded increase in profit, compared to the same period of the previous year, with the total positive effect in the amount of KM 28.7 million, where KM 22.2 million refers to the four largest banks in the system, according to the assets. During the first half of 2018, a five banks recorded a profit lower than in the same period of the previous year, wherein net effect of profit decrease is amounted to KM 7.8 million, while there is a one bank in the system that recorded a profit, as of 30.06.2018, but in the same period of the previous year had operated at loss, thus for this bank net positive effect amounted to KM 2.2 million.

Annex 7 shows the income statement of banks in the FBiH according to the FBA model.

A better financial result having been recorded as of 30.06.2018, and compared to the same period of the previous year is largely the result of lower non-interest expenses, which are in nominal amount decreased by KM 12.7 million or 3.5%, while total operating and direct expenses decreased by KM 13.1 million or 12.8%, and total operating expenses stayed at the approximately same level.

The presented decrease in total operating and direct expenses, as of 30.06.2018, is primarily the result of decrease in the presented expenses of value adjustments of risk-weighted assets, reserves for contingent liabilities and other value adjustments in the amount of KM 18 million or 36% compared to the same period of the previous year.

The table below shows an overview of the recorded financial result, at the level of banking sector in FBiH, by reporting period:

-000 KM-

Table 27: Recorded Financial Result: Profit/Loss

Description	30.06.2016.		30.06.2017.		30.06.2018.	
	Amount	Number of banks	Amount	Number of banks	Amount	Number of banks
1	2	3	4	5	6	7
Loss	-7.942	2	-2.126	1	-	-
Profit	147.430	15	153.815	14	174.820	15
Total	139.488	17	151.689	15	174.820	15

The presented financial results at the level of banking sector in FBiH, by reporting period, steadily record an increase, wherein as in absolute, as well in relative term, increase significantly higher in the first half of 2018, compared to the first half of 2017.

As of 30.06.2018, out of the total recorded profit (KM 174.8 million), KM 144.3 million or 82.5% of the total profit at the level of the banking sector in FBiH, refer to the four largest banks in the sector with an assets share of 63.3%. The total of KM 114.7 million or 65.6% of the total recorded profit, refer to two largest banks, wherein the assets share of those two banks is 47% in the total assets of the banking sector.

According to data presented by the banks, as of 30.06.2018, the total interest income and similar income, compared to the same period of the previous year, recorded a decrease (2%), that is result of decrease in interest income i.e. income from loans and leasing operations, income from held to maturity securities and other interest and similar incomes, while slight increase is recorded for incomes from interest-bearing deposit of the banks with other deposits institutions and on the basis of placements to other banks.

Considering that within the same period, decrease of total interest and similar expenses (13%) was higher than decrease of total interest and similar income (2%), the positive effect to presented net interest and similar income is achieved (1%).

As of 30.06.2018, in the structure of interest and similar expenses, the highest decrease is at the position of expenses of the interest-bearing deposits, which record a continues decrease, and compared to the same period of the previous year, have decreased by KM 10.5 million or 16.3%, that was also influenced by decrease of net interest margin, i.e. the fall of average active interest rates. Interest expenses for loans taken, including subordinated debt, are decreased compared to the same of the previous year for the amount of KM 0.4 million or 4.8%, while other interest and similar expenses increased by KM 1.1 million or 40% compared to the same period of the previous year.

According to the balance sheet structure of operating income, in period by 30.06.2018 and compared to 30.06.2017, operating income growth is significantly impacted by growth of service fees in the amount of KM 12.8 million or 10%, growth of income on the basis of foreign exchange deals of the banks in the amount of KM 4.6 million or 19.7%, while slight increase is recorded with off-balance sheet incomes and trading operations (3.3%). Decrease is presented at the position of other operating income in the amount of KM 9.9 million or 24%, as well as at the position of income based on fees for loans placed, in the amount of KM 0.3 million or 5.3%.

Within non-interest expenses, the value adjustment expenses amount to KM 32 million and compared to the same period of the previous year are down by KM 18.1 million or 36%.

In the structure of operating expenses, which are decreased in the first half of 2018, compared to the same period of the previous year, the costs of salaries and contributions increased by KM 4.7 million or 3.8%, and within the same period the number of employees in the banking sector of the FBiH is increased by nine employees or 0.1%, costs of business premises and other fixed assets remained at approximately the same level, while other operating costs are decreased by km 3.7 million or 6.3%.

The total income structure is provided in the table below:

- in 000 KM-

Table 28: Total Income Structure

Total income structure	30.06.2016.		30.06.2017.		30.06.2018.		Index	
	Amount	%	Amount	%	Amount	%	8 (4/2)	9 (6/4)
1	2	3	4	5	6	7	8 (4/2)	9 (6/4)
I Interest income and similar income								
Interest-bearing deposit accounts at dep.institutions	1.063	0,2	1.212	0,2	2.022	0,3	114	167
Loans and leasing facilities	337.240	60,1	332.988	56,8	328.878	56,1	99	99
Other interest income	39.041	7,0	42.100	7,2	38.325	6,5	108	91
TOTAL	377.344	67,2	376.300	64,2	369.225	63,0	100	98
II Operating income								
Service fees	137.444	24,5	145.103	24,8	157.868	26,9	106	109
Income from FX deals	22.168	3,9	23.390	4,0	28.001	4,8	106	120
Other operating income	24.310	4,3	40.994	7,0	31.275	5,3	169	76
TOTAL	183.922	32,8	209.487	35,8	217.144	37,0	114	104
TOTAL INCOME (I + II)	561.266	100,0	585.787	100,0	586.369	100,0	104	100

The total expenses structure is provided in the table below:

- in 000 KM-

Table 29: Total Expenses Structure

Total expenses structure	30.06.2016.		30.06.2017.		30.06.2018.		Index	
	Amount	%	Amount	%	Amount	%	8 (4/2)	9 (6/4)
1	2	3	4	5	6	7	8 (4/2)	9 (6/4)
I Interest expenses and similar expenses								
Deposits	75.042	17,8	64.780	14,9	54.238	13,2	86	84
Liabilities based on loans and other borrowings	6.160	1,5	4.986	1,1	4.535	1,1	81	91
Other interest expenses	4.769	1,1	6.592	1,5	7.702	1,9	138	117
Total	85.971	20,4	76.358	17,6	66.475	16,2	89	87
II Total non-interest bearing expenses								
Costs of value adjustment of risk-weighted assets and provisions for contingent liabilities and other value adjustments	40.639	9,6	50.400	11,6	32.297	7,8	124	64
Costs of salaries and contributions	121.099	28,7	122.315	28,2	126.993	30,9	101	104
Costs of business premises and depreciation	74.706	17,7	74.945	17,3	74.364	18,1	100	99
Other business expenses and direct expenses	45.376	10,8	52.177	12,0	57.171	13,9	115	110
Other operating expenses	53.987	12,8	57.903	13,3	54.249	13,2	107	94
Total	335.807	79,6	357.740	82,4	345.074	83,8	107	96
Total expenses (I + II)	421.778	100,0	434.098	100,0	411.549	100,0	103	95

The table below provides an overview of key ratios for the assessment of profitability, productivity and efficiency of banks' operations:

- in %-

Table 30: Profitability, Productivity and Efficiency Ratios by Period

Ratios	30.06.2016.	30.06.2017.	30.06.2018.
Profit from average assets	0,8	0,8	0,9
Profit from average total capital	5,3	5,5	6,1
Profit from average share capital	11,9	12,4	14,3
Net interest income/average assets	1,7	1,6	1,5
Operating income/average assets	1,1	1,1	1,1
Total income/average assets	2,8	2,7	2,5
Business expenses and direct expenses ²² /average assets	0,5	0,5	0,4
Operating expenses/average assets	1,5	1,4	1,2
Total non-interest expenses/average assets	2,0	1,9	1,7

²² Expenses also include value adjustment costs.

Due to the large increase of the profit presented, than increase of the average assets, the share and total capital, as of situation on 30.06.2018, the profit growth is recorder in relation to the average assets – ROAA from 0.8% to 0.9%, while there are more favourable indicators of the profit growth in relation to: the average total capital – increase from 5.3% (30.06.2016) to 5.5% (30.06.2017), and 6.1% as of 30.06.2018, and the average share capital at the level of the banking sector in the FBiH, increase from 11.9% (30.06.2016) to 12.4% (30.06.2017), i.e. 14.3% as of 30.06.2018.

The productivity of banking sector operations in FBiH, measured as a ratio between total income and average assets has a trend of slight downward, considering that this indicator, for the period observed, decreased from 2.8% to 2.7%, and then to 2.5%. There is a same trend with net interest income and average assets, which is in the observed period, decreased from 1.7% to 1.6%, and then to 1.5%. The indicator of operating income to average assets is at approximately same level as of 30.06.2016. The total non-interest expenses, operating expenses, business and direct expenses in relation to average assets record a decrease for the period observed, primarily due to decrease in the costs of value adjustment and other operating expenses, with simultaneous increase of average assets in the period observed.

The profitability of banks in the period to come will continue to be mostly affected by and will depend on two key factors – further trends in asset quality and the efficiency of management and control of operating income and expenses. It is necessary to maintain the upward trend of credit growth in order to increase the profitability of banks' operations, along with applying and observing prudential lending standards when it comes to loan approval.

The financial result of banks will be largely affected by the price and interest rate risk, in terms of both sources of funding and price trends, as well as ensuring an interest margin sufficient enough to cover all non-interest bearing expenses and thus eventually ensure a satisfactory return on invested capital for bank owners.

The key factor for the efficiency and profitability of every bank's operations is the quality of management and business policies, as well as the quality and efficiency of risk management systems, since this directly affects its performances.

1.2.6. Weighted NIR and EIR

In the interest of greater transparency and easier comparability of banks' loan approval terms and deposit taking terms, as well as in the interest of customer protection by means of introducing transparent disclosure of loan approval costs, i.e. deposit income, all in accordance with international standards, criteria and practices in other countries, the FBA prescribed a uniform manner of calculating and disclosing the EIR for all banks seated in the FBiH as well as the organizational units of banks seated in RS and operating on the territory of the FBiH. The EIR represents an actual loan price, i.e. income earned on a deposit, expressed as an annual percentage.

The EIR is a decursive interest rate calculated on an annual level by applying complex interest calculation in such a manner that discounted cash receipts are brought to an equivalent level with discounted cash expenditures related to the approved loans, i.e. related to the received deposits

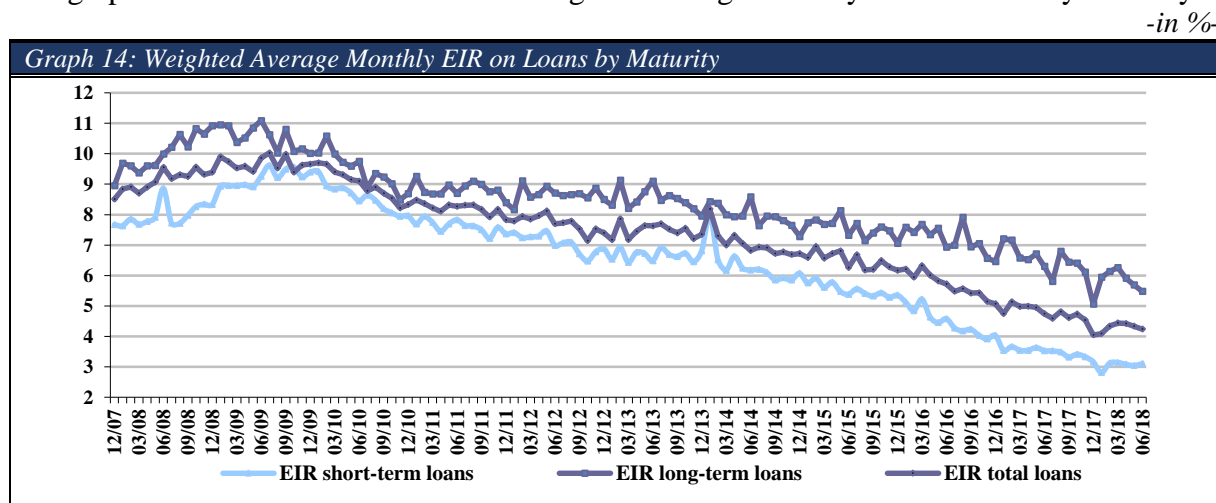
Banks are required to report to the FBA on a monthly basis regarding weighted NIR and EIR on loans and deposits approved/received in the reporting month in question, all in accordance with the prescribed methodology and Instruction.²³

The table below shows an overview of weighted average NIR and EIR on loans at the banking sector level and for two key customer segments (corporate and retail) for the listed reporting periods:

Table 31: Weighted Average NIR and EIR on Loans

DESCRIPTION	12/2016.		03/2017.		06/2017.		12/2017.		03/2018.		06/2018.	
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	2	3	4	5	6	7	2	3	4	5	6	7
1. Weighted IR on short-term loans	3,69	4,03	3,27	3,54	3,25	3,53	2,94	3,16	2,84	3,14	2,75	3,1
1.1. Corporate	3,61	3,90	3,21	3,40	3,18	3,40	2,89	3,06	2,78	3,03	2,70	2,99
1.2 Retail	9,60	15,16	8,30	15,19	7,94	14,51	7,75	14,38	7,96	15,86	7,44	14,79
2. Weighted IR on long-term loans	5,60	6,46	5,59	6,58	5,32	6,30	4,28	5,06	5,14	6,26	4,53	5,48
2.1. Corporate	4,86	5,18	4,43	4,69	4,09	4,33	3,34	3,67	4,19	4,58	3,6	3,89
2.2. Retail	6,55	8,10	6,46	7,96	6,31	7,89	5,96	7,51	5,77	7,36	5,40	6,96
3. Total weighted IR on loans	4,51	5,07	4,37	4,98	4,14	4,74	3,57	4,05	3,79	4,44	3,60	4,24
3.1. Corporate	3,98	4,28	3,53	3,74	3,41	3,64	3,05	3,29	3,09	3,37	2,98	3,28
3.2. Retail	6,65	8,32	6,49	8,09	6,35	8,05	6,00	7,67	5,81	7,51	5,44	7,11

The graph below shows an overview of weighted average monthly EIR on loans by maturity:



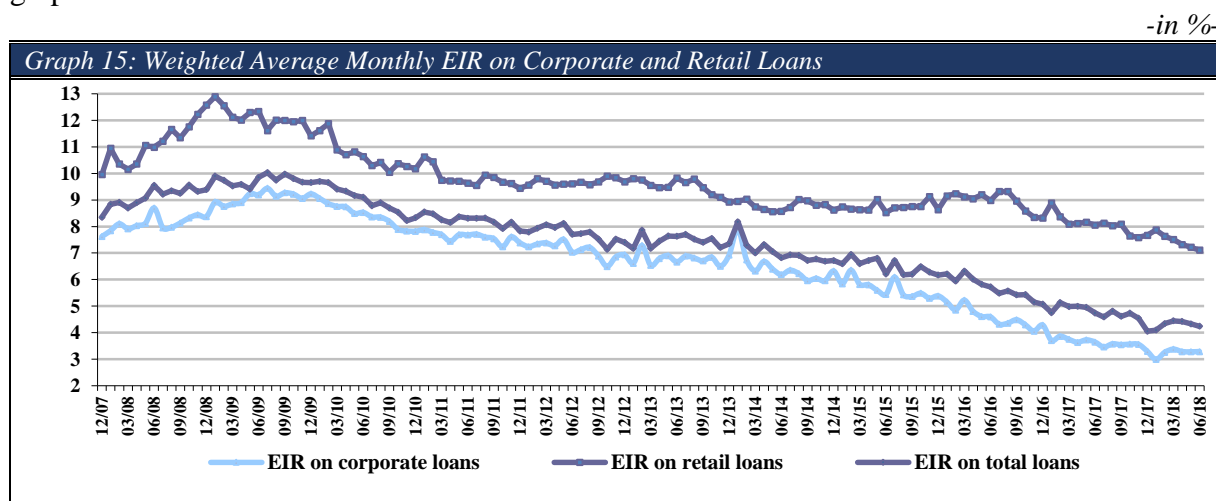
When analysing interest rate trends, it is important to monitor trends of the weighted EIR, with the difference between this interest rate and the weighted NIR being the result of a payment the borrower makes to the bank for the approved loan, or the result of costs directly related to the loan, i.e. costs directly linked to the loan i.e. the conditions for using the loan, which are included in the calculation of the loan price (for example, loan processing costs, insurance premiums for natural persons if insurance is a condition for loan approval, as well as other costs related to secondary services which are paid by the client and which are a condition for using the loan).

²³Decision on Uniform Method of Calculation and Disclosure of Effective Interest Rate on Loans and Deposits (Official Gazette of Federation of BiH, No. 48/12 – consolidated text and 23/14) and Instructions for Calculation of Weighted Nominal and Effective Interest Rate.

In the first half of 2018, weighted EIR on loans recorded changes within the range of 0.35 percentage points. The lowest rate was recorded in January (4.09%) and the highest in March (4.44%), which is up by 0.39 percentage points compared to December 2017.

The weighted EIR on short-term loans amounted to 3.1% in June 2018, which is lower by 0.06 percentage points compared to December 2017, with fluctuations within the range of 0.33 percentage points. The weighted EIR on long-term loans amounted to 5.48% and is up by 0.42 percentage points, compared to December 2017, the changes during the first half of 2016 being within the range of 0.78 percentage points.

Interest rates on loans to the two most important sectors: corporate and retail²⁴, in the first half of 2018, fluctuated as follows: In January 2018, interest rates on corporate loans continued a further downward trend, only to record a slight increase in January and March, having a slight downward trend in April and May, which is slightly increased in June (3.28%) and brought to the almost same level as at the end of 2017 (3.29%). weighted EIR on retail loans, following a slight increase in January 2018, continued a downward trend, as presented in the following graph:



The weighted EIR on corporate loans is still significantly lower than the EIR on retail loans, having amounted to 3.28% in June 2018, which is down by only 0.01 percentage points compared to December 2017 (3.29%). In the case of long-term corporate loans, the EIR increased from 3.67% to 3.89%, while the EIR on short-term loans decreased from 3.06% to 2.99%.

The EIR on retail loans was 7.11% in June 2018, which is down by 0.56 percentage points compared to the level in December 2017. The EIR on short-term loans to this sector increased from the level of 14.38% in December 2017 to 14.79%. The EIR on long-term retail loans recorded a drop and amounted to 6.96% in June 2018, down by 0.55 percentage points compared to December 2017 (7.51%).

When observing the period from 2014, it is evident that there is a moderate, but continuous decrease in the total weighted average EIR on loans calculated on an annual basis, as in the corporate sector, as well in retail (with an exception of increase in the weighted average EIR on short-term retail loans from 2016).

²⁴As per methodology of classification to sectors, the craftsman are included into the retail sector

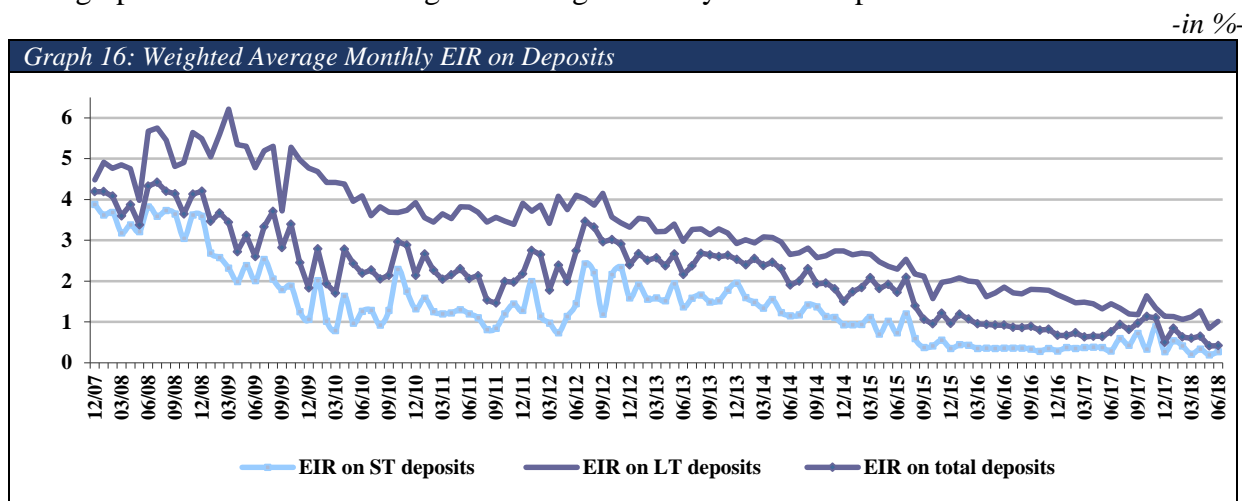
The aforementioned can be seen in the following table:

DESCRIPTION	2014.		2015.		2016.		2017.		I half. 2018.	
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	4	5	6	7	8	9	10	11	12	13
1. Weighted IR on short-term loans	5,72	6,25	5,10	5,50	4,01	4,41	3,20	3,46	2,76	3,05
1.1. Corporate	5,70	6,17	5,07	5,42	3,96	4,28	3,13	3,33	2,70	2,93
1.2. Retail	7,98	11,39	7,84	11,37	8,07	13,91	8,32	15,36	7,55	14,45
2. Weighted IR on long-term loans	6,98	7,80	6,60	7,57	6,08	7,14	5,30	6,33	4,84	5,87
2.1. Corporate	6,19	6,81	5,63	6,20	4,91	5,23	4,02	4,33	3,79	4,11
2.2. Retail	7,66	8,66	7,36	8,65	7,10	8,79	6,31	7,89	5,66	7,26
3. Total weighted IR on loans	6,32	6,98	5,81	6,48	4,94	5,64	4,12	4,72	3,69	4,32
3.1. Corporate	5,84	6,35	5,23	5,64	4,22	4,54	3,36	3,59	2,99	3,24
3.2. Retail	7,68	8,77	7,37	8,74	7,13	8,95	6,35	8,04	5,70	7,41

Weighted NIR and EIR on term deposits for the banking sector, calculated on the basis on monthly reports, are shown in the table below:

O P I S	12/2016.		03/2017.		06/2017.		12/2017.		03/2017.		06/2018.	
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	2	3	4	5	6	7	8	9	10	11	12	13
1. Weighted IR on short-term deposits	0,29	0,29	0,37	0,37	0,29	0,29	0,27	0,27	0,21	0,21	0,28	0,27
1.1. up to three months	0,26	0,26	0,36	0,37	0,22	0,23	0,25	0,25	0,31	0,31	0,30	0,28
1.2. up to one year	0,58	0,58	0,41	0,41	0,57	0,58	0,39	0,39	0,07	0,07	0,24	0,24
2. Weighted IR on long-term deposits	1,64	1,66	1,46	1,48	1,41	1,44	1,13	1,14	1,12	1,12	0,99	1,01
2.1. up to three years	1,43	1,45	1,31	1,33	1,35	1,38	1,01	1,02	0,91	0,91	0,88	0,89
2.2. more than three years	2,25	2,26	1,94	1,96	1,72	1,74	1,51	1,51	1,45	1,45	1,33	1,35
3. Total weighted IR on deposits	0,66	0,67	0,62	0,63	0,74	0,76	0,50	0,50	0,60	0,60	0,43	0,42

The graph below shows the weighted average monthly EIR on deposits:



The weighted EIR on total term deposits amounted to 0.42% in June, which is down by 0.08 percentage points compared to December 2017. The weighted EIR on short-term deposits amounted to 0.27% and it is at the same level as in December 2017. The weighted EIR on long-term deposits amount to 1.01% and is down by 0.13 percentage points compared to December 2017. When analysing the trends of interest rates on short-term deposits by maturity, the EIR on term deposits up to three months recorded an increase in the amount of only 0.03 percentage points compared to the level in December 2017, amounting to 0.28%.

The interest rate on term deposits up to one year recorded a decrease in the amount of 0.15 percentage points, amounting to only 0.24% in June 2018. The weighted EIR on long-term

deposits up to three years amounted to 0.89%, which is down by 0.13 percentage points compared to the level in December 2017. The EIR on term deposits over three years amounted to 1.35% in June 2018, which is a drop in the amount of 0.16 percentage points compared to December 2017.

Average EIR on retail and corporate deposits recorded lower amounts in June 2018 compared to December 2017. The average EIR on retail deposits is down by 0.20 percentage points compared to December 2017 and it amounted to 0.70%. In the case of corporate deposits, the average EIR amounted to 0.73% in June 2018, which is down by 0.31 percentage points compared to December 2017.

When analysing the trends of weighted average interest rates on deposits per annum since 2014, a continuous decrease in interest rates on long-term deposits is evident, while interest rates on short-term deposits recorded a slight increase in 2017 following a continuous drop, only to continue the downward trend in the first half of 2018, as it can be seen in the table below:

Table 34: Weighted Average NIR and EIR on Deposits per Annum

DESCRIPTION	2014.		2015.		2016.		2017.		I half 2018.	
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	4	5	6	7	8	9	10	11	12	13
1. Weighted IR on short-term deposits	1,20	1,23	0,60	0,61	0,35	0,35	0,40	0,41	0,30	0,29
1.1. up to three months	0,79	0,80	0,27	0,28	0,27	0,27	0,35	0,36	0,31	0,29
1.2. up to one year	1,72	1,76	1,25	1,28	0,68	0,69	0,61	0,62	0,27	0,27
2. Weighted IR on long-term deposits	2,79	2,82	2,20	2,23	1,78	1,80	1,37	1,39	1,05	1,06
2.1. up to three years	2,61	2,64	2,08	2,10	1,59	1,62	1,22	1,24	0,91	0,92
2.2. more than three years	3,32	3,34	2,48	2,52	2,33	2,34	1,82	1,85	1,26	1,27
3. Total weighted IR on deposits	2,04	2,07	1,41	1,43	0,88	0,89	0,75	0,76	0,56	0,55

Weighted interest rates on loans related to transaction account overdraft facilities and call deposits, as calculated on the basis of monthly reports, are provided in the table below:

Table 35: Weighted Average NIR and EIR on Overdraft Facilities and Call Deposits

DESCRIPTION	12/2016.		03/2017.		06/2017.		12/2017.		03/2018.		06/2018.	
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	2	3	4	5	6	7	8	9	10	11	12	13
1. Weighted IR on loans - overdraft facilities	7,01	7,22	6,78	7,00	6,66	6,89	6,42	6,69	6,27	6,52	6,29	6,55
2. Weighted IR on call deposits	0,05	0,05	0,04	0,04	0,03	0,03	0,03	0,03	0,02	0,02	0,02	0,03

The weighted EIR on total overdraft facilities for the banking sector in June 2018 amounted to 6.55% (down by 0.14 percentage points compared to December 2017) and to 0.03% on call deposits (the same level compared to December 2017).

1.2.7. Liquidity

Along with credit risk management, liquidity risk management is one of the most important and most complex segments of banking operations. Liquidity maintenance within the market economy is a permanent obligation of the bank and the basic precondition for its sustainability on the financial market, along with being a key assumption for establishing and preserving trust in the banking sector of any country as well as in its stability and safety.

The liquidity of the banking sector in the FBiH is assessed to be satisfactory, considering the share of liquid assets in total assets as well as the maturity adjustment of financial assets and financial liabilities. Given the high correlation between credit risk, the dominant risk in banks' operations, and liquidity risk, one of the most important factors impacting the liquidity position of banks is the banks' ability to adequately manage their assets and liabilities, which

encompasses obtaining assets with good performances and the quality which ensures that bank loans (and interest) are repaid in accordance with maturity dates.

The Decision on Liquidity Risk Management in Banks prescribes the minimum qualitative requirements for liquidity risk management in banks, based on prescribed risk management standards in banks, quantitative requirements for banks in terms of the LCR and ensuring stable sources of funding, as well as the use of additional mechanisms for liquidity risk monitoring and assessment.

In the structure of sources of funding of the banking sector as of 30.06.2018, the largest share of 78.9% refers to deposits, followed by loans taken (including subordinated debt) with a share of 4.7%. Loans taken have longer maturities and represent a quality source for the approval of long-term loans, while also improving the maturity adjustment of assets and liabilities items, although a downward trend of the aforementioned has been evident for an extensive period of time.

The maturity structure of deposits by remaining maturity is shown in the table below:

-in 000 KM-

Table 36: Maturity Structure of Deposits by Remaining Maturity

Deposits	31.12.2016.		31.12.2017.		30.06.2018.		Index	
	Amount	Share %	Amount	Share %	Amount	Share %	8(4/2)	9(6/4)
1	2	3	4	5	6	7	8(4/2)	9(6/4)
Savings and call deposits (up to 7 days)	7.961.438	56,1	9.227.317	58,4	9.709.669	58,5	116	105
7- 90 days	690.281	4,9	988.235	6,2	976.827	5,9	143	99
91 days to one year	1.982.775	14,0	2.144.316	13,6	2.751.979	16,5	108	128
1. Total short-term deposits	10.633.494	75,0	12.359.868	78,2	13.438.475	80,9	116	109
Up to 5 years	3.344.169	23,6	3.280.639	20,7	3.004.850	18,1	98	92
More than 5 years	197.611	1,4	174.216	1,1	160.449	1,0	88	92
2. Total long-term deposits	3.542.780	25,0	3.454.855	21,8	3.165.299	19,1	98	92
Total (1 + 2)	14.176.274	100,0	15.814.723	100,0	16.603.774	100,0	112	105

As of 30.06.2018, short-term deposits by remaining maturity held a share in the amount of 80.9%, while long-term deposits held a 19.1% share in total deposits. Compared to the end of 2017, short-term deposits increased by KM 1.079 million or 9%, while long-term deposits recorded a decrease in the amount of KM 290 million or 8%. The share in total deposits had increase by 2.7 percentage points with short-term deposits, i.e. decrease in case of long-term deposits compared to the end of 2017.

When analysing the structure of long-term deposits, it is evidently dominated by deposits with remaining maturity of up to 5 years (94.9% of long-term deposits and 18.1% of total deposits). Deposits with remaining maturity of over 5 years recorded a decrease in the amount of KM 14 million or 8%.

An overview of the main liquidity ratios is given in the table below:

-in %-

Table 37: Liquidity Ratios

Ratios	31.12.2016.	31.12.2017.	30.06.2018.
1	2	3	4
Liquid assets ²⁵ /total assets	28,4	30,2	30,6
Liquid assets/short-term financial liabilities	47,1	47,6	46,2
Short-term financial liabilities/total financial liabilities	71,9	74,9	77,6
Loans/deposits and loans taken ²⁶	81,7	79,2	79,1
Loans/deposits, loans taken and subordinated debts ²⁷	81,0	78,5	78,5

²⁵In narrow terms, liquid assets are: cash and deposits and other financial assets with remaining maturity of less than 3 months (excluding interbank deposits).

²⁶Empirical standards are: below 70% - very sound, 71%-75% - satisfactory, 76%-80% - marginally satisfactory, 81%-85% - insufficient, over 85% - critical.

²⁷The previous ratio was expanded and sources now include subordinated debt, thus being a more realistic indicator

Indicator- the loans/deposits and loans taken ratio, as of 30.06.2018 was 79.1%, that is at the almost same level as the end of 2017 (-0.1 percentage point). The ratio is above 85% with respect to six banks.

The share of short-term financial liabilities in total financial liabilities is high, but the liquid assets/total assets ratio is continuously satisfactory.

In the first quarter of 2018, banks have duly fulfilled the requirement of maintaining the defined level of the required reserve at the CBBH²⁸. The required reserve in BiH in relation to the Currency Board and the financially undeveloped market, is the only instrument of the monetary policy that ensures monetary control in sense of the prevention of rapid growth of loans and reduced multiplication.

A very important aspect of the monitoring and analysis of the liquidity position is the maturity adjustment of remaining maturities of financial assets and liabilities items in accordance with the time scale created to capture a time horizon of 180 days²⁹. For the purpose of planning the required level of liquid assets, banks need to plan the sources of funding and structure of adequate liquidity potential, which is also tied to plans for their credit policy. Loan maturity, i.e. the maturity of the loan portfolio, is determined precisely by the maturity of sources of funding. Since maturity transformation of funds in banks is inherently related to the functional characteristics of banking operations, banks are required to continuously control and maintain maturity mismatches between sources of funding and loans in accordance with the prescribed minimum limits.

The following table provides an overview of the maturity adjustment of financial assets and liabilities – up to 180 days:

-in 000 KM-

Description	31.12.2016.	31.12.2017.	30.06.2018.	Index	
	Amount	Amount	Amount	5 (3/2)	6(4/3)
1	2	3	4	5 (3/2)	6(4/3)
I. 1- 30 days					
1. Financial assets	7.515.361	8.462.124	8.768.351	113	104
2. Financial liabilities	7.909.801	9.193.511	9.694.788	116	105
3. Difference (+ or -) = 1-2	-394.440	-731.387	-926.437	-	-
Calculation of prescribed requirement in %					
a) Actual %= no. 1/no. 2	95,0%	92,0%	90,4%		
b) Prescribed minimum %	85,0%	85,0%	85,0%		
Plus (+) or minus (-) = a - b	10,0%	7,0%	5,4%		
II. 1-90 days					
1. Financial assets	8.384.767	9.416.671	9.752.754	112	104
2. Financial liabilities	8.476.151	10.041.101	10.495.785	118	105
3. Difference (+ or -) = 1-2	-91.384	-624.430	-743.031	-	-
Calculation of prescribed requirement in %					
a) Actual %= no. 1/no. 2	98,9%	93,8%	92,9%		
b) Prescribed minimum %	80,0%	80,0%	80,0%		
Plus (+) or minus (-) = a - b	18,9%	13,8%	12,9%		

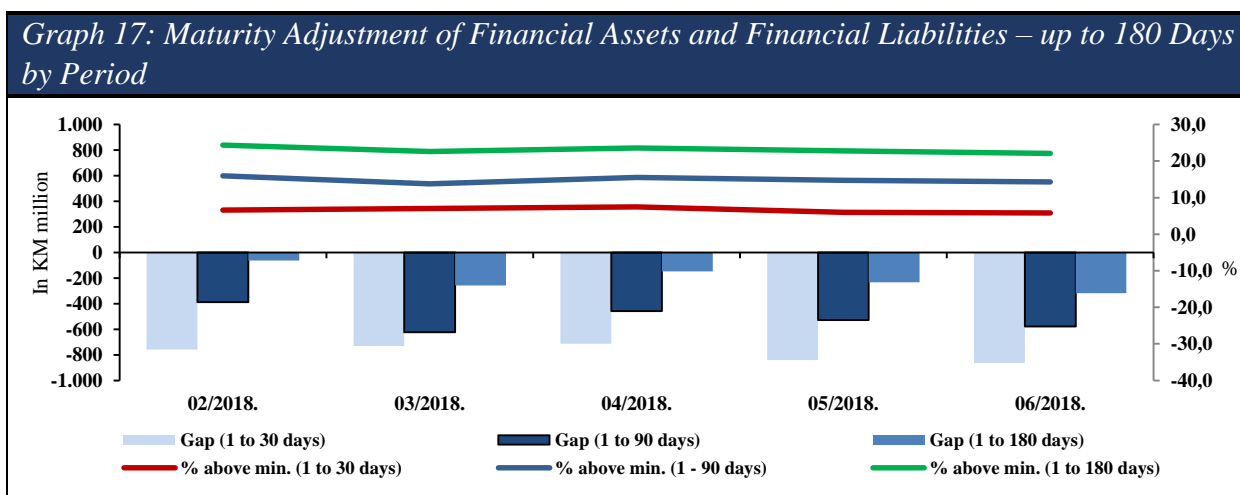
²⁸The Decision on Establishing and Maintaining Required Reserves and Determining Remuneration of the CBBH to Banks on the Reserve Amount was published in the Official Gazette of BiH, No. 30/16 and has been in application since 1 July 2016

²⁹Article 41 of the Decision on Liquidity Risk Management in Banks (Official Gazette of the Federation of BiH, No. 81/17): „Until the introduction of the NSFR referred to in Article 34 of this Decision, as a mandatory quantitative requirement towards banks, banks shall apply and report on the maturity adjustment of financial assets and financial liabilities and the structure of the largest sources, and thus accordingly, Article 6, paragraph (3), item 1, Art. 6a, 6b, 11, paragraph (2) and 12 of the Decision on Minimum Standards for Liquidity Risk Management in Banks shall remain applicable (Official Gazette of the Federation of BiH, No. 48/12, 110/12 and 45/14)“. The prescribed percentages for the maturity adjustment of financial assets and liabilities are as follows: min. 85% of sources of funding with maturity of up to 30 days must be used for facilities with maturity of up to 30 days, min. 80% of sources of funding with maturity of up to 90 days must be used for facilities with maturity of up to 90 days, and min. 75% of sources of funding with maturity of up to 180 days must be used for facilities with maturity of up to 180 days.

III. 1-180 days					
1. Financial assets	9.387.062	10.476.675	10.889.217	112	104
2. Financial liabilities	9.263.730	10.734.265	11.669.503	116	109
3. Difference (+ or -) = 1-2	123.332	-257.590	-780.286	-	-
<i>Calculation of prescribed requirement in %</i>					
a) Actual %= no. 1/no. 2	101,3%	97,6%	93,3%		
b) Prescribed minimum %	75,0%	75,0%	75,0%		
Plus (+) or minus (-) = a - b	26,3%	22,6%	18,3%		

Based on the data presented, it is found that, as of 30.06.2018, banks have adhered to prescribed limits and achieved a better maturity adjustment of financial assets and liabilities in relation to the prescribed limits.

The graph below shows the trend of the maturity adjustment of financial assets and liabilities in the period from February- June 2018 (by period of time and recorded maturity adjustment percentages in relation to the legally defined minimum standards). The maturity adjustment percentages are above the prescribed minimum in all five periods.



As of 30.06.2018, financial assets in all three periods were lower than financial liabilities, due to the increase in financial liabilities, primarily deposits, being higher than the increase in financial assets (mostly cash funds and net loans).

As a result of the aforementioned, the recorded maturity adjustment percentages in all three periods were somewhat lower than at the end of 2017, but still significantly above the prescribed minimum by 5.4% in the first period, 12.9% in the second period, and 18.3% in the third period. Based on all the indicators presented, the liquidity of the banking sector is assessed to be satisfactory. Since this business segment and the exposure level to liquidity risk correlate with credit risk (lower inflows of liquid assets related to problems with loan collectability), and also considering other important factors (maturity structure of deposits, repayment of loan commitments due and significantly lower indebtedness with international financial institutions, which was the best source of funding for banks in the past years from the aspect of maturity), it should be emphasized that liquidity risk management and monitoring should be the focus of banks by means of establishing and implementing liquidity policies that will ensure the settlement of all liabilities due in a timely manner, and based on continuous planning of future liquidity needs, taking into account changes in operating, economic, regulatory and other conditions of the banks' business environment.

1.2.8. Foreign Exchange (FX) Risk

In their operations, banks are exposed to risks originating from possible losses related to balance sheet and off-balance sheet items, as incurred due to market price changes. One of these risks is FX risk arising as a result of changes in exchange rates and/or unadjusted levels of assets, liabilities and off-balance sheet items denominated in the same currency – individual FX position or all currencies of the bank's operations together – total FX position of the bank.

In order to ensure the implementation and realisation of prudential principles related to FX activities of banks and to reduce FX risk effects on their profitability, liquidity and capital, the FBA has adopted the Decision on Foreign Currency Risk Management in Banks³⁰, which prescribes the method for calculating the FX position and the maximum allowed exposure to foreign currency risk, i.e. limits for the open individual and total FX position (long or short) calculated in relation to the eligible capital of the bank³¹.

To ensure that the FBA monitor the banks' compliance with the regulated limits and their exposure level to FX risk, banks are required to report to the FBA on a daily basis. Based on the review, monitoring and analysis of the submitted reports, it can be concluded that banks adhere to regulated limits and conduct their FX activities within such limits.

Although the share of EUR dominates in the currency structure of financial assets, the management of FX risk of banks for this currency is significantly determined by the fact that the CBBH functions as a currency board, with the EUR being the anchor currency.

As of 30.06.2018, at the level of the banking sector, foreign currency items in the currency structure of banks amounted to KM 2.8 billion and held a 13.3% share (at the end of 2017, these items amounted KM 2.3 billion or 11.2%).

The currency structure of liabilities is quite different since the share of foreign currency liabilities is much higher and equals KM 8.1 billion or 38.6% (KM 7.7 billion at the end of 2017, with a 38.2% share).

The table below provides the structure and trend of financial assets and financial liabilities and FX positions for the EUR as the key currency and the total FX position at the level of the banking sector:

-in KM million-

Description	31.12.2017.				30.06.2018.				Index	
	EUR		TOTAL		EUR		TOTAL		EUR	TOTAL
	Amount	Share %	Amount	Share %	Amount	Share %	Amount	Share %	6/2	8/4
1	2	3	4	5	6	7	8	9	10	11
<i>I Financial assets</i>										
1. Cash	906	11,0	1.349	15,2	1.642	18,2	2.115	22	181	157
2. Loans	27	0,3	28	0,3	52	0,6	53	0,6	193	189
3. Loans with a currency clause	6.415	77,7	6.429	72,4	6.603	73,3	6.614	68,7	103	103
4. Other	721	8,7	884	10,0	498	5,5	631	6,5	69	71

³⁰ Official Gazette of the Federation of BiH, No. 81/17

³¹ Article 3 of the Decision on Foreign Currency Risk Management in Banks defines the following limits: for the individual FX position – up to 30% of the eligible capital for EUR, up to 20% for other currencies and up to 30% for the total FX position of the bank

³² Source: Form 5 – FX position

5. Other financial assets with a currency clause	188	2,3	188	2,1	216	2,4	216	2,2	115	115
Total (1+2+3+4)	8.257	100,0	8.878	100,0	9.011	100,0	9.629	100,0	109	108
<i>II Financial liabilities</i>										
1. Deposits	6.076	74,3	6.725	76,2	6.457	75	7.115	76,8	106	106
2. Loans taken	813	9,9	813	9,2	835	9,7	836	9,0	103	103
3. Deposits and loans with a currency clause.	1.107	13,6	1.107	12,6	1.135	13,2	1.134	12,2	103	102
4. Other	176	2,2	180	2,0	178	2,1	185	2	101	103
Total (1+2+3+4)	8.173	100,0	8.825	100,0	8.605	100,0	9.270	100,0	105	105
<i>III Off-balance sheet</i>										
1. Assets	98		147		86		147			
2. Liabilities	218		225		356		362			
<i>IV Position</i>										
Long (amount)					135		143			
%					5,9%		6,2%			
Short	36		27							
%	1,6%		1,2%							
Allowed	30%		30%		30%		30%			
Below the allowed limit	28,4%		28,8%		24,1%		23,8%			

If the structure of foreign currencies in the financial assets³³ is analysed, the dominant share is held by EUR with 78.3% (on 31.12.2017 it was 73.2%), with an increase of nominal amount from KM 1.7 billion to KM 2.2 billion. The share of EUR in liabilities is 91.8%, slightly increased compared to the level as of 31.12.2017 (91.5%), with an increase of nominal amount by KM 406 million.

FX risk exposure calculation also includes the amount of indexed financial assets items (loans and other financial assets) and financial liabilities items³⁴, which is particularly significant on the assets side (KM 6.8 billion or 70.9%), which is an increase in the amount of KM 213 million or 3% compared to the end of 2017 (KM 6.6 billion or 74.5%). Other FX items on the assets side hold a share of 29.10% or KM 2.8 billion and have the following structure: items in EUR amount to KM 2.2 billion or 22.8% (on 31.12.2017 it was KM 1.7 billion or 18.6%) and other currencies 6.3% or KM 0.6 billion (on 31.12.2017 it was KM 0.6 billion or 6.8%). Out of total net loans (KM 12.6 billion), app. 53% have a currency clause (mostly pegged to the EUR – 99.8%).

As for the sources of funding, the structure of financial liabilities conditions and determines the structure of financial assets items for every currency individually. In respect to FX liabilities (KM 9.3 billion), the largest share in the amount of KM 7.5 billion or 80.6% refers to items in EUR, mostly deposits (as it was case at the end of 2017, when EUR liabilities amounted to KM 7.1 billion and held a share of 80.1%).

The amount of indexed financial liabilities in the last few years has had an upward trend. The increase in indexed financial liabilities (almost all relate to deposits) is conditioned by the outflow of deposits and loan commitments in foreign currencies, which have been a source of loans approved with a currency clause, as well as by the continuously high amount of loans with a currency clause.

When observed by banks and at the level of overall banking sector of the FBiH, it can be concluded that FX risk exposure of banks and the banking sector in the first half of 2018 fluctuated within the defined limits. As of 30.06.2018, the long FX position was recorded with

³³ Source: Report on FX position of bank: one part of financial assets (foreign currencies denominated in KM). Financial assets are posted in accordance with the net principle, i.e. after deductions for value adjustments and reserves for contingent liabilities

³⁴ In order to protect against foreign exchange rate changes, banks arrange certain assets items (loans) and liabilities items with a currency clause (regulations allow only for a two-way currency clause).

11 banks and the short position with 4 banks. At the sector level, there is a long FX position of 6.2% of the total core capital of banks, which is 23.8% below the allowed limit. The individual FX position for the EUR was 5.9%, which is 24.1% below the allowed limit, with financial assets items being higher than financial liabilities (net long position).

1.3. THE COMPLIANCE OF BANKS IN THE PAYMENT SYSTEM OPERATIONS AND AML/CTF STANDARDS

1.3.1. The compliance of the banks in the payment system operations

In accordance with the internal organisation of the FBA, the control over the payment system operations is organised through the control of foreign exchange operations and control over payment system operations.

For the reporting period 01.01.-30.06.2018, the FBA activities in the control of foreign exchange operations were focused on further development of the Banking Registry, the authorised foreign exchange dealers and offices, provision of the continues electronic reporting on the exchange operations and reporting control. Through the control of data collected, and by comparison of data received from banks and the FMF, and its harmonisation, in the previous period the administration, updating and maintenance of the Registry data base was continued. As of 30.06.2018, there was 62 authorised foreign exchange dealers and 416 exchange offices, which have a contract on foreign exchange operations concluded with the banks whose headquarter is in the FBiH. There is still evident the trend of termination of the foreign exchange operations contract with the banks whose headquarter is at the territory of the FBiH, and conclusion of contracts with the banks whose headquarter is in RS, and have organisational units at the territory of the FBiH.

The control over reports on foreign exchange operations includes the control over daily reports on the exchange operations in the banks and the authorised dealers, which have a contract concluded with the banks and the authorisation by the FMF.

The information on the scope of the foreign exchange payment operations is the result of the analyse on bank reports about the scope of the payment operations, which identified 292 253 the foreign exchange accounts in the FBiH, by different currencies (EUR, USD and other currencies). In the first half of 2018, the turnover on these accounts amounted to KM 10 941 669 774. 00. The overview of turnover presented in KM by currencies is the following:

- EUR – KM 9.976.859.608;
- USD – KM 771.820.925 and
- Other currencies – KM 192.989.241

The table below shows data on the number of main and other accounts as per the status:

No.	Type/status of an account	Active	Blocked	Total
1.	The main account	81.671	17.454	99.125
2.	Other accounts	85.467	31.298	116.765
3.	Total (1+2)	167.138	48.752	215.890

In the Registry of accounts held by the Financial Intelligence Agency, is registered 16 198 the closed accounts. In addition to this information, the Registry has 1495 active main accounts, while those clients have blocked/seized some of the other accounts; in 342 cases the main account is not defined, and 1185 accounts have some mistakes that should be corrected (all data were not complete don these accounts), and out of that 110 accounts are blocked/seized, and

1075 active accounts. Through these accounts in 63.9 million of transaction, the turnover in the amount of KM 78.2 billion was performed.

The table below shows an overview of the number and value of the transaction, by the transaction type:

Table 41: Number and value of transactions executed, by transaction type

No.	Type of transactions	Number of transactions	No. of transac. (%)		Value (in 000 KM)	Type of transact. (%)	
			Total	Interb.		Total	Interb.
1.	Interbank	20.775.254	32	100	47.887.390	61	100
1.1.	RTGS	507.608	-	2	39.653.146	-	83
1.2.	Giro Clearing	20.267.646	-	98	8.234.244	-	17
2.	Intra bank	43.128.296	68	-	30.341.826	39	-
3.	Total (1+2)	63.903.550	100	-	78.229.216	100	-

In 20.8 million of interbank transactions (33% of the total transactions performed), out of it 0.5 million (2%) in RTGS³⁵ and 20.3 million (98%) in GC³⁶ the turnover of KM 47.9 billion was registered (61% of the total value of the transactions) out of it KM 39.6 billion referred to RTGS (83%) and KM 8.2 billion to GC (17%). In intra bank payment operations, there is registered 43.1 million of transactions (68% of the total number of transactions) in the amount of KM 30.3 billion (39% of the total transaction value).

1.3.2. COMPLIANCE OF THE BANKS WITH THE AML/CTF STANDARDS

Within the period 01.01.-30.06.2018, according to the Reports on cash transactions in the amount of KM 30.000 or more, related and suspicious transactions (The form AML/CTF, table A to F), which submitted to the FBA, the banks reported to the FOO on 133 902 transactions (113% compared to the same period of the previous year) in the total value of KM 6.723.825.938 KM (114% compared to the same period of the previous year). Before the execution, it was reported on four transactions (80% compared to the same period of the previous year), in the value of KM 193 312 (4% compared to the same period of the previous year); within the prescribed period of three days 133 878 transactions was reported (113% u compared to the same period of the previous year) in the value of KM 6.722.901.922 KM (114% compared to the same period of the previous year), upon the expire of the reporting period 20 transactions were reported (at the same level compared to the same period of the previous year) in the value of KM 730 704 (21% compared to the same period of the previous year).

The banks reported on 28 suspicious transactions (54% compared to the same period of the previous year) in the amount of KM 1 545 606 KM (13% compared to the same period of the previous year). Before the execution of the transaction, the four suspicious transactions were reported (80% compared to the same period of the previous year) in the amount of KM 193 312, which is 4% value of the total reported suspicious transactions in the same period of the previous year; 20 transactions (74% compared to the same period of the previous year), in the amount of KM 1 265 781, which is 46% compared to the same period of the previous year, within three days period, and upon the expire of the reporting period the four transactions (five time less compared to the same period of the previous year) in the value of KM 86 513 (3% compared to the same period of the previous year).

³⁵ Real Time Gross Settlement - bruto poravnanje u realnom vremenu

³⁶ Giro Clearing – žirokliring (poravnanje za male transakcije na neto principu)

The total number and value of reported transactions and reported suspicious transaction is presented in the following table.

The overview of the reported transactions by the number and the value:

Table 42: Number of reported transactions, by the number and the value							
No.	Description	Period 01.01.-30.06.2017		Period 01.01.-30.06.2018		%	
		Number	Value	Number	Value	Number	Value
1	2	3	4	5	6	7 (5/3)	8 (6/4)
1.	Transactions reported before execution	5	5.427.981	4	193.312	80,00	3,60
2.	Transactions reported within 3 days	118.911	5.893.547.614	133.878	6.722.901.922	112,60	114,10
3.	Transactions reported upon expiration of 3 days period	20	3.417.054	20	730.704	100,00	21,40
Total		118.936	5.902.392.649	133.902	6.723.825.938	112,60	113,90

The overview of reported suspicious transactions by the number and the value:

Table 43: Number of reported suspicious transactions, by the number and the value							
No	Description	Period 01.01.-30.06.2017		Period 01.01.-30.06.2018		%	
		Number	Value	Number	Value	Number	Value
1	2	3	4	5	6	7 (5/3)	8 (6/4)
1.	Transactions reported before execution	5	5.427.981	4	193.312	80	3,60
2.	Transactions reported within 3 days	27	2.740.825	20	1.265.781	74,10	46,20
3.	Transactions reported upon expiration of 3 days period	20	3.417.054	4	86.513	20	2,50
Total		52	11.585.860	28	1.545.606	53,80	13,30

The fact that number and value of the reported suspicious transactions have a downward trend, indicate that the banks should pay more attention to the preventive actions on the AML/CTF, and that downward trend is particularly indicated with transactions reported upon the three days' period.

To achieve a full compliance with the reporting standards, the banks should improve the indicators for recognition of the suspicious transactions and suspicious activities of the clients, due to timely and quality reporting to the FOO.

In the period 01.01.-30.06.2018, the banks reported on 62 suspicious clients (83% compared to the same period of the previous year). The FOO requested additional information about four clients, as in the same period of the previous year. For other clients, 58 clients (82% compared to the same period of the previous year) the FOO did not request the additional information.

The overview of the reported suspicious clients in the reporting period, with comparative data for the same period of the previous year, are given in the table below:

Table 44: Overview of the reported suspicious clients				
No	Description	Period 01.01.-30.06.2017	Period 01.01.-30.06.2018	%
		Number	Number	Value
1	2	3	4	5 (4/3)
1.	The suspicious clients for which FOO requested the additional information	4	4	100,00
2.	The suspicious clients for which FOO did not request the additional information	71	58	81,70
Total		75	62	82,70

In the controls of the orders execution, the FBA found that the banks acted as per the orders, i.e. conducted a measures on their execution. Within activities conducted, the banks executed 18 orders (47%), and 20 orders (53%) are partially executed.

The status of the issued orders is presented in the table below:

Table 45: The status of the orders

No.	Status of the order	Number of the orders	%	Average per bank
1.	The executed orders	18	47	2,25
2.	Partially executed orders	20	53	2,50
3.	Non-executed orders	0	0	0
Total		38	100	4,75

On the basis of the orders status, identified during the control of their execution in the banks, it can be concluded that in the banking sector of the FBiH, the quantity of risk on money laundering and financing terrorist's activities is moderate, the quality of risk management on money laundering and financing terrorist's activities is satisfactory, and there are no reasons for supervisory concern in regard to the risk management on money laundering and financing terrorist's activities. In regard to the reporting period, it can be concluded that the banking sector in the FBiH to the large extend compile with the AML/CFT standards.

1.4. RECOMMENDATIONS FOR THE BANKING SECTOR

Considering the significant, demanding and extensive processes related to the reform of the regulatory framework for banking operations and supervision and the establishment of a new framework for bank resolution, the start of a multi-year project of transitioning from the existing CAMELS-based supervisory methodology to a completely new supervisory framework – the SREP, the establishment of a new framework of supervisory reporting together with a gradual transition from existing reporting forms, in order to maintain the continuity of banking supervision and gradually adjust to the new manner of assessing risk profiles of banks, in 2018, the FBA will continue to strengthen the supervisory capacities in order to implement the new regulatory framework in accordance with with BL, LoBA and the set of regulations adopted on the basis of them. In the period to come, the FBA will continue its activities to further harmonise the regulatory framework with the relevant EU Directives, international standards and best supervisory practices, which is part of the preparations of BiH for the EU accession.

The FBA will continue to undertake measures and activities to preserve and strengthen the stability of the banking sector and protection of depositors, as well as to improve the safe, high-quality and legal operations of banks in the FBiH in accordance with the prescribed competences for supervising the operations of banks in the FBiH.

The aforementioned measures and activities will be directed towards the continuation of banking supervision in particular, with a focus on:

- inspections of the dominant risk segments of operations, banks of systemic importance for the development of lending activities and banks in which large amounts of savings and other deposits are concentrated, applied practices in banks in the segment of protection of users of financial services and guarantors, etc.;
- capital strengthening of banks, especially those with above-average assets growth and banks with a decrease in the capital adequacy ratio;
- monitoring the application of IFRS 9, with the aim of adequately evaluating financial assets and allocating reserves for expected loan losses in the function of maintaining adequate capitalisation of banks in the FBiH;

- systematic monitoring of banks' activities on the application of AML/CTF standards and improvement of cooperation with other competent institutions in this segment;
- establishment, expansion and improvement of cooperation with competent supervisory bodies for supervision of EU banking groups whose members are seated in the FBiH, as well as other countries, with the aim of more efficient supervision and improvement of supervisory practices, as well as cooperation and exchange of information with the ECB and the EBA in terms of supervision and banking regulation, and with international financial institutions;
- improvement of cooperation via the signing of new Cooperation Agreements with relevant institutions in BiH that are included in the institutional framework for supervision, crisis management and systemic risk management, protection of users of financial services, and;
- continuation of cooperation with the BA BiH with the aim of improving the operations of banks, the compliance of their operations with regulations, international standards and rules of the profession, as well as the requirements of the market, etc.

Based on the prescribed competences, the FBA will continue to undertake measures and activities aimed at implementing measures from the Reform Agenda and the Economic Reform Programme, which are related to the banking and financial sector in the FBiH, the recommendations of the FSAP Mission in order to improve the quality of supervision of the banking sector, as well as the obligations assumed by the Letter of Intent signed by the governments in BiH as part of the arrangement with the IMF, which refer to the entity banking agencies, the projects of strengthening banking supervision within the framework of technical assistance provided by the international financial institutions WB and IMF, and within the USAID FINRA project, etc.

The realisation of these activities is conditioned by continuous engagement and harmonised institutional actions of all parts of the system, judicial, legislative and executive authorities, efficient implementation of economic reforms in the real sector, in order to harmonise the achieved progress in the monetary sphere and the banking sector, improvement of legislation in the segments of accounting and auditing, asset management, establishment of a mechanism for out-of-court settlement of corporate debts, security and protection of monetary assets in treasuries and cash registers of banks and in transport, resolving or mitigating overindebted citizens, special court departments for the corporate segment, etc. which is a prerequisite for creating a more favourable overall economic environment that would stimulate the banking sector, the real corporate and retail sector.

The undertaking of supervisory measures and activities presupposes continuous operational improvement of the information system as an essential prerequisite for efficient supervision of banking operations, i.e. information support in the function of warning and preventive actions in eliminating weaknesses in banking operations, permanent education and professional training of staff.

Due to the special role and responsibilities of banks in the financial system and the overall economic system, the achieved level of development of the banking sector in the FBiH and the fact that retail deposits represent the dominant source of funding for banks, in the period to come banks are expected to focus their activities on the following:

- credit support to the corporate and retail segment, applying the prescribed requirements in terms of credit risk management and maintaining adequate capitalisation in relation to the risk profile of the bank;

- efficiency of an integral risk management system and improvement of early identification system for increased credit risks, i.e. deterioration of loan portfolio quality, and more efficient management of NPL;
- harmonisation of business operations with the new regulatory requirements for banking operations and supervision;
- consistent and full application of IFRS 9, together with adequate documentation of the first application of the aforementioned and comparative data relative to IAS 39;
- consistent application of regulations in the AML/CTF segment, protection of users of financial services and guarantors, security and protection of money in the bank and in transport, and;
- active participation in the implementation of reform measures and measures to address the problem of over indebtedness of citizens, as well as financial consolidation of companies, etc.

2. SECTOR OF NON-DEPOSIT FINANCIAL INSTITUTIONS

2.1. MICROCREDIT SECTOR

2.1.1. MICROCREDIT SECTOR STRUCTURE IN THE FBiH

2.1.1.1. Status, Number and Network of Branches

As of 30.06.2018, 12 MCO have the FBA's operating licence, 11 of which are MCF (non-profit organisations) and 1 of which is an MCC (profit organisation), as well as 42 organisational units of three MCC seated in RS.

Annex 8 includes the main data on MCF and MCC, which have the FBA's operating licence for microlending business operations as of 30.06.2018.

As of 30.06.2018, there was a total of 358 organisational units of MCO seated in the FBiH according to the Registry of Microcredit Organisations and their organisational units, which is maintained by the FBA in line with Article 13 of the LoMCO. Out of this number, a total of 231 organisational units of microcredit organisations are seated in the FBiH, 123 in RS and 4 in the Brčko District. The total number of organisational units of MCO seated in the FBiH is at the same level as of 31.12.2017.

2.1.1.2. Ownership Structure

An MCO is a legal entity which, in accordance with regulations, may be established and may operate as an MCF or an MCC. MCFs in the FBiH have been established by non-governmental, mostly humanitarian organizations, citizens' associations, and natural persons. The founders are entitled to be registered as founders without capital ownership rights on the basis of the donated capital for the establishment of MCFs. One MCC is 100% owned by one MCF.

2.1.1.3. Human Resources

As of 30.06.2018, the total headcount of the microcredit sector was 1 501, which is up by 102 persons or 7% compared to 31.12.2017. MCF employ 1 230 persons or 82% and MCC 271 employees or 18%.

Data on number and qualification structure of the employees are presented in the table below:

Table 46: Qualification Structure of Employees

No	Qualification	31.12.2017.		Total	Share (%)	30.06.2018.		Total	Share (%)	Index
		MCF	MCC			MCF	MCC			
1	2	3	4	5=(3+4)	6	7	8	9=(7+8)	10	11=9/5
1.	PSQ	3	0	3	0,21	3	0	3	0,20	100
2.	S	1	0	1	0,07	1	0	1	0,07	100
3.	HS	8	0	8	0,57	8	0	8	0,53	100
4.	SSQ	498	74	572	40,89	500	109	609	40,57	106
5.	PSSQ	104	31	135	9,65	112	44	156	10,39	116
6.	CD	560	76	636	45,46	566	115	681	45,37	107
7.	MR	40	1	41	2,93	38	2	40	2,66	98
8.	DR	2	1	3	0,21	2	1	3	0,20	100
	Total	1.216	183	1.399	100,00	1.230	271	1.501	100,00	107

It is evident that in the employee structure the highest share holds the employees with the university degree – 45.37%, the secondary school qualification holds share of 40.57% and the two-year post-secondary school qualification share of 10.39%. The share of employees with the secondary school qualification is in growth for 6%, compared to 31.12.2017, with the university degree for 7%, while the share of employees with the two-year post-secondary qualification in growth for 16%.

2.1.2. FINANCIAL PERFORMANCE INDICATORS

2.1.2.1. Balance Sheet

As of 30.06.2018, the balance sheet total of MCO amounted to KM 563.3 million, which is up by KM 36.4 million or 7% compared to the balance as of 31.12.2017. The balance sheet total increased is recorded with 7 MCF and 1 MCC compared to the end of the previous year, while 4 MCF recorded a drop. The asset drop up to 10% is recorded with two MCF, compared to 31.12.2017.

Annexes 9 and 10 show an overview of the consolidated balance sheet of MCF and MCC, while the Annex 11 shows and overview of key financial indicators of MCO as of 30.06.2018.

The largest share in the balance sheet total of the microcredit sector is held by five MCFs and one MCC, with assets in the amount of KM 522.5 million or 93%.

The balance sheet of the microcredit sector, as of 30.06.2018 and comparative data as of 31.12.2017 is shown in the table below:

-000 KM-

Table 47: Balance Sheet MCO

No	Description	31.12.2017			30.06.2018					Index
		Balance for MCF	Balance for MCC	Total	Balance for MCF	%	Balance for MCC	%	Total	
1	2	3	4	5=(3+4)	6	7	8	9	10=(6+8)	11
ASSETS										
1.	Cash	21.989	24.841	46.830	48.095	11	10.537	8	58.632	125
2.	Facilities to banks	1.210	0	1.210	1.220	0	0	0	1.220	101
3.	Loans	329.758	81.396	411.154	318.856		116.599		435.455	106
4.	Loan loss provisions	2.716	542	3.258	2.663		673		3.336	102
5.	Net loans	327.042	80.854	407.896	316.193	73	115.926	89	432.119	106
6.	Business premises and other fixed assets	28.383	430	28.813	27.523	6	994	1	28.517	99
7.	Long-term investments	33.061	0	33.061	33.061	8	0	0	33.061	100
8.	Other assets	8.062	1.243	9.305	7.997	2	1.973	2	9.970	107
9.	Provisions for other assets items, except loans	158	30	188	160		38		198	105

	Total assets	419.589	107.338	526.927	433.929	100	129.392	100	563.321	107
LIABILITIES										
10.	Loan commitments.	177.140	68.856	245.996	185.415	43	87.324	67	272.739	111
11.	Other liabilities	21.215	4.656	25.871	18.963	4	5.947	5	24.910	96
12.	Capital	221.234	33.826	255.060	229.551	53	36.121	28	265.672	104
	Total liabilities	419.589	107.338	526.927	433.929	100	129.392	100	563.321	107
13.	Off-balance sheet records	110.554	420	110.974	151.328		938		152.266	137

In the assets structure, cash funds amount to KM 58.6 million or 10%, and are up by KM 11.8 million or 25% compared to 31.12.2017. The facilities to banks amount to KM 1.2 million, and are up by 1% in the reporting period.

Net microloans, i.e. gross microloans net of LLP amount to KM 432.1 million or 77% of total assets and are up by KM 24.2 million or 6% compared to 31.12.2017. Net microloan growth compared to the end of the previous year was recorded by 7 MCF and 1 MCC, while a drop was recorded by 3 MCF, and one MCF kept approximately the same level of net microloans in the reporting period.

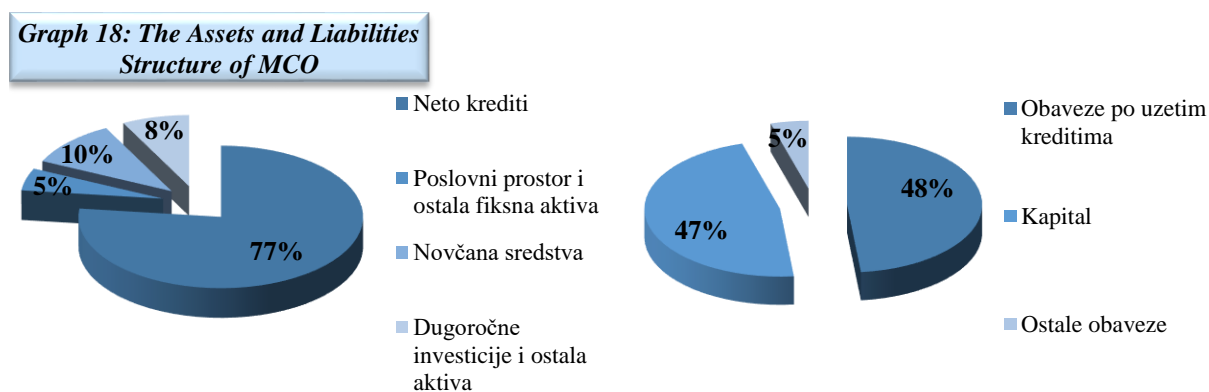
Business premises and other fixed assets amount to KM 28.5 million or 5% of total assets and are down by KM 0.3 million or 1% compared to the end of the previous year. The share of fixed assets compared to the total assets (less by donated capital) is 5.52% at the sector level, which is within the allowed amount (up to 10%), and observed individually one MCF exceeded this standard.

Only one MCF recorded long-term investments in the amount of KM 33.1 million and there were no changes compared to the end of the previous year.

Other assets (net of provisions for other assets items except microloans) amount to KM 9.8 million, which include calculated interest, advances, accrued and deferred items, etc.

These two balance sheet items make up 8% of total assets of the microcredit sector. The percentage of other assets at the level of the microcredit sector compared to total assets is 1.77%, observed individually no MCO is above 10% for this balance sheet item.

The assets and liabilities structure of the microcredit sector is shown in the graph below:



2.1.2.2. Capital and Liabilities

The total liabilities of microcredit sector in the FBiH amount to KM 563.3 million, as of 30.06.2018, and within the liability structure, loan commitments amount to KM 272.7 million or 48% of the total liabilities and are up by KM 26.7 million or 11% compared to 31.12.2017.

The maturity structure of loans taken is shown in the table below:

-000 KM-

Table 48: Maturity Structure of Loans Taken

No.	Description	31.12.2017				30.06.2018				Index
		MCF	MCC	Total	%	MCF	MCC	Total	%	
1	2	3	4	5=(3+4)	6	7	8	9=(7+8)	10	11=9/5
1.	Liabilities on short-term loans	86.518	18.273	104.791	38	82.081	32.890	114.971	42	110
2.	Liabilities on long-term loans	90.622	50.583	141.205	62	103.334	54.434	157.768	58	112
	Total	177.140	68.856	245.996	100	185.415	87.324	272.739	100	111

Out of total loan commitments, long-term microloans amount to KM 157.7 million or 58% and are up by 12%, compared to the end of the previous year, while short-term microloans (two MCF do not have it) amount to KM 115 million or 42% and are up by 10% compared to the end of the previous year.

Other liabilities amount to KM 24.9 million or 5% of total liabilities, which include income tax liabilities, liabilities to employees, suppliers, accrued expenses, etc. The percentage of other liabilities at the sector level compared to total liabilities is 8.37% and individually, a total of six MCF recorded more than 10% of other liabilities compared to total liabilities

The total capital of the microcredit sector as of 30.06.2018 amounts to KM 265.7 million or 47% of total liabilities, which is up by KM 10.6 million or 4% compared to the end of 2017. The capital of MCF amounts to KM 229.6 million or 86.4%, and the capital of one MCC to KM 36.1 million or 13.6%.

The structure of capital in the microcredit sector is shown in the table below:

-000 KM-

Table 49: The Structure of Capital in Microcredit Sector

No	Description	31.12.2017					30.06.2018					Index
		Balance for MCFs	%	Balance for MCCs	%	Total	Balance for MCFs	%	Balance for MCCs	%	Total	
1	2	3	4	5	6	7=(3+5)	8	9	10	11	12=(8+10)	13=12/7
1.	Donated capital	45.851	20	0	0	45.851	47.047	20	0	0	47.047	103
2.	Core capital	3.820	2	30.600	90	34.420	3.820	2	30.600	85	34.420	100
3.	Surplus/deficit of income over expenses	169.831	77	0	0	169.831	176.984	77	0	0	176.984	104
4.	Issue premiums	0	0	0	0	0	0	0	0	0	0	0
5.	Unallocated profit	0	0	1.317	4	1.317	0	0	3.521	10	3.521	267
6.	Legal reserves	0	0	1.909	6	1.909	0	0	2.000	5	2.000	105
7.	Other reserves	1.732	1	0	0	1.732	1.700	1	0	0	1.700	98
	Total capital	221.234	100	33.826	100	255.060	229.551	100	36.121	100	265.672	104

The total capital of the microcredit sector (net of donated capital) amounts to 38.8% of total assets, with 2 MCF having a percentage of capital amount (net of donated capital) compared to total assets that is lower than the allowed amount, i.e. less than 10% of total assets.

In the structure of in MCF, the excess of income over expenses is the most important item and on consolidated level it amounts to KM 177 million and makes up 77% of total MCF capital, which is up by KM 7.2 million or 4% compared to the end of the previous year.

A deficit of income over expenses for the period from 01.01. to 30.06.2018 was recorded by three MCF, while eight MCFs recorded an excess of income over expenses.

As of 30.06.2018, an excess of income over expenses, i.e. profit from regular operations was recorded by 6 MCF, while 5 MCF recorded a deficit of income over expenses from regular operations.

Out of those five MCF, two MCF recorded a positive result at the end of the second quarter of 2018 due to extraordinary income. Extraordinary income is a direct result of the increased collection of receivables for written-off microloans.

Within the same period, one MCC recorded a net profit, i.e. profit from regular operations, as the result of net financial income.

A significant source of MCF capital is donated capital, which amounts to KM 47 million or 20% of total MCF capital. The amount of donated capital, as reported by MCOs, is up by 3% compared to the end of the previous year. As per the prescribed quarterly reports submitted to the FBA, 9 MCF include the amount of donated capital in their reports and keep records on its balance.

The core capital of the MCFs as of 30.06.2018 amounts to KM 3.8 million or 2% of the total MCFs capital. Other reserves, which refer to two MCFs amount to KM 1.7 million or 1% of the total MCFs capital.

The core capital of one MCC amounts to KM 30.6 million and it is at the same level as at the end of the previous year, while unallocated and current profit of MCC amounts to KM 3.5 million.

2.1.2.3. Assets and Asset Quality

The main activity of MCO is microlending, to which the amount of KM 445.5 million or 77% of total assets of the microcredit sector is related. The level of total sector microloans includes MCF microloans, which account for KM 318.9 million or 73.2% of total microloans, while the MCC accounts for KM 116.6 million or 26.8% of total microloans

Net microloans, which make up total microloans net of LLP, are presented in the following table:

- 000 KM -

No	Description	31.12.2017			30.06.2018			Index
		MCFs	MCCs	Total	MCFs	MCCs	Total	
1	2	3	4	5=(3+4)	6	7	8=(6+7)	9=8/5
1.	Microloans	329.758	81.396	411.154	318.856	116.599	435.455	106
2.	Loan loss provisions	2.716	542	3.258	2.663	673	3.336	102
3.	Net microloans (1.-2.)	327.042	80.854	407.896	316.193	115.926	432.119	106

Net microloans amount to KM 432.1 million and are up by 6% compared to 31.12.2017, while gross microloans are also up by 6% compared to the end of the previous year.

LLP amount to KM 3.3 million and are up by 2% compared to 31.12.2017. The LLP to total loan portfolio ratio amounts to 0.77% and recorded a decrease of 0.02 percentage points compared to 31.12.2017.

The table below shows the sectoral and maturity structure of microloans as of 30.06.2018:

- 000 KM -

Table 51: Sectoral and maturity structure of MCO microloans as of 30.06.2018						
No.	Microloans	Short-term loans	Long-term loans	Receivables due	Total	%
1	2	3	4	5	6=(3+4+5)	7
1.	Legal entities					
a.)	Service activities	242	6.622	28	6.892	55%
b.)	Trade	147	2.941	19	3.107	25%
c.)	Agriculture	9	870	1	880	7%
d.)	Production	158	1.417	6	1.581	12%
e.)	Other	15	87	2	104	1%
	Total 1:	571	11.937	56	12.564	100%
2.	Natural persons					
a.)	Service activities	4.946	71.052	219	76.217	18%
b.)	Trade	1.493	14.436	69	15.998	4%
c.)	Agriculture	7.844	138.284	309	146.437	35%
d.)	Production	700	7.539	43	8.282	2%
e.)	Housing needs	2.334	86.789	190	89.313	21%
f.)	Other	15.444	70.830	370	86.644	20%
	Total 2:	32.761	388.930	1.200	422.891	100%
	Total (1+2):	33.332	400.867	1.256	435.455	

Out of the total number of microloans, KM 12.6 million or 3% were granted to legal entities and KM 422.9 million or 97% were granted to natural persons. In the maturity structure of microloans, short-term loans with receivables due account for KM 34.6 million or 8% and long-term loans for KM 400.9 million or 92%. Uncollected receivables due total KM 1.3 million and are almost completely related to loans granted to natural persons.

In the sectoral structure, the largest amount of total microloans to legal entities was placed for service activities and trade – KM 6.9 million or 55% for service activities and KM 3.1 million or 25% for trade. Out of the total microloan amount to legal entities, KM 1.6 million or 12% were granted for production, while KM 0.9 million or 7% were granted for agriculture and KM 0.1 million or 1% for other purposes.

Out of the total microloan amount to natural persons, the amount of KM 146.6 million or 35% were granted for agriculture, the amount of KM 89.3 million or 21% for housing needs, for service activities the amount of KM 76.2 million or 18%, the amount of KM 16 million or 4% for trade, production KM 8.3 million or 2%, and for other purposes the amount of KM 86.7 million or 20%.

The following table shows the sectoral structure of microloans:

-000 KM-

Table 52: Sectoral Structure of microloans					
No.	Microloans for	31.12.2017	30.06.2018	Share	Index
1	2	3	4	5	6=4/3
1.	Agriculture	139.381	147.317	34%	106
2.	Housing needs	82.832	89.313	21%	108
3.	Other purposes	81.589	86.748	20%	106
4.	Services	77.876	83.109	19%	107
5.	Trade	20.202	19.105	4%	95
6.	Production	9.274	9.863	2%	106
	Total	411.154	435.455	100%	106

Compared to the end of the previous year, the total microloan percentage for all loan products shows an increase from 6% to 8%, with the exception of microloans for trade which decreased by 5%. In terms of microloan maturity, long-term microloans are up by 6% compared to the end of the previous year, while short-term microloans (including receivables due) increased by 9% in the reporting period.

The maturity structure of microloans is presented in the table below:

-000 KM-

No.	Description	31.12.2017	30.06.2018	Share	Index
1	2	3	4	5	6=4/3
1.	Long-term microloans	379.401	400.867	92%	106
2.	Short-term microloans with receivables due	31.753	34.588	8%	109
Total		411.154	435.455	100%	106

When observing the sectoral structure and the maturity structure of microloans, it can be concluded that microloans mostly refer to long-term microloans granted to natural persons. This means that microloans are, in the majority of cases, approved to persons who do not have an access to traditional sources of funding due to both the riskiness of the business operations they perform and due to the lack of proper collaterals.

According to the Decision on the Amount and Manner of Creating and Maintaining Reserves for Covering Loan Losses of Microcredit Organisations, MCO are required to allocate all loan proceeds and other receivables to certain groups by applying the days past due criterion in a way that funds for loan loss provisions and other losses are allocated to each group debiting operating expenses. The basis for the calculation of the reserves is the amount of outstanding loan, due interest and fee and any other items in which the MCO is exposed to the risk of impossible collection, i.e. business failure.

Receivables amounts divided into the groups according to the number of days past due and calculated reserves by these groups with the balance as of 30.06.2018 are shown in the table below:

No.	Days past due	Provision-ing rates	Loan amount	Share (%)	Interest due		Amount of other assets items	Provisions			Total provisions
					Provisioning rate	Interest amount		By loans	By interest due	By other assets items	
1	2	3	4	5	6	7	8	9=(4x3)/100	10=(7x6)/100	11=(8x3)/100	12=(9+10+11)
1.	0	0%	426.447	97,93	0%	2	356	0	0	0	0
2.	1 – 15	2%	2.673	0,61	2%	41	0	53	1	0	54
3.	16 – 30	15%	2.669	0,61	100%	46	0	400	46	0	446
4.	31 – 60	50%	1.273	0,29	100%	36	0	637	36	0	673
5.	61 – 90	80%	823	0,19	100%	31	0	659	31	0	690
6.	91 – 180	100%	1.570	0,36	100%	85	0	1.586	85	0	1.671
Total			435.455	100,00		241	356	3.335	199	0	3.534
7.	More than 180	Write-off	1.053		100%	87					

It is evident that 97.9% of microloans are not defaulted, while the remaining 2.1% of microloans are defaulted for 1-180 days. The total amount of interest due by current microloans which are defaulted for more than 1-180 days is KM 0.2 million. The total amount of calculated reserves on all bases is KM 3.5 million and they are up by 3% compared to 31.12.2017, which indicates a slight deterioration of asset quality.

Key Indicators of Microloan Portfolio Quality

As of 30.06.2018 and compared to the end of the previous year, the microloan portfolio saw an increase of KM 24.3 million or 6%, while the quality indicators of the active loan portfolio were not significantly changed in the reporting period. The LLP rate amounted to 0.79% on 31.12.2017, decreased to 0.77%. Also the portfolio at risk exceeding 30 days past due (PAR>30 days) recorded a slight improvement, thus being down from 0.89%, to which it amounted at the end of the previous year, to 84%. The total sector result based on the portfolio at risk is within the framework of the prescribed standard (below 5%), with two MCF violating the prescribed

standard if observed individually. The portfolio at risk for more than one day past due (PAR>1 day) recorded a slight deterioration, thus being up from 1.95%, to which it amounted at the end of the previous year, to 2.07%.

In the first six months of 2018, there was a write-off in the total amount of KM 2.3 million at the level of the microcredit sector, KM 2.1 million or 0.99% of which account for the written-off principal, which relates to 1023 loan accounts (999 write-offs relate to natural persons and 24 to legal entities). As of 30.06.2018, the percentage of write-offs is decreased by KM 1.8 million compared to the end of 2017 (KM 3.9 million or 1%), which is down by 0.01 percentage point compared to the end of the previous years, thus being within the framework of the prescribed standard. Two MCF does not meet the prescribed the FBA standard in terms of the write-off percentage, which must be below 3%.

In the first six months of 2018, at the level of the microcredit sector, KM 3.9 million of written-off principal and KM 0.3 million of written-off interest were collected, while the permanent write-off in the same period amounted to KM 79 thousand of principal and KM 11 thousand of interest.

The amounts of receivables by written-off principal and interest as of 30.06.2018 are shown in the table below:

-000 KM-

Table 55: Receivables by Written-Off Principal and Interest

No.	Description	Natural persons		Legal entities		Total	
		Written-off principal	Written-off interest	Written-off principal	Written-off interest	Written-off principal	Written-off interest
1	2	3	4	5	6	7=(3+5)	8=(4+6)
1.	Initial balance as of 01.01.2018.	95.612	10.282	2.867	306	98.479	10.588
2.	Changes in 2018:						
3.	New write-off in the current year	1.879	158	218		2.097	173
4.	<i>Write-off in the period 01.01.-31.03.</i>	966	79	77	6	1.043	85
5.	<i>Write-off in the period 01.04.-30.06.</i>	913	79	141	9	1.054	88
6.	Collected in the current year	3.884	341	58	3	3.942	344
7.	<i>Collection of write-offs in the period 01.01.-31.03.</i>	1.929	161	16	0	1.945	161
8.	<i>Collection of write-offs in the period 01.04.-30.06.</i>	1.955	180	42	3	1.997	183
9.	Permanent write-off in the current year	79	11	0	0	79	11
10.	<i>Collection of write-offs in the period 01.01.-31.03.</i>	27	7	0	0	27	7
11.	<i>Collection of write-offs in the period 01.04.-30.06.</i>	52	4	0	0	52	4
	Balance as of 30.06.2018	93.528	10.088	3.027	318	96.555	10.406

* Note: The data in Table 55 differ from total receivables by write-offs shown in the off-balance records in the amount of KM 1.5 million, which includes court expenses, penalty and process interest as a portion of off-court settlements in the case of three MCF.

As of 30.06.2018, total receivables by written-off microloans, which are in the off-balance sheet records, amount to as KM 109.6 million, down by 2% compared to the end of the previous year.

2.1.2.4. Profitability

In the period from 01.01. to 30.06.2018, one MCC recorded a net profit in the amount of KM 2.3 million, while in the same period of the previous year, net profit of that MCC amounted to KM 0.3 million.

In the same period, MCFs presented the excess of income over expenditure in the total amount of KM 9.2 million, while in the same period of the previous year, MCFs excess of income over expenditure amounted to KM 9.5 million.

Annexes 12 and 13 provide an overview of the income statement of the MCC and MCF.

In the first half of 2018, out of a total of 11 MCF, 8 MCFs had the excess of income over expenditure in the total amount of KM 9.3 million, while 3 MCFs recorded deficit of income over expenses in the total amount of KM 0.1 million.

At the level of the microcredit sector in the FBiH, a positive financial result in the amount of KM 11.5 million was recorded, which is up by KM 1.8 million or 18% compared to the same period of the previous year.

The structure of the income statement of the microcredit sector of the FBiH is shown in the table below.:

-000 KM-

No.	Description	Period 01.01. - 30.06.2017.				Period 01.01. - 30.06.2018.				Index
		MCF	MCCs	Total	%	MCF	MCCs	Total	%	
1	2	1	2	3=(1+2)	4	5	6	7=(5+6)	8	9=(7/3)
1.	INCOME									
1.1.	Interest-based income and similar income	34.090	3.244	37.334	89	31.902	8.583	40.485	90	108
1.2.	Operating income	4.271	276	4.547	11	3.635	761	4.396	10	97
2.	Total income (1.1.+1.2.)	38.361	3.520	41.881	100	35.537	9.344	44.881	100	107
3.	EXPENSES									
3.1.	Interest-based expenses and similar expenses	4.484	1.031	5.515	14	4.155	1.722	5.877	15	107
3.2.	Operating expenses	27.951	2.051	30.002	80	27.017	4.330	31.347	79	104
3.3.	Expenses for loan loss provisions and other losses	1.967	177	2.144	6	1.687	671	2.358	6	110
4.	Total expenses (3.1.+3.2.+3.3.)	34.402	3.259	37.661	100	32.859	6.723	39.582	100	105
5.	Extraordinary income	5.870	34	5.904		6.870	18	6.888		117
6.	Extraordinary expenses	373	4	377		310	88	398		106
7.	Total income-expenses (2+5-4-6)	9.456	291	9.747		9.238	2.551	11.789		121
8.	Excess/deficit income over expenditure	9.456		9.456		9.238		9.238		98
9.	Profit before taxes		291	291			2.551	2.551		
10.	Taxes			0			255	255		
11.	Net profit/loss		291	291			2.296	2.296		
12.	Total financial result			9.747				11.534		

The total income of the microcredit sector for the period 01.01.-30.06.2018 amounts to KM 44.9 million. Compared to the same period of the previous year thus is up by KM 3 million or 7%. The biggest income portion is contributed by interest income, which amounts to KM 40.5 million or 90% of total income and is up by KM 3.2 million or 8% compared to the same period of the previous year, while operating income amounts to KM 4.4 million or 10% of total income and is down by KM 0.2 million or 3% compared to the same period of the previous year.

Extraordinary income of the microcredit sector generated in the period from 01.01. to 30.06.2018 amounts to KM 6.9 million and is up by KM 1.0 million or 17% compared to the same period of the previous year. Extraordinary income is dominated by the collection of receivables from written-off loans.

Total expenses amount to KM 39.6 million, 32.9 million or 83% of which account for the expenses of MCF, and KM 6.7 million or 17% for the expenses of one MCC. Compared to the same period of the previous year, total expenses are up by KM 1.9 million or 5%. In the expenses structure, KM 5.9 million or 15% of total expenses account for interest expenses on taken microloans and other similar expenses and they are up by KM 0.4 million or 7% compared to the same period of the previous year. Operating expenses amount to KM 31.3 million or 79% of total expenses and are up by KM 1.3 million or 4% compared to the same period of the

previous year. Costs of provisions for loan losses and other losses amount to KM 2.4 million or 6% of total expenses and they are up by KM 0.2 million or 10% compared to the same period of the previous year. Extraordinary expenses of MCO recorded in the first six months of 2018 amount to KM 0.4 million, up by 6% compared to the same period of the previous year.

2.1.2.5. Weighted NIR and EIR

The EIR on microloans is the total price of those microloans and is calculated and shown in accordance with the Decision on Uniform Manner of Calculation and Disclosure of Interest Rate on Loans and Deposits. Weighted NIR and EIR on newly-approved microloans are calculated in the reporting month.

In accordance with monthly statements on weighted NIR and EIR by microloan, in the second quarter of 2018, MCO placed microloans in the total amount of KM 115.9 million, which is up by KM 10.8 million or 10% compared to the microloan amount placed in the same period of the previous year. As of 30.06.2018, MCO had 165 280 active loan accounts, which is up by 9 638 loan accounts or 6% compared to the end of the previous year.

As of 30.06.2018, the average amount of microloans at the sector level was KM 2 634, the average amount of microloans in MCF was KM 2 310, while the average amount of microloans in the MCC was KM 4 274.

The following table shows the average NIR and EIR on microloans by product:

No	Description	Total amount of microloan payment in II quarter of 2018 (in 000 KM)	Weighted NIR (average)	Weighted EIR (average)
1	2	3	4	5
1.	Short-term microloans for:	19.006	20,32%	27,18%
1.1.	Service activities	2.794	19,12%	25,90%
1.2.	Trade	813	20,16%	28,88%
1.3.	Agriculture	4.314	18,04%	24,56%
1.4.	Production	364	18,11%	23,83%
1.5.	Housing needs	1.274	21,27%	29,16%
1.6.	Non-purpose-basic needs	2.387	19,25%	24,26%
1.7.	Other	7.060	22,50%	29,89%
2.	Long-term microloans for:	96.851	19,73%	23,42%
2.1.	Service activities	18.333	19,49%	22,95%
2.2.	Trade	3.539	19,68%	23,55%
2.3.	Agriculture	31.448	18,36%	21,62%
2.4.	Production	1.944	19,19%	22,67%
2.5.	Housing needs	21.666	19,26%	22,43%
2.6.	Non-purpose basic needs	2.225	21,20%	25,96%
2.7.	Other	17.696	22,87%	28,08%
Total		115.857	19,83%	24,04%

The average weighted NIR on short-term loans ranges from 18.04% for agriculture up to 22.50% for other microloans, and the EIR ranges from 23.83% for production up to 29.89% for other microloans. The average weighted NIR on long-term loans ranges from 18.36% for agriculture up to 22.87% for other microloans, and the EIR ranges from 21.62% for agriculture up to 28.08% for other loans. When analysing the EIR by microloan product, it can be concluded that the loans placed for agriculture and production have a lower interest rate than non-purpose and other microloans.

MCOs decreased EIR on total microloan, thus at the end of second quarter of 2018, the average weighted EIR on total microloans in the sector amounted to 24.04%, thus being down by 0.69

percentage points compared to the end of the fourth quarter of 2017. During the same period, average weighted EIR on short-term loans amounted to 27.18%, which is a decrease of 0.85 percentage points. Average weighted EIR on long-term loans amounted to 23.42% at the end of the second quarter of 2018, which is a decrease in the amount of 0.71 percentage points compared to the fourth quarter of the previous year.

2.1.3. COMPLIANCE OF THE MICROCREDIT SECTOR OPERATIONS WITH THE AML/CTF STANDARDS

In the period 01.01.-30.06.2018, according to the Reports on cash transactions in the amount of KM 30.000 or more, related and suspicious transactions (the AML/CTF forms, table A and B) which regularly submitted to the FBA, the MCO's reported to the FOO on 224 transactions (157% compared to the same period of the previous year) in the value of KM 271 397 (104% compared to the same period of the previous year). The FOO did not request the additional information for the transactions in subject.

Within the same period, the 51 suspicious clients were reported (73% compared to the same period of the previous year), for which the FOO did not request the additional information.

The number and value of the reported transactions is presented in the table 58, and the number of reported suspicious clients is presented in the table 59:

Table 58: Overview of the number and value of the reported transactions

No.	Description	Period 01.01.-30.06.2017		Period 01.01.-30.06.2018		%	
		Number	Value	Number	Value	Number	Value
1	2	3	4	5	6	7 (5/3)	8 (6/4)
1.	Transactions for which the FOO requested the additional information	0	0	0	0	0	0
2.	Transactions for which the FOO did not request the additional information	143	260.691	224	271.397	157	104
Total		143	260.691	224	271.397	157	104

Table 59: Overview of the number of reported suspicious clients

No.	Description	Period 01.01.-30.06.2017	Period 01.01.-30.06.2018	%
		Number	Number	Number
1	2	3	4	5(4/3)
1.	Suspicious clients for which the FOO requested the additional information	0	0	0
2.	Suspicious clients for which the FOO did not request the additional information	70	51	73
Total		70	51	73

In the controls of the compliance of the MCO's operations with the AML/CTF standards, certain inconsistencies were detected, upon which the orders were issued for its remediation, and on which basis the assessment of the quantity of risk and the quality of risk management from money laundering and financing terrorist activities is conducted, providing a supervisory opinion and the assessment of the compliances.

The assessment and its elements are presented in the table below:

Table 60: Supervisory assessment

The quantity of risk			The quality of risk management			Supervisory concern		
High	Moderate	Low	Weak	Marginally satisfactory	Satisfactory	Strong	YES	NO
-	4	-	-	-	4	-	-	4

On the basis of the above mentioned, and on the basis of the situation in the MCO, identified during the control, it can be concluded that the quantity of risk from money laundering and financing terrorist activities is moderate, the quality of risk management is satisfactory, and there are no reasons for supervisory concerns, i.e. the microcredit sector in the FBiH to the large extent complies with the AML/CFT standards.

2.1.4. RECOMMENDATIONS FOR THE MICROCREDIT SECTOR

In the segment of supervision of the microcredit sector in the FBiH and within the framework of the prescribed competences, the FBA will continue the planned activities in the period to come, with these being focused on:

- Improvement of the existing legal framework for MCO operations and supervision;
- monitoring the compliance of MCO operations with legal regulations in order to fully apply the provisions of the LoMCO in terms of achieving the prescribed objectives of micro lending in terms of improving the material position of microloan users as well as contributing to increased employment and supporting the development of entrepreneurship;
- conducting the planned inspections of MCO compliance with the prescribed regulatory requirements with the aim of full and adequate application of the current regulations and increase in the transparency of the microcredit sector in the FBiH and undertaking of appropriate supervisory measures.

The microcredit sector in the FBiH is required to apply the prescribed standards and limitations in the performance of microcredit operations, reporting and auditing activities in its operations. In that regard, it is required that authorised bodies of the MCOs, in accordance to their competences and responsibilities ensure:

- Business operations compiled with legal regulations and provision which prescribe that the objective of micro lending operations is improvement of the material position of microloan user, increase of employment, provision of support to the development of entrepreneurship and profit gain for entrepreneur-microloan user.
- MCO operations with legal regulations in order to fully apply the provisions of the LoMCO in terms of achieving the prescribed objectives of micro lending in terms of improving the material position of microloan users as well as contributing to increased employment and supporting
- harmonisation and controlling of interest rates on microloans, starting from the original objectives of micro lending and the legal provisions on protection of users of financial services, thus contributing to the stability and sustainability of the microcredit sector in the FBiH;
- establishment and improvement of sound management practices for risks to which MCO are or might be exposed, effective internal controls systems and independent function of the internal audit;
- optimisation of MCO resources and application of the principle of responsible lending via microloans, i.e. sound business practices;
- regular, timely, and accurate submission of data to the CBBH for the purposes of CRC, etc.;
- improvement of business transparency and strengthening of the institutional capacities

The MCFs which are less capitalized and/or have the materially relevant amount of written-off microloans, should establish and implement clear and consistent strategic directions regarding identification of the acceptable partners for consolidation, i.e. the merger to the larger and stringer MCF, in order to optimize the resources, preserved donated funds, ensured support of foreign creditors, and assure the future of the employees in MCO, and all of that for the

objective of the preservation the stability of the microcredit sector and achievement of the legally prescribed objectives and operations in micro crediting.

2.2. LEASING SECTOR

2.2.1. LEASING SECTOR STRUCTURE IN THE FBiH

2.2.1.1. Number of Leasing Companies

As of 30.06.2018, in the FBiH seven leasing companies had operating licences for leasing operations. The number of leasing companies increased compared to the previous quarter, since that within the second quarter of 2018, the FBA issued operating licence to one new leasing company, which plans to start its business activities during the third quarter of 2018.

Annex 14 provides the main data on leasing companies in the FBiH.

2.2.1.2. Ownership Structure

The ownership structure at the level of the leasing sector of the FBiH is as follows: three leasing companies are 100% owned by non-resident legal entities, one leasing company is in majority ownership of a non-resident legal entity, one leasing company is 100% owned by non-resident natural person, while two leasing companies are in 100% ownership of resident legal entities.

Detailed information on the overview of the ownership structure of leasing companies is provided in Annex 15.

2.2.1.3. Human Resources

As of 30.06.2018, the leasing sector in the FBiH employed a total of 105 persons, 99 of which were employed on the basis of contract of indefinite duration (reporting category full-time employees), while six persons were recruited via student services and organisations mediating in employment (reporting category temporary employees).

The table below shows data on the number of employees in the leasing sector of the FBiH by period:

<i>Table 61: Number of Employees in the Leasing Sector</i>					
	31.12.2016	31.12.2017	30.6.2018	Index (2/1)	Index (3/2)
	1	2	3	4	5
Number of employees in leasing companies seated in the FBiH					
Number of full-time employees	149	98	99	66	101
Number of temporary employees	11	6	6	55	100
Total	160	104	105	65	101

There were no significant changes in the qualification structure of employees in the leasing sector of the FBiH as of 30.06.2018 compared to previous reporting periods. The share of

employees with university degree is still dominant (75.2%), followed by employees with secondary school qualification (13.3%).

The table below shows data on the qualification structure of employees in the leasing sector by period:

Table 62: Qqualification Structure of Employees								
	31.12.2016		31.12.2017		30.06.2018		Index (2/1)	Index (2/3)
	1		2		3		4	5
University degree	120	75,0%	81	77,9%	79	75,2%	68	98
Post-secondary school qualification	5	3,1%	4	3,8%	4	3,8%	80	100
Secondary school qualification	23	14,4%	13	12,5%	14	13,3%	57	108
Other	12	7,5%	6	5,8%	8	7,6%	50	133
Total	160	100,0%	104	100,0%	105	100,0%	65	101

The performance assessment of a leasing company measured by the assets/headcount ratio (assets per employee) is based on the indicators which shows that as of 30.06.2018, at the level of leasing sector in the FBiH, each employee accounts for KM 2.6 million. This indicator is up by KM 112 thousand or 4.5%, compared to the previous report. The analytical indicators for the individual leasing companies in the FBiH are in range from KM 0.4 to KM 3.8 million assets per employee.

2.2.2. FINANCIAL PERFORMANCE INDICATORS

2.2.2.1. Balance Sheet

As of 30.06.2018, the total assets of the leasing sector in the FBiH amounted to KM 274.4 million and is up by KM 14.2 million or 5.5%, compared to 31.12.2017.

The consolidated balance sheet of leasing companies is provided in Annex 16.

When comparing the individual balance sheet totals of six leasing companies with the data as of 30.06.2018 in comparison to 31.12.2017, it can be concluded that one leasing company presented increase in the balance sheet in the amount of KM 28.2 million, while five of leasing companies presented decrease of balance sheet in the total amount of KM 4.0 million, out of it KM 8.9 million or 63.3%, from the total amount of the balance sheet, refers to one leasing company .

Two leasing companies, by assets size, account for 70.4% of the total assets of the leasing companies in the FBiH.

Annex 17 provides a ranking of leasing companies in the FBiH in terms of assets, while Annex 18 provides key financial indicators of leasing companies and banks which perform financial leasing operations.

In the structure of the total assets of the leasing sector in the FBiH, the highest share accounts for net receivables for financial leasing, which amounts to KM 195 million or 71% of the total assets. Compared to 31.12.2017 net receivables for financial leasing are up by KM 19.0 million or 10.8%, while gross receivables for financial leasing are up by KM 19.6 million or 10.2%.

A review of the reports of one bank that performs financial leasing operations found that net receivables for financial leasing in the amount of KM 77.1 million were recorded in the aforementioned, which indicates that total net receivables (receivables recorded in the balance sheets of leasing companies and banks registered in the FBiH) amounted to KM 272.1 million, up by KM 10.2 million or 3.89% compared to 31.12.2017.

In the structure of receivables for financial leasing at the level of the leasing sector, arrangements approved on the basis of financing passenger vehicles and company vehicles account for 88.5%, arrangements approved on the basis of financing equipment account for 10.2%, while financial leasing arrangements that finance real estate account for 1.3%.

The table below provide an overview of the structure of receivables for financial leasing at the level of the leasing sector in the FBiH (receivables before impairment on the basis of reserves for losses) as of 30.06.2018 and a parallel overview of the structure of receivables as of 31.12.2017 and 30.06.2018.

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Table 63: Structure of Leasing Sector Receivables for Financial Leasing - 30.06.2018					
By leasing object	Short-term receivables	Long-term receivables	Past due receivables	Total receivables	Share in total receivables
1	2	3	4	5	6
Passenger vehicles	29.167	52.553	852	82.572	42,1%
Company vehicles (cargo and passenger)	34.777	54.701	1.667	91.145	46,4%
Machinery and equipment	9.479	10.101	456	20.036	10,2%
Real estate	434	2.111	53	2.598	1,3%
Other	8	0	0	8	0,0%
Total	73.865	119.466	3.028	196.359	100,0%
By lessee	Short-term receivables	Long-term receivables	Past due receivables	Total receivables	Share in total receivables
1	2	3	4	5	6
Legal entities	66.847	104.867	2.777	174.490	88,9%
Entrepreneurs	1.587	2.492	87	4.166	2,1%
Natural persons	3.974	8.891	155	13.020	6,6%
Other	1.457	3.216	9	4.683	2,4%
Total	73.865	119.466	3.028	196.359	100,0%

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Table 64: Structure of Receivables for Financial Leasing – Comparative Overview			
By leasing object	Receivables as of 31.12.2017	Receivables as of 30.06.2018	Index
1	2	3	4=3/2
Passenger vehicles	73.142	82.572	113
Company vehicles (cargo and passenger)	79.545	91.145	115
Machinery and equipment	22.343	20.036	90
Real estate	3.037	2.598	86
Other	18	8	44
Total	178.085	196.359	110
By lessee	Receivables as of 31.12.2017	Receivables as of 30.06.2018	Index
1	2	3	4=3/2
Legal entities	156.216	174.490	112
Entrepreneurs	3.951	4.166	105
Natural persons	12.678	13.020	103
Other	5.240	4.683	89
Total	178.085	196.359	110

As of 30.06.2018, net receivables for loans amounted to KM 10.9 million or 4.0% of the amount of total assets of the leasing sector. Compared to 31.12.2017, net receivables for loans fell by KM 2.6 million or 19.3%, while gross receivables fell by KM 2.6 million or 16.6%.

Receivables for loans in the structure of total assets of leasing companies are down as a result of the continuous decrease in receivables for loans, since the provisions of the LoL prohibit leasing companies from concluding new loan agreements, with the aforementioned remaining in the balance sheet until the expiry of the contracted periods of time they were granted for.

The recorded amount of net receivables for loans accounts for the receivables of one leasing company with a significant amount of loan receivables from subsidiaries in its portfolio, which had been used for financing real estate construction projects before the LoL entered into force.

As of 30.06.2018, the recorded balance sheet item Cash and Cash Equivalents amounted to KM 11.3 million, which is down by KM 2.5 million or 17.9% compared to 31.12.2017. The share of this balance sheet item in total assets amounted to 4.1% as of 30.06.2018 and it is down compared to 31.12.2017, when it amounted to 5.3%.

As of 30.06.2018, the recorded balance sheet item Facilities to Banks amounted to KM 11.8 million, down by KM 5.1 million or 30.2% compared to 31.12.2017. This item mostly relates to term deposits of leasing companies with commercial banks.

The net value of fixed assets financed via operational leasing as of 30.06.2018 amounted to KM 34.6 million, up by KM 6.0 million or 21% compared to 31.12.2017. If observed individually, the net value of fixed assets financed via operational leasing rose for one leasing company in the amount of KM 7.3 million, while five leasing companies recorded a decrease in the amount of KM 1.3 million, KM 928 thousand or 74.5% of which account for one leasing company.

The table below shows the structure of net balance sheet positions of leasing sector assets:

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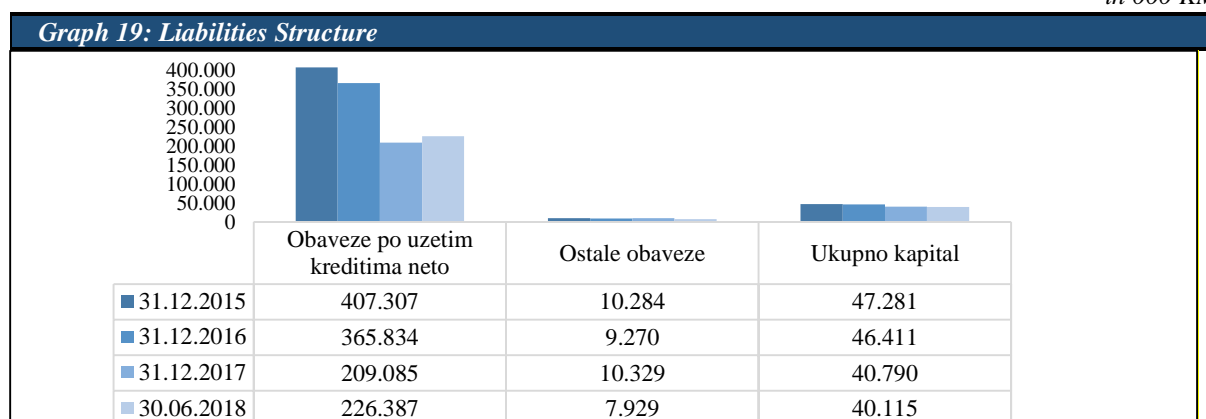
Description	31.12.2017	Share in assets %	30.6.2018	Share in assets %	Index
1	2	3	4	5	6=4/2
Financial leasing	176.007	67,6%	194.966	71,0%	110,8
Operational leasing	28.616	11,0%	34.637	12,6%	121,0
Loan	13.449	5,2%	10.856	4,0%	80,7
Other assets	42.132	16,2%	33.972	12,4%	80,6
Total	260.204	100,0%	274.431	100,0%	105,5

2.2.2.2. Capital and Liabilities

As of 30.06.2018, the total liabilities of the leasing sector amounted to KM 234.3 million, which presents 85.4% of the total liabilities of the leasing companies in the FBiH. Compared to 31.12.2017, the total liabilities at the sector level are increased by KM 14.3 million or 6.8%.

The following graph shows the liabilities structure of the leasing sector in the FBiH.:

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The total amount of loan commitments is related to long-term loan commitments.

The loan commitments of the leasing companies in the FBiH, as of 30.06.2018, still presents a dominant position in the structure of the total liabilities of the leasing sector – 82.5% from the total amount of the balance item. Compared to 31.12.2017, the liability position is increased by KM 17.3 million or 8.3%. the increase presented is result of increased market activities of the sector.

The indebtedness with foreign and domestic commercial banks mostly belonging to banking groups to which leasing companies belong account for 27.6% of the total loan commitments, while 39.2% refers to direct indebtedness by the founder and 33.2% to the European banks (the EIB, the EBRD, the CEDB and the DEG). The funds from these banks are mostly purpose funds, and mainly intended for development of small and medium enterprises, and they have been provided by bank guarantees issued by parent banks or their holding companies.

The total weighted NIR paid by leasing companies on funding sources in the period from 01.01. to 30.06.2018 amounted to 1.4% per annum (the interest rate calculated on the basis of the average balance of taken loans and interest expenses in the reporting period) and it is up compared to 31.12.2017, when it amounted to 1.2%.

The total capital of the leasing system as of 30.06.2018 amounted to KM 40.1 million. Compared to 31.12.2017, this item is down by KM 675 thousand or 1.7%. The total net decrease in capital is due to the payment of profit to the owners in case of two leasing companies, in the total amount of KM 4.3 million.

If observed individually, two leasing companies saw an increase in total capital in the amount of KM 1.0 million (as a result of positive business operations of the aforementioned), while four leasing companies saw a decrease in total capital in the amount of KM 1.7 million. All leasing companies recorded a total capital amount higher than the minimum amount (KM 250 thousand) prescribed by the provisions of Article 8 of the LoL.

2.2.2.3. Assets and Asset Quality

According to data from the reports of the leasing sector, loan loss provisions for financial leasing as of 30.06.2018 were recorded in the amount of KM 1.4 million and are down by KM 685 thousand or 33% compared to 31.12.2017. In the structure of receivables for financial leasing as of 30.06.2018, a total of KM 3.0 million outstanding past due receivables was recorded and the aforementioned are down by KM 396 thousand or 11.6% compared to 31.12.2017.

An overview of reserves for financial leasing is provided in Annex 19, while the table below shows the structure of formed reserves for losses of the leasing sector by category of default:

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Table 66: Formed Leasing Sector Reserves for Financial Leasing by Category of Default			
Days past due	Total reserves 31.12.2017.	Total reserves 30.06.2018.	Index
1	2	3	4=3/2
0-60	931	909	98
60-90	164	103	63
90-180	104	106	102
More than 180	879	156	18
More than 360	0	119	n/a
Total	2.078	1.393	67

The decrease in the amount of formed reserves for losses further points to the stabilisation of business operations and the fact that there was no deterioration in the quality of the portfolio relating to receivables for financial leasing during the first half of 2018. If observed by category of default of outstanding past due receivables, a decrease in reserves for losses was recorded in the categories of default of 0-60 days, 60-90 days and more than 180 days, while an increase was recorded in the category of 90-180 days compared to 31.12.2017.

As of 30.06.2018, loan reserves amounted to KM 1.9 million and remained approximately the same compared to 31.12.2017. The total amount of formed loan reserves as of 30.06.2018 was formed by one leasing company with a significant amount of loan receivables from subsidiary companies in its portfolio and those are in category of default of up to 60 due days. Annex 20 provides an overview of loan reserves of leasing companies.

The total amount of written-off receivables for financial leasing and loans as of 30.06.2018 was KM 76.7 million, which is down by KM 7.5 million or 8.9% compared to the amount recorded at the end of the previous business year. Out of the total recorded amount of written-off receivables, KM 40.7 million or 53.1% account for write-offs by one leasing company. The decrease in the total amount of written-off receivables was caused by a significant collection amount of written-off receivables for loans by one leasing company in the amount of KM 3 million, which is 94.4% of the total collection amount of written-off receivables of the leasing sector. The decrease in the total amount of written-off receivables was also caused by a significant amount of permanent write-offs by the same leasing company in the amount of KM 4.9 million, which relates to the remaining uncollected receivables under the same loan agreement.

Due to the termination of leasing arrangements with lessees or the expiry of arrangements with no contracted purchase, the market value of repossessed leasing objects at the level of the leasing sector as of 30.06.2018 was down by KM KM 2.3 million or 77.3% compared to 31.12.2017. The number of repossessed objects is down by 8 units.

The most significant change in the number and vale of repossessed objects is presented at the position of real estate, which decreased by KM 1.9 million or 83.5% compared to the previous reporting period, and it refers to five units (decrease of four units presented with one leasing company).

The structure of repossessed objects of the leasing sector is shown in the table below:

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Type of leasing object	31.12.2017		30.06.2018	
	Number of units	Appraised market value of the leasing object	Number of units	Appraised market value of the leasing object
1	2	3	4	5
Passenger vehicles	12	198	17	166
Company vehicles (cargo and passenger)	13	129	8	39
Machinery and equipment	8	454	5	112
Real estate	9	2.246	4	370
Other	0	0	0	0
Total	42	3.027	34	687

Out of the total appraised value of repossessed objects of the leasing sector as of 30.06.2018, KM 370 thousand or 53.9% relate to real estate (commercial real estate) repossessed by leasing companies due to the lessees' non-compliance with legal obligations. The total amount of this item relates to two leasing companies.

If observed at the level of the leasing sector as of 30.06.2018, the market value of repossessed leasing objects amounted to KM 10.1 million and it is down by KM 2.9 million or 22.4% compared to 31.12.2017. Out of the aforementioned amount of repossessed leasing objects, KM 9.5 million or 93.2% of the total amount of repossessed objects recorded at the level of the leasing sector account for objects repossessed by the bank that performs leasing operations.

The current market situation and inadequate financing approval criteria cause difficult sales or new financing of repossessed real estate via financial or operational leasing, especially if one takes into account the fact that repossessed real estate constitutes mostly production and commercial facilities.

2.2.2.4. Profitability

In the period from 01.01. to 30.06.2018, a profit in the amount of KM 4.2 million was recorded at the level of the leasing sector. If observed individually, four leasing companies recorded a positive financial result in the amount of KM 4.6 million, with one leasing company accounting for KM 2.4 million or 53%, while two leasing companies recorded a negative financial result in the amount of KM 392 thousand.

Annex 21 of this Information shows the consolidated balance sheet of the leasing companies in the FBiH as of 30.06.2018. The recorded profit at the level of the leasing sector in the first half of 2018 was significantly influenced by the collection of written-off receivables for loans by one leasing company in the amount of KM 3 million.

The comparative financial result of the leasing sector level is shown in the table below:

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Description	30.6.2016.		30.6.2017.		30.6.2018.	
	Amount	No. of leasing companies	Amount	No. of leasing companies	Amount	No. of leasing companies
1	2	3	4	5	6	7
Loss	-1.470	2	-595	3	-392	2
Profit	2.876	5	2.301	4	4.554	4
Total	1.406	7	1.706	7	4.162	6³⁷

³⁷ Newly established leasing company is not included, as it plans to start operations in the third quarter of 2018

It is evident that within reporting period, and according to the nominal amount, the largest income at the level of the leasing sector in the FBiH, is presented as of 30.06.2018, while the loss is continually decreased.

The total income, as of 30.06.2018 amounted to KM 16.7 million, and level and structure of the total income, including comparative data for the two previous years are presented in the table below:

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Table 69: Total Income Structure

Total income structure	30.6.2016		30.6.2017		30.6.2018		Index	
	Amount	% share	Amount	% share	Amount	% share	8(4/2)	9(6/4)
1	2	3	4	5	6	7	8(4/2)	9(6/4)
I Interest income and similar income								
Interest on financial leasing	8.960	41,4	7.858	38,3	4.464	26,7	88	57
Interest on facilities to banks	127	0,6	137	0,7	137	0,8	108	100
Other interest income	3.079	14,2	1.670	8,1	835	5,0	54	50
Total	12.166	56,2	9.665	47,1	5.436	32,6	79	56
II Operating income								
Fees for operational lease	5.555	25,7	6.060	29,5	6.093	36,5	109	101
Service fees	4	0,0	2	0,0	1	0,1	50	n/a
Other operating income	3.916	18,1	4.723	23,0	5.165	30,9	121	109
Total	9.475	43,8	10.785	52,6	11.259	67,4	114	104
Income from release of reserves for losses	0	0,0	58	0,3	0			
Total income (I+II)	21.641	100,0	20.508	100,0	16.695	100,0	95	81

If observed by type of income, interest income of the leasing sector amounted to KM 5.4 million in the period from 01.01. to 30.06.2018, thus saw a decrease of KM 4.2 million or 43.8% compared the same period of the previous year. The most significant position of interest income is income based on interest income for financial leasing in the total amount of KM 4.5 million and it is KM 3.4 million or 43.2% down compared to the same period of the previous business year.

The category Operating Income amounted to KM 11.3 million and is up by KM 0.5 million or 4.4 % compared to the same period of the previous year.

In this period, a continues fall of interest income and similar income is evident, and at the same time growth of operating income, which is mainly result of the status change of one leasing company having merged with its parent bank, that started in the second half of 2017.

As of 30.06.2018, the total expenses amounted to KM 12.5 million, and the level and structure of the total expenses with comparative data for the same period of the two previous years are presented in the table below:

-in 000 KM-

Table 70: Total Expenses Structure

Total expenses structure	30.6.2016.		30.6.2017.		30.6.2018.		Index	
	Amount	% Share	Amount	% Share	Amount	% Share	8(4/2)	9(6/4)
1	2	3	4	5	6	7	8(4/2)	9(6/4)
I Interest expenses and similar income								
Interest on borrowed funds	4.249	21,0	2.824	15,0	1.522	12,1	66	54
Loan processing fees	85	0,4	57	0,3	46	0,4	67	81
Other interest expenses	0	0,0	1	0,0	3	0,0	0	0
Total	4.334	21,4	2.882	15,3	1.571	12,5	66	55

II Operating expenses								
Costs of salaries and contributions	3.322	16,4	3.515	18,7	2.427	19,4	106	69
Costs of business premises	5.391	26,6	5.437	28,9	4.743	37,8	101	87
Other expenses	5.771	28,5	6.934	36,9	3.742	29,9	120	54
Total	14.484	71,6	15.886	84,5	10.912	87,1	110	69
III Reserve costs	1.294	6,4	0	0,0	50	0,4	0	n/a
Income tax	123	0,6	34	0,2	0	0,0	28	0
Total expenses (I+II+III)	20.235	100,0	18.802	100,0	12.533	100,0	93	67

Interest expenses amounted to KM 1.6 million and are down by KM 1.3 million or 45.5% compared to the same period of the previous business years. In the same period, the total operating expenses are decreased, same as individual categories of this expense item.

The aforementioned decrease of interest expenses is mainly result of the status change of one leasing company having merged with its parent bank, that started in the second half of 2017. An additional reason for the decrease in interest expenses is the significantly lower amount of loan commitments due to the status change of one leasing company having merged with its parent bank, as well as the continuous decrease in the EURIBOR variable index, to which the leasing companies' loan debt is mainly linked.

2.2.2.5. Weighted NIR and EIR

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

The total average NIR for financial leasing arrangements concluded in the first half of 2018 amounted to 4.6% for short-term and 4.3% for long-term arrangements, while the EIR for short-term and long-term arrangements amounted to, respectively, 12.2% and 6.8% per annum. The total weighted NIR in the first half of 2018 amounted to 4.3%, while the EIR amounted to 6.9% per annum.

Compared to the same period of the previous business year, when the total weighted NIR was 4.7% and the EIR 7.3% per annum, a decrease in the NIR is evident, while the EIR remained at the same level for financial leasing arrangements.

The trend of decrease in NIR continued in the first half of 2018 compared to 2017 and 2016 and it is caused by the low value of the variable index (EURIBOR), to which output interest rates are linked, as well as the fact that, during the business year 2017 and the first quarter of 2018, most leasing providers active on the market offered promotional products for which the interest on the financing amount (in whole or in part) was subsidised by the supplier of the leasing object, while the leasing object's casco insurance fee was also subsidised by insurance companies in the case of individual promotional products.

The significant differences in weighted EIR are mainly caused by the fact that the calculation of the EIR on arrangements concluded with natural persons is not identical to the calculation of the arrangements concluded with legal entities, since its calculation does not include a casco insurance premium, which is a legal requirement when it comes to arrangements with natural persons.

The table below shows a detailed overview of the weighted NIR and EIR for financial leasing arrangements concluded in the first half of 2018:

Table 71: Average NIR and EIR for Financial Leasing Arrangements Concluded in the first half 2018

No.	Description	No. of arrangements	Amount of financings (000KM)	Weighted NIR	Weighted EIR
1	2	3	4	5	6
1. Short-term leasing arrangements by leasing object:		15	340	4,6%	12,2%
a. Passenger vehicles		8	250	4,2%	12,7%
b. Company vehicles (cargo and passenger)		7	90	5,7%	10,6%
c. Machinery and equipment		0	0	0,0%	0,0%
d.. Other		0	0	0,0%	0,0%
1.1. Short-term leasing arrangements by type of lessee:		15	340	4,6%	12,2%
a. Legal entities		13	311	4,5%	8,5%
b. Entrepreneurs		0	0	0,0%	0,0%
c. Natural persons		2	29	5,8%	51,4%
2. Long-term leasing arrangements by leasing object:		1.825	76.376	4,3%	6,8%
a. Passenger vehicles		1.061	36.491	4,7%	7,9%
b. Company vehicles (cargo and passenger)		678	32.770	4,1%	6,0%
c. Machinery and equipment		85	6.927	3,5%	5,5%
d. Real estate		1	188	3,9%	4,2%
e. Other		0	0	0,0%	0,0%
2.1. Long-term leasing arrangements by type of lessee:		1.825	76.376	4,3%	6,8%
a. Legal entities		1.646	71.357	4,3%	6,1%
b. Entrepreneurs		38	1.019	5,3%	7,6%
c. Natural persons		141	4.000	5,0%	19,1%
Total (1+2)		1.840	76.716	4,3%	6,9%

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

The following table shows trends of weighted NIR and EIR for financial leasing arrangements by period:

Table 72: Weighted Average NIR and EIR for Financial Leasing Arrangements

Description	30.6.2014		30.6.2015		30.6.2016		30.6.2017		30.6.2018	
	1	2	2	2	3	3	4	4	5	5
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
I Short-term leasing arrangements										
By leasing object	6,6%	11,5%	5,1%	8,1%	3,4%	6,6%	3,4%	5,6%	4,6%	12,2%
a) Passenger vehicles	6,6%	12,2%	5,0%	7,9%	4,8%	10,7%	5,1%	7,9%	6,2%	12,7%
b) Company vehicles (cargo and passenger)	6,3%	10,6%	5,6%	9,5%	4,0%	5,5%	3,7%	5,9%	5,7%	10,6%
c) Machinery and equipment	7,1%	11,9%	4,1%	5,6%	0,8%	2,2%	0,4%	1,7%	0,0%	0,0%
d) Real estate	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
e) Other	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
1.1. By type of lessee	6,6%	11,5%	5,1%	8,1%	3,4%	6,6%	3,4%	5,6%	4,6%	12,2%
a) Legal entities	6,5%	11,2%	5,0%	7,8%	3,2%	5,1%	3,4%	5,5%	4,5%	8,5%
b) Entrepreneurs	9,5%	23,6%	0,0%	0,0%	5,9%	11,7%	0,0%	0,0%	0,0%	0,0%
c) Natural persons	8,2%	17,8%	7,3%	16,8%	6,0%	86,3%	5,0%	11,4%	5,8%	51,4%
II Long-term leasing arrangements										
2. By leasing object	6,6%	9,1%	6,0%	8,1%	5,2%	8,3%	4,7%	7,3%	4,3%	6,8%
a) Passenger vehicles	6,7%	9,4%	6,1%	8,9%	5,4%	9,5%	5,1%	8,2%	4,7%	7,9%

b) Company vehicles (cargo and passenger)	6,4%	8,7%	5,7%	7,7%	4,8%	7,2%	4,4%	6,6%	4,1%	6,0%
c) Machinery and equipment	6,8%	9,6%	6,3%	7,8%	4,8%	7,1%	4,6%	6,1%	3,5%	5,5%
d) Real estate	6,2%	6,4%	0,0%	0,0%	5,3%	0,0%	0,0%	0,0%	3,9%	4,2%
e) Other	9,5%	15,9%	0,0%	0,0%	6,9%	22,0%	7,0%	36,5%	0,0%	0,0%
2.1. By type of lessee	6,6%	9,1%	6,0%	8,1%	5,2%	8,3%	4,7%	7,3%	4,3%	6,8%
a) Legal entities	6,6%	9,1%	6,0%	8,0%	5,2%	7,4%	4,7%	6,7%	4,3%	6,1%
b) Entrepreneurs	7,2%	10,5%	7,0%	10,9%	6,5%	9,0%	5,8%	8,1%	5,2%	7,6%
c) Natural persons	5,9%	8,6%	5,5%	9,8%	5,0%	22,8%	4,9%	17,4%	5,0%	19,1%
Total	6,6%	9,1%	6,0%	8,1%	5,1%	8,3%	4,7%	7,2%	4,3%	6,9%

2.2.2.6. Structure of Placements by Leasing Object and Type

The value of newly-concluded financial and operational leasing arrangements in the period from 01.01. to 30.06.2018 amounted to KM 89.3 million at the level of the leasing sector, up by KM 10.9 million or 13.9% compared to the same period of the previous business year. In the same time period, the number of newly-concluded arrangements was 2 247 and it was up by 350 arrangements or 18.5% compared to the same period of the previous year.

The average value of arrangements concluded in the first half of 2018 at the level of the leasing sector amounted to KM 39.7 thousand, and it is approximately at the same level as in the same period of the previous year, when amounted to KM 41.3 thousand.

Out of the total achieved value of newly-concluded arrangements in the first half of 2018, KM 76.7 million or 85.9% account for financial leasing arrangements. Compared to the same period of the previous business year, and previous reporting periods, the growth trend of operational leasing arrangements is evident in the share of the total newly-concluded arrangements.

The following table show a parallel overview of the recorded volume of newly-concluded arrangements in the first half of 2018 and the same period of the previous business year as well as the number of arrangements concluded in the same period.

-in 000 KM-

Description	30.06.2017			30.06.2018		
	Financial leasing	Operational leasing	Total	Financial leasing	Operational leasing	Total
1	2	3	4=2+3	5	6	7=5+6
Vehicles	60.924	9.174	70.098	69.601	12.536	82.137
Equipment	8.267	0	8.267	6.927	0	6.927
Real estate	0	0	0	188	0	188
Other	6	0	0	0	0	0
Total	69.197	9.174	78.371	76.716	12.536	89.252

Description	30.06.2017			30.06.2018		
	Financial leasing	Operational leasing	Total	Financial leasing	Operational leasing	Total
1	2	3	4=2+3	5	6	7=5+6
Vehicles	1.513	273	1.786	1.754	407	2.161
Equipment	110	0	110	85	0	85
Real estate	0	0	0	1	0	1
Other	1	0	1	0	0	0
Total	1.624	273	1.897	1.840	407	2.247

The total amount of new financings in the first half of 2018 was recorded by three leasing companies and the bank which to certain extend performs financial leasing activities (legal successor of leasing company which merged to the bank), while three leasing companies

suspended the conclusion of new arrangements, with the exception of sporadic cases of financings of repossessed leasing objects.

In the structure of new placements by type of lessee, placements to legal entities are predominant, with 94.3% of the total financing amount in the first half of 2018. One important reason is the fact that financing via leasing arrangements is less favourable for natural persons than loan placements due to the obligatory payment of the VAT on interest rates, which poses additional costs for clients who are non-taxable VAT persons.

2.2.3. COMPLIANCE OF THE LEASING SECTOR OPERATIONS WITH THE AML/CTF STANDARDS

According to the Reports on cash transactions in the amount of KM 30.000 or more, related and suspicious transactions (the AML/CTF forms, table A and B), which are submitted to the FBA, in the period from 01.01.-30.06.2018, the leasing companies in the FBiH reported the FOO on five transactions (167% compared to the same period in 2017), in the total amount of KM 34.938 KM (118% compared to the same period in 2017). For the transactions reported the FOO did not request the additional information.

The value of the executed transactions has a growth trend, although its number is still low, it indicates that the leasing companies in the FBiH improved the reporting function, and pays more attention to monitoring of the transactions and the activities of the clients.

The overview of the number and the value of the reported transactions is presented in the table below:

No.	Description	Period 01.01. - 30.06.2017		Period 01.01.-30.06.2018		%	
		Number	Value	Number	Value	Number	Value
1	2	3	4	5	6	7 (5/3)	8 (6/4)
1.	Transactions for which the FOO requested the additional information	0	0	0	0	0	0
2.	Transactions for which the FOO did not request the additional information	3	29.519	5	34.938	167	118
Total		3	29.519	5	34.938	167	118

Within the reporting period, the leasing companies in the FBiH did not report suspicious clients.

In the controls of the execution of the orders, it is identified that the leasing companies in the FBiH acted by the orders, i.e. conducted measures and activities on their execution. Within their activities, the leasing companies executed seven orders (78%), and two orders (22%) are partially executed.

The status of the orders is presented in the table below:

No.	Status of orders	Number of orders	%	Average per bank
1.	Executed orders	7	78	2,33
2.	Partially executed orders	2	22	0,67
3.	Not-executed orders	0	0	0
Total		9	100	3

On the basis of the status of the orders, identified during the control of order's execution, and upon the reports that leasing companies submitted to the FBA, it can be concluded that the

quality of risk management on money laundering and financing terrorist activities has a growth trend, and the leasing sector in the FBiH improved the compliance of operations with the AML/CFT standards.

2.2.4. RECOMMENDATIONS FOR THE LEASING SECTOR

In the following period, the FBA within its competences for the supervision of leasing companies in the FBiH, shall continue with the planned activities focused on the following:

- initiating changes of the LoL with the objective of adjusting business ambience for leasing company's operations in the FBiH and amending of legal regulations in terms of drafting a new, and updating the existing bylaws, in accordance to adopted changes and amendments of the legal regulation.
- Continuation of supervision of leasing system in the FBiH, through reports and on-site inspections;
- Capital strengthening of the leasing system in the FBiH and the internal definition of parameters for protection of capital and capital adequacy;
- Supervision of compliance with the legal regulations and bylaws, as well as application of the sound practices in the segment of protection of financial services users and guarantors;
- Supervision of leasing companies' compliance of operations with the AML/CTF standards;
- improving cooperation with the ALC BiH in terms of providing expert assistance in the application of laws and regulations of leasing companies, as well as cooperation with other supervisory and control institutions, as well as the CBBH regarding the structure and quality of data related to financial leasing exposure in the CRC;
- Creation of the more favourable business ambience for leasing sector operations, to facilitate creation of new leasing companies etc.

Within its competences to supervise leasing company's operations, the FBA expects from the leasing companies in the FBiH to continue with the activities which are focused on:

- Harmonisation of business operations with prescribed regulatory requirements;
- Capital strengthening of the leasing companies and definition of parameters for capital protection and capital adequacy, strengthening the systems of internal controls, provision of adequate and organisationally independent function of the internal audit, improvement of risk management process;
- Ensuring a reliability and integrity of data and information, ensuring of the accuracy, validity and comprehensive accounting and non-accounting records, adjustment to business policies, plans and working programmes, legal and other regulations and acts, same as protection of the property of the company and preventive actions, to prevent frauds and mistakes;
- Transparent, comprehensive and accurate informing users of the financial services on services offered, and related to improvement of products range finding new sales channels;
- Timely, accurate and prompt submission of data to CBBH for the purpose of the CRR etc.

2.3. FACTORING SECTOR

2.3.1. Characteristics of the factoring sector in the FBiH

Factoring operations in BiH are regulated by law in the FBiH and factoring service providers from this entity are required to apply factoring regulations, whereas in the other entity – RS, factoring operations were not regulated by law as of the day this Information was compiled. In accordance with the regulations governing factoring, factoring operations in the FBiH may be performed by a factoring company established in the FBiH and in the possession of the FBA's license as well as a bank whose operations are regulated by the regulations governing the operations of banks in the FBiH.

Annex 22 shows the general information on factoring company as of 30.06.2018.

The FBA monitors the operations of factoring companies in order to verify the legality, assess the safety and stability of the operations of factoring companies, to protect the interests of clients and public interest, contribution to the stability of the financial system, and establishment and maintenance the confidence in the factoring market in the FBiH. If it determines illegalities and irregularities in the operations of a factoring company in the course of supervision, the FBA shall order the implementation of appropriate measures and activities aimed at eliminating the aforementioned. In accordance with the prescribed competences and within the framework of supervision of the operations of the banking system entities in the FBiH, the FBA also performs supervision of the factoring operations in the banks in the FBiH.

The main characteristic of the factoring operations in the FBiH, in the first half of 2018, is the that factoring services in the FBiH were performed only by the banks, through Cash Claim Purchase Agreements, solely in domestic factoring, factoring entitled and non-entitled to recourse i.e. contracted and not contracted advance for purchased cash claim. Out of the total number of four banks which performed factoring operations, the three banks are members of the international banking group whose headquarter is in the EU member states, and one bank is in majority domestic ownership.

In the reporting period, the only factoring company in the FBiH, which is on the basis of the FBA license for factoring operations, registered in the court registry, did not have a concluded contract on the purchase and sale of the existing outstanding or future short-term monetary claims, arisen under the contracts on selling of goods or the provision of services in the country and abroad. This company was focused on creation of the preconditions for the start of the operations, thus is why accumulated a loss in the amount of KM 0.2 million, and the core capital of the company amounted to KM 0.8 million, as of 30.06.2018.

In the period observed, factoring service providers in the FBiH were mainly the banks, which did not perform the operations of the reverse (supply) factoring, neither the operations similar to factoring (solvency and credit assessment of legal physical entities which perform self-employed activities, securing the claims, discount accounts, discount of bills of exchange, cession of bill claims, issuance of guarantees and other collaterals, sale of movable and immovable property taken as collateral on the basis of factoring and similar). It is evident decrease of scope of factoring operations in the banks, in the first half of 2018 compared to the same period of 2017, along with changes in the structure of purchased monetary claims as per

criteria of right of recourse, residence, as well as contracted maturity of purchased monetary claims.

2.3.2. Scope, Structure and Trend of the Factoring Operations in the FBiH

In the first semester of 2018, in total 161 factoring contracts were concluded, and all related to the domestic factoring. The largest portion – 156 contracts is concluded with the right of recourse i.e. assuming the right of the factor, that in the case of inability for collection from the buyer, upon the maturity date, request the claim settlement from the seller, and that way compensate the advance paid, advance interest, as well as fees for the factor. The five of the contracts were for the factoring without the right of recourse.

Comparing the reporting data with the same period of the previous year, when there were 155 factoring contracts concluded, it is evident that in the first semester of 2018 there was a slight increase of concluded factoring contracts by 3.9%, where no contract was concluded in foreign factoring, and number of contracts in domestic factoring is up by 15%.

As of 30.06.2018, there were in total 74 active factoring contracts, which, as it was the case in the same period of the previous year, were entirely related to the domestic factoring. Out of the total number of the factoring contracts 67 or 90.5% refers to the factoring with the right of recourse, and 7 or 9.5% to factoring without the right of recourse. The number of active factoring contracts, as of 30.06.2018, was up by three contracts or 4.2% compared to 30.06.2017, where the number of active factoring contracts with the right of recourse was down by two, while in factoring without right of recourse was up by five contracts.

As of 30.06.2018, the total nominal value of the purchased monetary claims amounts to KM 57 million, out of it KM 31.5 million or 55,2% relates to the factoring without right of recourse, and amount of KM 25.5 million or 44,8% to the factoring with right of recourse. Comparing to the volume of the purchased monetary claims in the same period of the previous year, which amounted to KM 204 million, the significant decrease is evident, since the total value of the volume of the purchased claims, as of 30.06.2018 amounts to 28% of the total value of the volume of the purchased claims as of 30.06.2017.

The structure of the purchased claims by the right of recourse is also changed, since that in the first half of 2017 the share of factoring with the right of recourse was dominant and amounted to 95.2%, while in the first half of 2018 this type of factoring has a share of 44.8%, with increase of factoring without right of recourse from 4.8% in the first half of 2017 to 55.2% in the same period of 2018.

A comparative review of the nominal amounts and the structure of the purchased monetary claims for the period 01.01.-30.06.2018 and the same period of the previous year, by the right of recourse and the residence, is given in the table below:

-000 KM-

Table 77: Nominal Amount of the Purchased Monetary Claims

Type	Volume of the purchased monetary claims									
	Banks				Total				Index (10:6) x 100	
	30.06.2017.		30.06.2018.		30.06.2017.		30.06.2018.			
	Amount (in 000 KM)	Share u %	Amount (in 000 KM)	Share u %	Amount (in 000 KM)	Share u %	Amount (in 000 KM)	Share u %		
1	2	3	4	5	6	7	8	9	10	
Factoring with recourse	194.109	95,2%	25.594	44,8%	194.109	95,2%	25.594	44,8%		13,2
Factoring without recourse	9.870	4,8%	31.510	55,2%	9.870	4,8%	31.510	55,2%		319,3

Total	203.979	100%	57.104	100%	203.979	100%	57.104	100%	28,0
Domestic factoring	31.991	15,7%	57.104	100,0%	31.991	15,7%	57.104	100,0%	178,5
Foreign factoring	171.988	84,3%	0	0,0%	171.988	84,3%	0	0,0%	0,0
Total	203.979	100%	57.104	100%	203.979	100%	57.104	100%	28,0

As of 30.06.2018, the structure of the total value (the volume) of the purchased monetary claims, and maturity is 32.7% up to 90 days, and -66.3% from 91 to 180 days. Compared to the first half of 2017, there is significant changes in terms of maturity of the total volume of the purchased monetary claims, since that purchased claims with maturity up to 90 days were 89.8%, and from 91 to 180 days were 10.2%.

If analyse the structure of the value (the volume) of the purchased monetary claims in the first half of 2018, according to sectoral classification of customers, it is evident that KM 28.3 million or 49.6% monetary claims purchased from the public companies, KM 26.8 million or 46.9% of the monetary claims is purchased from private companies and societies. The remaining KM 1.3 million or 2.3% of the purchased claims is related to non-profit organisations, while KM 0.7 million or 1.2% is purchased from the government institutions. During the first half of 2018, the total advance paid to the suppliers in the segment of the private companies and societies (the claim sellers) amount to KM 55.7 million. Out of this amount, KM 31.6 million or 56.7% relates to factoring without recourse, and KM 24.1 million or 43.5% to factoring with recourse.

The situation of factoring portfolio in the banks in the FBiH, on the basis of the purchased monetary claims, presented as of 30.06.2018, by the factoring service providers, as per recourse and residence, from the aspect of the maturity or non-matured purchased claims, is presented in the table below:

<i>Table 78: Situation in portfolio of the factoring operations as of 30.06.2018</i>				
Description	Banks		Total portfolio situation	Share (in %)
	Past due receivables for the nominal amount of claims	Undue receivables for the nominal amount of claims		
By the right of recourse	765	23.550	24.315	100
Factoring with the right of recourse	765	10.792	11.557	47,5
Factoring without the right of recourse	0	12.758	12.758	52,5
By residence of the factoring entities	765	23.550	24.315	100
Domestic factoring	765	23.350	24.315	100
Exporting factoring	0	0	0	0
Importing factoring	0	0	0	0

In the first semester of 2018, out of the total balance of the receivables, 32.7% refers to the purchased claims with maturity up to 90 days, and 67.3% to the claims with maturity from 91 to 180 days.

As of 30.06.2018, the situation of debts to suppliers on the basis of factoring (completely refers to factoring with the right of recourse) amounts to KM 0.6 million, with the maturity structure as follows: 15.2% up to 60 days, 17.3% from 61-90 days and 67.5% from 91 to 180 days.

In the first semester of 2018, the total income generated by the factoring service providers in the FBiH amounts to KM 0.7 million, and the share of 45.3% refers to the factoring with the right of recourse, including the interest income, fees for factoring and administrative fees, while 54.7% of the interest income, the fees for factoring and administrative fees refers to the contracted factoring without the right of recourse. Along to the decrease of the total income,

the changes are also evident in the structure of the generated income per type of factoring and residency, but in income type as well, since that in the first semester of 2017 the interest income had share of 20.7% in the total income, and the income from fees 79.3%, but in the same period of the current year the interest income is significantly increased, i.e. income from fees decreased.

The highest interest rate on the advance payment at the factoring market in the FBiH, which was valid on the last day of the reporting period (the second quarter of 2018) was 5.67%, while the discount rate was 5% and the both rates were calculated in the domestic factoring. The all four banks which perform the factoring operations were charging the factoring fees, and only one bank charged the administrative fees in provision of the factoring services.

2.3.3. RECOMMENDATIONS FOR FACTORING SECTOR

In the first semester of 2018, the factoring operations in the FBiH were mainly performed through the functions of financing, which is the characteristics of the banks, and the operations of recovery guarantee and claims management were not recorded, neither the operations similar to factoring, which confirms that this activity is still at the early days of development at the market of the FBiH, within legal and institutional frameworks defined by the LoF, and the FBA bylaws which regulate the factoring operations in the FBiH.

The intentions of the Law on the financial operations³⁸, in relation to the strengthening of the financial discipline and establishment of the clear rules in operations, still did not provide a stronger impulse for using the factoring as an instrument of the short-term financing and cash-flow management, to which also contributes the lack of adequately established and educated financial function in the small and medium enterprises.

Since that the need for the short-term financing and the cash-claim management, as well as the claims recovery guarantee is more and more evident in the real sector, in the following period it can be expected that the factoring will be used as one of the liable instrument for solving the liquidity problems, and as an efficient instrument for speeding up the cash flows, in a considerably higher volume than it is the case now.

For the more efficient remedy of liquidity problems, thereby the scope of short-term financing of the ongoing operations in small and medium enterprises raised to a higher level, in the following period it will be necessary to more significantly affirm the factoring, as an instrument of not only financing, but also an instrument of the cash flow management, as from the service provider, as well from the other participants on the financial market in the FBiH.

Within the scope of its respective competences for the supervision of factoring operations, the FBA is governed by the principles of the transparency and security, as well as adequate protection of the users of the financial services through the factoring, with the objective of achievement of the financial stability and factoring operations at the level of the FBiH.

³⁸ „Official Gazette of the Federation of BiH“, no. 48/16

CONCLUSION

In order to preserve and strengthen the stability and security of the banking sector and protect a deponents, as well as to ensure the legitimate, safe, and quality operations of the banking sector entities of the FBiH, the FBA has continuously monitored the operations of all entities, carrying out planned activities and taking measures in accordance with legal authorisations; adopted general and individual acts which regulate the operations of the entities in the banking sector of FBiH in accordance to legal regulations, Basel principles and standards for effective banking supervision and applicable EU directives based on those principles and standards. Considering the scope, contents, complexity and dynamic of harmonization of the banks with new regulatory requirements and new supervisory reporting framework, in the first half of 2018, intensive activities were conducted in terms of interpretation of new regulatory requirements application, in the form of replies to enquires from the banks.

As of 30.06.2018, positive developments in the banking sector continued, reflected in the increase in assets, loans and deposits, as well as the improved profitability of the overall banking sector. There is a continuation of the increase in lending to private companies and retail segment, as well as lending to other sectors. The share of NPL, as a key indicator of loan quality, still has a downward trend. The trend of increase in total deposits and savings deposits continued, with these being the most important and the largest segment of the deposit and financial potential of banks. In the first half of the current year, banks in the FBiH recorded a positive financial result and the downward trend of weighted average NIR and EIR on total loans and deposits at the annual level. Based on the key business performance indicators of the banking sector of the FBiH as of 30.06.2018, it can be concluded that the aforementioned is stable, adequately capitalised, liquid and profitable.

When analysing the reports of the microcredit sector in the FBiH as of 30.06.2018, it can be concluded that its operations improved compared to the end of the previous year, considering the asset increase, microcredit portfolio with unchanged microcredit (LLP) quality indicators. Also, the increase of capital and number of employees is recorded in the sector. The recorded positive financial result, i.e. excess of income over expenses in the first half of 2018, is higher compared to the same period of the previous year, wherein the total profit of microcredit sector is increased. In the structure of total income, there is evident increase of the extraordinary income compared to the same period of the previous year, which are mainly related to debt collection, on the basis of written-off loans. Percentage increase of the total expenses is lower in relation to the increase of total income of microcredit sector.

In the period 01.01.-30.06.2018, the leasing sector in the FBiH recorded an increase in the volume of operations, in terms of the number and value of newly-concluded arrangements, as well as increase of total assets of the leasing sector in the FBiH, compared to the 31.12.2017, and positive financial result, which indicates that leasing system is stable, with possibility of further development. During the first half of 2018, the one leasing company in the FBiH has granted an operating licence. The recorded results an indicate improvement of the situation, an adjustment of the sector to the needs of the market and possibilities for further development.

In the first half of 2018, the basic characteristic of the factoring sector in the FBiH, is the fact that first registered factoring company at the territory of the FBiH, on the basis of the FBA licence for factoring operations, had no concluded contracts on factoring, i.e. the total number of concluded contracts on factoring, i.e. the overall volume of the purchased monetary claims is referred the four banks, which perform factoring operations. In regard to the residence of

entities in factoring operations, during the reporting period, the overall operations were performed in domestic factoring. The volume of purchased monetary claims, compared to the first half of 2017, is decreased and its structure is significantly changed. For more effective problem solving in the real sector, and therefore raising to the higher level the scope of short-term financing of ongoing operations for small and medium enterprises, it is expected that in the following period significant changes will take place in factoring, as an instrument of not only the financing, but also managing the cash flows, both from the side of factoring service provider, and other participants at the financial market in the FBiH.

In the first half of 2018, the inspections of compliances the banking system entities with the AML/CTF standards and supervisory assessment of the risk quantity in relation to money laundry and financing of terrorist activities is moderate, same as the quality of the risk management, and the reasons for supervisory concerns have not identified.

No: U.O.-26-04/18
Sarajevo, 13.09.2018

ANNEXES FOR THE BANKING SECTOR

Annex 1- General Information on Banks in the FBiH as of 30.06.2018

No.	BANK	Address		Phone	Head of management
1.	ADDIKO BANK d.d. - SARAJEVO	Sarajevo	Trg solidarnosti 12	033/755-867, 755-755 fax: 755-790	Sanela Pašić
2.	ASA BANKA d.d. - SARAJEVO	Sarajevo	Trg međunarodnog prijateljstva 25	033/586-870, fax: 586-880	Samir Mustafić
3.	BOSNA BANK INTERNATIONAL d.d. - SARAJEVO	Sarajevo	Trg djece Sarajeva bb	033/275-100, fax:203-122	Amer Bukvić
4.	INTESA SANPAOLO BANKA d.d. BOSNA I HERCEGOVINA	Sarajevo	Obala Kulina bana 9a	033/497-555, 497-500 fax:497-589	Almir Krkalić
5.	KOMERCIJALNO-INVESTICIONA BANKA d.d. V.KLADUŠA	Velika Kladuša	Tone Hrovata bb	037/771-253, fax: 037/772-416	Hasan Porčić
6.	NLB BANKA d.d. - SARAJEVO	Sarajevo	Džidžikovac 1	033/720-300, fax:035/302-802	Lidija Žigić
7.	PRIVREDNA BANKA SARAJEVO d.d. - SARAJEVO	Sarajevo	Obala Kulina bana 18	033/278-520, fax:278-550	Hamid Pršeš
8.	PROCREDIT BANK d.d. - SARAJEVO	Sarajevo	Franca Lehara bb	033/250-950, fax:250-971	Edin Hrnjica
9.	RAIFFEISEN BANK d.d. BiH - SARAJEVO	Sarajevo	Zmaja od Bosne bb	033/755-010, fax: 213-851	Karlheinz Dobnigg
10.	SBERBANK BH d.d. - SARAJEVO	Sarajevo	Fra Anđela Zvizdovića 1	033/954-702, fax:263-832	Jasmin Spahić
11.	SPARKASSE BANK d.d. BOSNA I HERCEGOVINA- SARAJEVO	Sarajevo	Zmaja od Bosne 7	033/280-300, fax:280-230	Sanel Kusturica
12.	UNICREDIT BANK d.d. - MOSTAR	Mostar	Kardinala Stepinca bb	036/312-112, fax:356-227	Dalibor Čubela
13.	UNION BANKA d.d. - SARAJEVO	Sarajevo	Hamdije Kreševljakovića 19	033/561-000, fax: 201-567	Vedran Hadžiahmetović
14.	VAKUFСКА BANKA d.d. - SARAJEVO	Sarajevo	Maršala Tita 13	033/280-100, fax: 663-399	Denis Čivgin
15.	ZIRAATBANK BH d.d. - SARAJEVO	Sarajevo	Zmaja od Bosne 47c	033/955-000, fax: 525-701	Yusuf Dilaver

Annex 2- Data on Employees in Banks in the FBiH

No.	BANK	31.12.2016.	31.12.2017.	30.06.2018.
1.	ADDIKO BANK d.d. - SARAJEVO	435	390	378
2.	ASA BANKA d.d. - SARAJEVO	211	211	216
3.	BOSNA BANK INTERNATIONAL d.d. - SARAJEVO	371	399	414
4.	INTESA SANPAOLO BANKA d.d. BOSNA I HERCEGOVINA	561	567	554
5.	KOMERCIJALNO-INVESTICIONA BANKA d.d. V.KLADUŠA	77	77	78
6.	NLB BANKA d.d. - SARAJEVO	444	459	467
7.	PRIVREDNA BANKA d.d - SARAJEVO	139	158	162
8.	PROCREDIT BANK d.d. - SARAJEVO	206	167	157
9.	RAIFFEISEN BANK d.d. BiH - SARAJEVO	1.312	1.320	1.352
10.	SBERBANK BH d.d. - SARAJEVO	425	440	451
11.	SPARKASSE BANK d.d. BOSNA I HERCEGOVINA- SARAJEVO	521	528	531
12.	UNICREDIT BANK d.d. - MOSTAR	1.225	1.260	1,255
13.	UNION BANKA d.d. - SARAJEVO	192	192	197
14.	VAKUFСКА BANKA d.d. - SARAJEVO	197	161	171
15.	ZIRAATBANK BH d.d. - SARAJEVO	299	326	335
	TOTAL	6.615	6.655	6.718

Annex 3- Balance Sheet of Banks in the FBiH According to the FBA Model (Active Sub-Balance)

-in 000 KM-

No.	DESCRIPTION	31.12.2016.	31.12.2017.	30.06.2018.
A S S E T S				
1.	Cash and deposit accounts with deposit-taking institutions	5.204.564	5.794.664	6.411.978
1a	Cash and non-interest bearing deposit accounts	2.418.582	2.654.978	2.764.433
1b	Interest-bearing deposits accounts	2.785.982	3.139.686	3.647.545
2.	Trading securities	1.075.588	1.092.254	1.113.585
3.	Loans to other banks	96.569	350.980	56.573
4.	Loans, receivables based on leasing facilities and past due receivables	12.270.228	13.178.860	13.798.478
4a	Loans	11.078.689	12.012.214	12.651.606
4b	Receivables based on leasing facilities	29	98.617	88.410
4c	Past due receivables based on loans and leasing facilities	1.191.510	1.068.029	1.058.462
5.	Held to maturity securities	150.575	136.178	132.828
6.	Business premises and other fixed assets	488.711	480.500	473.124
7.	Other real estate	42.266	49.441	45.128
8.	Investments in unconsolidated related companies	22.999	18.401	14.629
9.	Other assets	282.742	332.157	306.284
10.	MINUS: value adjustments	1.252.208	1.223.584	1.302.489
10a	Value adjustments for Item 4. of the Assets	1.193.721	1.166.804	1.219.691
10b	Value adjustments for Assets items, except for the Item 4.	58.487	56.780	82.798
11.	TOTAL ASSETS	18.382.034	20.209.851	21.050.118
L I A B I L I T I E S				
12.	Deposits	14.176.274	15.814.723	16.603.774
12a	Interest-bearing deposits	10.312.971	11.358.832	11.816.506
12b	Non-interest bearing deposits	3.863.303	4.455.891	4.787.268
13.	Borrowings – liabilities due	150	150	150
13a	Past due liabilities	0	0	0
13b	Past due – invoked off-balance sheet liabilities	150	150	150
14.	Borrowings from other banks	0	0	0
15.	Liabilities to the Government	0	0	0
16.	Loan commitments and other borrowings	848.001	835.667	845.086
16a	With remaining maturity of up to one year	231.260	184.551	179.393
16b	With remaining maturity of more than one year	616.741	651.116	665.693
17.	Subordinated debt and subordinated bonds	119.678	129.299	137.219
18.	Other liabilities	529.811	564.963	580.007
19.	TOTAL LIABILITIES	15.673.914	17.344.802	18.166.236
C A P I T A L				
20.	Permanent preferred shares	8.828	14.828	14.828
21.	Common shares	1.207.049	1.210.961	1.214.872
22.	Issue premiums	138.786	137.290	137.290
22a	Over permanent preferred shares	88	88	88
22b	Over common shares	138.698	137.202	137.202
23.	Undistributed profit and capital reserves	864.475	946.263	1.026.338
24.	Foreign exchange rate differences	0	0	0
25.	Other capital	173.248	239.973	174.820
26.	Loan loss provisions formed from profit	315.734	315.734	315.734
27.	TOTAL CAPITAL (20. to 25.)	2.708.120	2.865.049	2.883.882
28.	TOTAL LIABILITIES AND CAPITAL (19 +26)	18.382.034	20.209.851	21.050.118
	PASSIVE AND NEUTRAL SUB-BALANCE	718.625	700.018	703.987
	TOTAL	19.100.659	20.909.869	21.754.105

Annex 4- Overview of Assets, Loans, Deposits and Financial Results of Banks in the FBiH as of 30.06.2018

-in 000 KM-

No.	BANK	Assets		Loans		Deposits		Financial result
		Amount	%	Amount	%	Amount	%	Amount
1.	ADDIKO BANK d.d. - SARAJEVO	903.737	4,29%	593.719	4,30%	672.214	4,05%	5.213
2.	ASA BANKA d.d. - SARAJEVO	475.695	2,26%	332.319	2,41%	404.460	2,44%	614
3.	BOSNA BANK INTERNATIONAL d.d. - SARAJEVO	945.039	4,49%	672.430	4,87%	684.278	4,12%	4.112
4.	INTESA SANPAOLO BANKA d.d. BOSNA I HERCEGOVINA	2.009.115	9,54%	1.469.844	10,65%	1.488.999	8,97%	19.085
5.	KOMERCIJALNO-INVESTICIONA BANKA d.d. V.KLADUŠA	102.462	0,49%	56.858	0,41%	72.107	0,43%	1.008
6.	NLB BANKA d.d. - SARAJEVO	1.068.473	5,08%	751.287	5,44%	866.885	5,22%	8.924
7.	PRIVREDNA BANKA SARAJEVO d.d. - SARAJEVO	396.766	1,88%	260.802	1,89%	298.440	1,80%	2.875
8.	PROCREDIT BANK d.d. - SARAJEVO	464.812	2,21%	366.115	2,65%	229.925	1,38%	63
9.	RAIFFEISEN BANK d.d. BiH - SARAJEVO	4.253.244	20,21%	2.488.969	18,04%	3.438.039	20,71%	57.231
10.	SBERBANK BH d.d. - SARAJEVO	1.413.805	6,72%	986.476	7,15%	1.176.121	7,08%	5.301
11.	SPARKASSE BANK d.d. BOSNA I HERCEGOVINA- SARAJEVO	1.427.934	6,78%	1.017.899	7,38%	1.152.254	6,94%	10.473
12.	UNICREDIT BANK d.d. - MOSTAR	5.642.079	26,80%	3.620.985	26,24%	4.613.361	27,79%	57.480
13.	UNION BANKA d.d. - SARAJEVO	659.619	3,13%	195.183	1,41%	582.142	3,51%	1.568
14.	VAKUFСКА BANKA d.d. - SARAJEVO	317.967	1,51%	208.435	1,51%	276.205	1,66%	563
15.	ZIRAATBANK BH d.d.- SARAJEVO	969.371	4,61%	777.157	5,63%	648.344	3,90%	310
	TOTAL	21.050.118	100%	13.798.478	100%	16.603.774	100%	174.820

Annex 5- Report on Capital Condition and Adequacy of Banks in the FBiH

- ASSETS SIDE OF THE BALANCE SHEET -

-in000 KM-

No	DESCRIPTION	31.12.2016.	31.12.2017.	30.06.2018.
CORE CAPITAL OF THE BANK				
1.a.	Share capital, reserves and profit			
1.1.	Share capital – common and permanent preferred non-cumulative shares – cash payments	1.203.237	1.213.318	1.217.229
1.2.	Share capital – common and permanent preferred non-cumulative shares – investments in kind and in rights	12.431	12.262	12.262
1.3.	Amount of issue premiums earned upon payment of shares	138.786	137.290	137.290
1.4.	General mandatory reserves (reserves mandated by the law)	143.166	157.513	169.789
1.5.	Other reserves from profit after tax based on the decision of the Bank's assembly	529.121	635.732	664.809
1.6.	Retained, undistributed profit from previous years and current year's profit	141.073	165.343	188.052
1.a.	TOTAL (1.1 to 1.6)	2.167.814	2.321.458	2.389.431
1.b.	Deductible items from 1.a			
1.7.	Uncovered losses from previous years	16.690	47.879	85.168
1.8.	Current year's loss	42.314	7.288	0
1.9.	Book value of own (treasury) shares of the bank	3.034	81	229
1.10.	Intangible assets in accordance with the applicable accounting framework	47.315	49.963	49.630
1.11.	Amount of deferred tax assets	1.881	1.494	1.716
1.12.	Amount of negative revalorised reserves based on the effect of the change in the fair value of assets	1.063	1.446	2.567
1.b.	TOTAL (1.7. to 1.10)	112.297	108.151	139.310
1.	AMOUNT OF CORE CAPITAL: (1.a. - 1.b.)	2.055.517	2.213.307	2.250.121
SUPPLEMENTARY CAPITAL OF THE BANK				
2.1.	Share capital – common and permanent preferred non-cumulative shares – cash payments	209	209	209
2.2.	Share capital – common and permanent preferred non-cumulative shares – investments in kind and in rights	0	0	0
2.3.	General loan loss provisions for the category A – performing assets	170.420	186.830	195.562
2.4.	Amount of positive revalorised reserves based on the effect of the change in the fair value of assets	9.741	13.037	14.330
2.5.	Profit amount for which the FBA issues an order restricting its disbursement	0	0	
2.6.	Amount of subordinated debt	103.122	104.733	104.844
2.7.	Amount of hybrid convertible items – capital instruments	0	0	
2.8.	Amount of other capital instruments	1.425	1.428	1.428
2.	AMOUNT OF SUPPLEMENTARY CAPITAL : (od 2.1 do 2.8)	284.917	306.237	316.373
DEDUCTIBLE ITEMS FROM THE BANK'S CAPITAL				
3.1.	Portion of invested share capital that, according to the FBA, represents a received, but over-appraised value	0	0	0
3.2.	Capital contributions of other legal entities exceeding 5% of the bank's core capital	0	0	0
3.3.	Receivables from shareholders with significant voting rights – approved by the bank contrary to Law provisions, FBA regulations and the bank's work policy	0	0	0
3.4.	LCRE towards shareholders with significant voting rights in the bank, conducted without prior approval from the FBA	0	0	0
3.5.	LLP shortfall as per regulatory requirement	200.035	198.380	203.721
3.	AMOUNT OF DEDUCTIBLE ITEMS FROM THE BANK'S CAPITAL : (od 3.1. do 3.5.)	200.035	198.380	203.721
A.	NET CAPITAL OF THE BANK (1+2-3)	2.140.399	2.321.164	2.362.773
B.	RISK OF BALANCE AND OFF-BALANCE ASSETS	12.667.026	13.904.675	14.552.912
C.	WOR (WEIGHTED OPERATIONAL RISK)	1.001.018	1.042.691	1.092.596
D.	WMR (WEIGHTED MARKET RISK)	0	0	0
E.	TOTAL ASSETS RISK (B+C+D)	13.668.044	14.947.366	15.645.508
F.	NET CAPITAL RATE (A/E) (% 1 dec.)	15,7%	15,5%	15,1%

Annex 6-Classification of Balance Sheet Assets and Off-Balance Sheet Risk-Weighted Items of Banks in the FBiH as of 30.06.2018

– – CLASSIFICATION OF BALANCE SHEET ASSETS ITEMS –

-in 000 KM-

No	BALANCE SHEET ASSETS ITEMS	CLASSIFICATION					TOTAL
		A	B	C	D	E	
1.	Short-term loans	2.452.638	204.214	5.309	4.422	392	2.666.975
2.	Long-term loans	9.135.142	569.184	145.268	91.187	11.550	9.952.331
3.	Other facilities	206.387	556	11	74	2.314	209.342
4.	Accrued interest and fees	35.977	4.781	1.982	5.338	41.508	89.586
5.	Past due receivables	45.095	31.191	12.777	186.221	753.046	1.028.330
6.	Receivables based on paid guarantees	0	0	0	35	30.093	30.128
7.	Other balance sheet assets being classified	635.784	3.102	807	1.351	34.194	675.238
8.	TOTAL BALANCE SHEET ASSETS BEING CLASSIFIED (sum of items 1 through 7 – calculation basis for regulatory loan loss provisions)	12.511.023	813.028	166.154	288.628	873.097	14.651.930
9.	CALCULATED REGULATORY RESERVES FOR LOAN LOSSES BASED ON BS ASSETS	246.154	73.026	47.420	171.487	873.077	1.411.164
10.	VALUE ADJUSTMENT FOR BS ASSETS	219.169	61.105	84.006	177.087	748.279	1.289.646
11.	REQUIRED REGULATORY RESERVES FORMED AGAINST PROFIT FOR PURPOSE OF ASSESSED LOSSES BASED ON BS ASSETS	144.784	44.786	6.657	33.936	123.483	353.646
12.	FORMEED REGULATORY RESERVES FORMED AGAINST PROFIT RELATED TO ASSESSED LOSSES BASED ON BS ASSETS	92.553	34.626	21.564	77.336	52.326	278.405
13.	SHORTFALL OF REGULATORY RESERVE FORMED AGAINST PROFIT RELATED TO ASSESSED LOSSES BASED ON BS ASSETS						190.581
14.	BALANCE SHEET ASSETS NOT BEING CLASSIFIED (gross book value)						7.700.677
15.	TOTAL BALANCE SHEET ASSETS (gross book value)						22.352.607

OVERVIEW OF BALANCE SHEET ASSETS NOT BEING CLASSIFIED AND FACILITIES SECURED WITH A CASH DEPOSIT

14.a	Cash in cash desk and vault and cash funds at the account with the Central Bank of BiH, gold and other precious metals	4.511.712
14.b	Demand deposits and term deposits up to one month located on accounts of banks with defined investment rating	1.709.669
14.c	Tangible and intangible assets	501.036
14.d	Financial and tangible assets acquired in the process of collection of receivables (within one year upon such acquisition)	5.671
14.e	Own (treasury) shares	0
14.f	Receivables based on overpaid taxes	19.012
14.g	Trading securities	83.955
14.h	Receivables from the BiH Government, FBiH Government and RS Government, securities issued by the BiH Government, FBiH Government and RS Government and receivables secured with unconditional guarantees payable upon the first call	869.622
	TOTAL Item 14	7.700.677
8a.	Facilities secured with a cash deposit	203.281

Annex 6a-Classification of Balance Sheet Assets and Off-Balance Sheet Risk-Weighted Items of Banks in the FBiH as of 30.06.2018.g.

– CLASSIFICATION OF OFF-BALANCE SHEET ITEMS–

-in 000 KM-

No.	OFF-BALANCE SHEET ITEMS	CLASSIFICATION					TOTAL
		A	B	C	D	E	
1.	Payment guarantees	375.884	34.821	749	340	0	411.794
2.	Performance guarantees	646.833	64.775	281	6.678	67	718.634
3.	Uncovered letters of credit	64.119	131	35	0	0	64.285
4.	Irrevocably approved, but undrawn loans	1.906.495	89.264	313	93	194	1.996.359
5.	Other contingent liabilities of the bank	15.577	245	448	0	16	16.286
6.	TOTAL OFF-BALANCE SHEET ITEMS BEING CLASSIFIED (sum of items 1 through 5 – calculation basis for regulatory loan loss provisions)	3.008.908	189.236	1.826	7.111	277	3.207.358
7.	CALCULATED REGULATORY RESERVES FOR LOAN LOSSES RELATED TO OFF-BALANCE SHEET ITEMS	59.206	12.619	524	4.265	286	76.900
8.	LOSS RESERVES FOR OFF-BALANCE SHEET ITEMS	28.629	2.270	976	5.543	223	37.641
9.	REQUIRED REGULATORY RESERVES FORMED AGAINST PROFIT RELATED TO ASSESSED LOSSES BASED ON OFF-BALANCE SHEET ITEMS	39.664	11.116	31	693	85	51.589
10.	REGULATORY RESERVES FORMED AGAINST PROFIT RELATED TO ASSESSED LOSSES BASED ON OFF-BALANCE SHEET ITEMS	25.727	9.624	510	1.327	141	37.329
11.	SHORTFALL OF REGULATORY RESERVES FORMED AGAINST PROFIT RELATED TO ASSESSED LOSSES BASED ON OFF-BALANCE SHEET ITEMS						15.328
12.	OFF-BALANCE SHEET ITEMS NOT BEING CLASSIFIED						442.764
13.	TOTAL OFF-BALANCE SHEET ITEMS						3.650.122
6a.	Contingent liabilities secured with a cash deposit						48.652
6b.	Approved undisbursed loans with a clause on unconditional cancellation						745.665

Annex 7-Income Statement of Banks in the FBiH According to the FBA Model

-in 000 KM-

No	DESCRIPTION	30.06.2016.	30.06.2017.	30.06.2018.
1.	INTEREST INCOME AND EXPENSES			
a)	Interest income and similar income			
1)	Interest-bearing deposit accounts with deposit-taking institutions	1.063	1.212	2.022
2)	Loans to other banks	870	701	832
3)	Loans and leasing facilities	337.240	332.988	328.878
4)	Held to maturity securities	2.482	1.697	1.544
5)	Equity securities	24	812	0
6)	Receivables based on paid-off balance sheet liabilities	2	2	1
7)	Other interest income and similar income	35.663	38.888	35.948
8)	TOTAL INTEREST INCOME AND SIMILAR INCOME	377.344	376.300	369.225
b)	Interest expenses and similar expenses			
1)	Deposits	75.042	64.780	54.238
2)	Borrowings from other banks	0	0	0
3)	Borrowings taken – liabilities due	0	0	0
4)	Liabilities based on loans and other borrowings	6.160	4.986	4.535
5)	Subordinated debt and subordinated bonds	3.812	3.875	3.897
6)	Other interest and similar expenses	957	2.717	3.805
7)	TOTAL INTEREST EXPENSES AND SIMILAR EXPENSES	85.971	76.358	66.475
c)	NET INTEREST AND SIMILAR INCOME	291.373	299.942	302.750
2.	OPERATING INCOME			
a)	FX income	22.168	23.390	28.001
b)	Loan fees	4.748	5.614	5.317
c)	Fees based on off-balance sheet items	11.515	10.849	11.062
d)	Service fees	121.181	128.640	141.489
e)	Trading income	187	135	289
f)	Other operating income	24.123	40.859	30.986
g)	TOTAL OPERATING INCOME a) to f)	183.922	209.487	217.144
3.	NON-INTEREST EXPENSES			
a)	Business and direct expenses			
1)	Costs of value adjustments, risk-weighted assets, provisions for contingent liabilities and other value adjustments	40.639	50.400	32.297
2)	Other business and direct expenses	45.376	52.177	57.171
3)	TOTAL BUSINESS AND DIRECT EXPENSES 1) + 2)	86.015	102.577	89.468
b)	Operating expenses			
1)	Costs of salaries and contributions	121.099	122.315	126.993
2)	Costs of business premises, other fixed assets and utilities	74.706	74.945	74.364
3)	Other operating expenses	53.987	57.903	54.249
4)	TOTAL OPERATING EXPENSES 1) to 3)	249.792	255.163	255.606
c)	TOTAL NON-INTEREST EXPENSES	335.807	357.740	345.074
4.	PROFIT BEFORE TAXES	147.430	153.815	174.820
5.	LOSS	7.942	2.126	0
6.	TAXES	0	0	0
7.	PROFIT BASED ON INCREASE OF DEFERRED TAX FUNDS AD REDUCTION OF DEFERRED TAX LIABILITIES	0	0	0
8.	LOSS BASED ON REDUCTION OF DEFERRED TAX FUNDS AND INCREASE OF DEFERRED TAX LIABILITIES	0	0	0
9.	NET PROFIT ⁴ . - 6.	147.430	153.815	174.820
10.	NET LOSS ⁴ . - 6.	7.942	2.126	0
11.	FINANCIAL RESULT ⁹ .-10.	139.488	151.689	174.820

ANNEXES FOR THE MICROCREDIT SECTOR

Annex 8- General Information on MCOs

No	Name of microcredit organisation	Address and seat	Director	Phone	Date of issuing a licence	Number of employees	Web site
1.	MKD "EKI" d.o.o. Sarajevo	Džemala Bijedića 129, lamela C, Sarajevo	Alma Delić v.d.	+ 387 33 754 380	04.02.2008.	271	www.eki.ba
2.	MKF "EKI" Sarajevo	Džemala Bijedića 129, lamela C, Sarajevo	Sadina Bina v.d.	+ 387 33 754 380	20.08.2007.	265	www.eki.ba
3.	MKF "LIDER" Sarajevo	Turhanija 2, Sarajevo	Džavid Sejfović	+ 387 33 250 580	04.02.2008.	73	www.lider.ba
4.	"LOK MKF" Sarajevo	Skenderija 13, Sarajevo	Elma Čardaklija - Bašić	+ 387 33 564 200	04.02.2008.	83	www.lok.ba
5.	MKF "MELAHA" Sarajevo	Hamdije Kreševljakovića 59, Sarajevo	Jakob Finci	+ 387 33 205 737	09.10.2007.	6	www.melaha.ba
6.	MKF "MI-BOSPO" Tuzla	Bosne srebrene bb, Tuzla	Nejira Nalić	+ 387 35 270 283	09.07.2007.	175	www.mi-bospo.org
7.	MKF "MIKRA" Sarajevo	Marka Marulića 2/VI, Sarajevo	Sanin Čampara	+ 387 33 616 162	19.03.2008.	124	www.mikra.ba
8.	MKF "MIKRO ALDI" Goražde	Panorama bb, Goražde	Ferida Softić	+ 387 38 226 456	20.08.2007.	31	www.mikroaldi.org
9.	"PARTNER MKF" Tuzla	15. maja bb, Tuzla	Senad Sinanović	+ 387 35 300 250	20.08.2007.	294	www.partner.ba
10.	"PRVA ISLAMSKA MKF" Sarajevo	Jukićeva 75, Sarajevo	Edina Hadžimurtezić	+ 387 33 666 233	10.12.2007.	9	www.mfi.ba
11.	MKF "SANI" Zenica	Mehmedalije Tarabara 10, Zenica	Sulejman Haračić	+ 387 32 405 606	09.10.2007.	5	-
12.	MKF "SUNRISE" Sarajevo	Zagrebačka 50, Sarajevo	Samir Bajrović	+ 387 33 727 350	20.08.2007.	165	www.microsunrise.ba
Total						1501	

Annex 9-Balance Sheet of MCFs

-in 000 KM-

No.	Description	31.12.2017	%	30.06.2018	%	Index
1	2	3	4	5	6	7=5/3
ASSETS						
1.	Cash (1a+1b)	21.989	5	48.095	11	219
1a)	Cash and non-interest bearing deposit accounts	9.516	2	26.312	6	277
1b)	Interest-bearing deposit accounts	12.473	3	21.783	5	175
2.	Facilities to banks	1.210	0	1.220	0	101
3.	Loans	329.758		318.856		97
3a)	Loan loss provisions	2.716		2.663		98
3b)	Net loans (3-3a)	327.042	78	316.193	73	97
4.	Business premises and other fixed assets	28.383	7	27.523	6	97
5.	Long-term investments	33.061	8	33.061	8	100
6.	Other assets	8.062	2	7.997	2	99
7.	Minus: provisions for other assets items, except loans	158		160		101
8.	Total assets	419.589	100	433.929	100	103
LIABILITIES						
9.	Short-term loan commitments	86.518	20	82.081	19	95
10.	Long-term loan commitments	90.622	22	103.334	24	114
11.	Other liabilities	21.215	5	18.963	4	89
12.	Total liabilities	198.355	47	204.378	47	103
13.	Donated capital	45.851		47.047		103
14.	Core capital	3.820		3.820		100
15.	Surplus of income over expenses	231.183		238.394		103
15a)	For previous years	214.123		230.646		108
15b)	For current year	17.060		7.748		45
16.	Deficit of income over expenses	61.352		61.410		100
16a)	For previous years	61.279		61.278		100
16b)	For current year	73		132		181
17.	Other reserves	1.732		1.700		98
18.	Total capital	221.234	53	229.551	53	104
19.	Total liabilities	419.589	100	433.929	100	103
Off-balance sheet records						
	- written-off loans	110.188		107.498		98
	- agent businesses	366		43.830		11.975

Annex 10-Balance Sheet of MCCs

-in 000 KM-

No.	Description	31.12.2017	%	30.06.2018	%	Index
1	2	3	4	5	6	7=5/3
ASSETS						
1.	Cash (1a+1b)	24.841	23	10.537	8	42
1a)	Cash and non-interest bearing deposit accounts	24.841	23	10.537	8	42
1b)	Interest-bearing deposit accounts	0	0	0	0	n/a
2.	Facilities to banks	0	0	0	0	n/a
3.	Loans	81.396		116.599		143
3a)	Loan loss provisions	542		673		124
3b)	Net loans (3-3a)	80.854	75	115.926	89	143
4.	Business premises and other fixed assets	430	1	994	1	231
5.	Long-term investments	0	0	0	0	n/a
6.	Other assets	1.243	1	1.973	2	159
7.	Minus: provisions for other assets items, except loans	30		38		127
8.	Total assets	107.338	100	129.392	100	121
LIABILITIES						
9.	Short-term loan commitments	18.273	17	32.890	25	180
10.	Long-term loan commitments	50.583	47	54.434	42	108
11.	Other liabilities	4.656	4	5.947	5	128
12.	Total liabilities	73.512	68	93.271	72	127
13.	Donated capital	0		0		n/a
14.	Core capital	30.600		30.600		100
15.	Issue premiums	0		0		n/a
16.	Unallocated profit(16a+16b)	1.317		3.521		267
16a)	Of previous years	1.017		1.225		120
16b)	Of current year	300		2.296		765
17.	Legal reserves	1.909		2.000		105
18.	Other reserves	0		0		n/a
19.	Total capital	33.826	32	36.121	28	107
20.	Total liabilities	107.338	100	129.392	100	121
Off-balance sheet records						
	- written-off loans	420		938		223
	- agent businesses	0		0		n/a

Annex 11- Review of the Key Financial Indicators of MCOs – 30.06.2018

<i>No.</i>	<i>Name of microcredit organisation</i>	<i>Assets (000 KM)</i>	<i>Gross portfolio amount (000 KM)</i>	<i>Capital (000 KM)</i>	<i>Surplus/deficit of income over expensesk/net profit (loss) (000 KM)</i>	<i>Facilities in period 01.01.-30.06.2018 (000 KM)</i>
1.	MKD "EKI" d.o.o. Sarajevo	129.392	116.599	36.121	2296	67.970
2.	MKF "EKI" Sarajevo	92.853	36.325	68.663	903	4.578
3.	MKF "LIDER" Sarajevo	19.244	18.608	11.127	163	10.273
4.	"LOK MKF" Sarajevo	11.409	6.974	2.841	117	1.067
5.	MKF "MELAHA" Sarajevo	1.252	860	492	-23	345
6.	MKF "MI-BOSPO" Tuzla	62.398	57.151	23.218	1.040	31.686
7.	MKF "MIKRA" Sarajevo	36.464	27.892	8.221	653	16.332
8.	MKF "MIKRO ALDI" Gorazde	6.560	6.043	4.942	177	3.180
9.	"PARTNER MKF" Tuzla	140.524	123.876	81.569	5.066	59.422
10.	"PRVA ISLAMSKA MKF" Sarajevo	1.917	1.754	1.623	-99	1.211
11.	MKF "SANI" Zenica	471	427	214	-10	312
12.	MKF "SUNRISE" Sarajevo	60.837	38.946	26.641	1.251	26.974
Total		563.321	435.455	265.672	11.534	223.350

Annex 12-Income Statement of MCFs

-in 000 KM-

No.	Description	Period 01.01. - 30.06.2017	%	Period 01.01. - 30.06.2018	%	Index
1	2	3	4	5	6	7=(5/3)
I	FINANCIAL INCOME AND EXPENSES					
1.	Interest income and similar income					
1.1.	Interest by interest-bearing deposit accounts with deposit institutions	9	0	4	0	44
1.2.	Interest on facilities to banks	1	0	10	0	1.000
1.3.	Loan interest	33.403	98	31.293	98	94
1.4.	Other financial income	677	2	595	2	88
1.5.	Total interest income and similar income (1.1. do 1.4.)	34.090	100	31.902	100	94
2.	Interest expenses and similar expenses					
2.1.	Interest on borrowed funds	4.087	91	3.858	93	94
2.2.	Other financial expenses	397	9	297	7	75
2.3.	Total interest expenses and similar expenses (2.1. do 2.2.)	4.484	100	4.155	100	93
3.	Net financial income(1.5. - 2.3.)	29.606		27.747		94
II	OPERATING INCOME AND EXPENSES					
4.	Operating income					
4.1.	Fees for services performed	3.800	89	3.361	92	88
4.2.	Other operating income	471	11	274	8	58
4.3.	Total operating income(4.1. do 4.2.)	4.271	100	3.635	100	85
5.	Operating expenses					
5.1.	Salary and contributions costs	18.295	65	17.764	66	97
5.2.	Costs of business premises, other fixed assets and utility costs	5.540	20	5.309	20	96
5.3.	Other operating expenses	4.116	15	3.944	14	96
5.4.	Total operating expenses(5.1. do 5.3.)	27.951	100	27.017	100	97
6.	Loan loss provisions and provisions for other losses	1.967		1.687		86
7.	Surplus/deficit of income over expenses from regular operations(3.+4.3.-5.4.-6.)	3.959		2.678		68
8.	Extraordinary income	5.870		6.870		117
9.	Extraordinary expenses	373		310		83
10.	Surplus/deficit of income over expenses (7.+8.-9.)	9.456		9.238		98

Annex 13- Income Statement of MCCs

-in 000 KM-

No.	Description	Period 01.01. - 30.06.2017	%	Period 01.01. - 30.06.2018	%	Index
1	2	3	4	5	6	7=(5/3)
I	FINANCIAL INCOME AND EXPENSES					
1.	Interest income and similar income					
1.1.	Interest by interest-bearing deposit accounts with deposit institutions	0	0	0	0	n/a
1.2.	Interest on facilities to banks	0	0	0	0	n/a
1.3.	Loan interest	3.240	100	8.578	100	265
1.4.	Other financial income	4	0	5	0	125
1.5.	Total interest income and similar income (1.1. to 1.4.)	3.244	100	8.583	100	265
2.	Interest expenses and similar expenses					
2.1.	Interest on borrowed funds	959	93	1.625	94	169
2.2.	Other financial expenses	72	7	97	6	135
2.3.	Total interest expenses and similar expenses (2.1. do 2.2.)	1.031	100	1.722	100	167
3.	Net financial income (1.5. - 2.3.)	2.213		6.861		310
II	OPERATING INCOME AND EXPENSES					
4.	Operating income					
4.1.	Fees for services performed	248	90	689	91	278
4.2.	Other operating income	28	10	72	9	257
4.3.	Total operating income (4.1. to 4.2.)	276	100	761	100	276
5.	Operating expenses					
5.1.	Salary and contributions costs	1.418	69	3.081	71	217
5.2.	Costs of business premises, other fixed assets and utility costs	379	19	654	15	173
5.3.	Other operating expenses	254	12	595	14	234
5.4.	Total operating expenses (5.1. to 5.3.)	2.051	100	4.330	100	211
6.	Loan loss provisions and provisions for other losses	177		671		379
7.	PROFIT/LOSS FROM REGULAR BUSINESS OPERATIONS (3.+4.3.-5.4.-6.)	261		2.621		1.004
8.	Extraordinary income	34		18		53
9.	Extraordinary expenses	4		88		2.200
10.	PROFIT/LOSS BEFORE TAXES	291		2.551		877
11.	TAXES	0		255		n/a
12.	Net profit/ loss	291		2.296		789

ANNEXES FOR THE LEASING SECTOR

Annex 14- General Information on Leasing Companies

No.	Name of leasing company	Address and seat	Director	Phone	Date of issuing a licence	Number of employees	Web site
1.	ASA LEASING d.o.o. Sarajevo	Trg međunarodnog prijateljstva 25, Sarajevo	Aida Rifelj	+ 387 33 774 852	22.03.2010.	7	www.asa-leasing.ba
2.	NLB LEASING d.o.o. Sarajevo	Trg solidarnosti 2a, Sarajevo	Denis Silajdžić	+ 387 33 789 345	19.03.2010.	6	www.nbleasing.ba
3.	MOGO d.o.o. Sarajevo	Pijačna 14k, Sarajevo	Kreics Maris	+387 33 873 456	01.06.2018.	-	www.mogo.ba
4.	PORSCHE LEASING d.o.o.	Trg međunarodnog prijateljstva 24, Sarajevo	Dejan Stupar	+ 387 33 257 147	28.05.2015.	18	www.porscheleasing.ba
5.	RAIFFEISEN LEASING d.o.o. Sarajevo	Zmaja od Bosne bb, Sarajevo	Munir Čengić	+ 387 33 254 354	19.01.2010.	35	www.rlhb.ba
6.	SPARKASSE LEASING d.o.o. Sarajevo	Zmaja od Bosne 7, Sarajevo	Elma Hošo	+ 387 33 565 850	11.02.2010.	21	www.s-leasing.ba
7.	VB LEASING d.o.o Sarajevo	Fra Anđela Zvizdovića 1, Sarajevo	Slobodan Vujić	+387 33 276 280	12.01.2010	12	www.vbleasing.ba
Total						99	

Annex 15-Overview of the Ownership Structure of Leasing Companies

No	Leasing company	Name of the owner	% share
1.	ASA LEASING d.o.o. Sarajevo	ASA AUTO d.o.o. Sarajevo	82,81%
		ASA FINANCE d.d. Sarajevo	17,19%
2.	MOGO d.o.o. Sarajevo	Pole Alberts, Riga, Latvija	100,00%
3.	NLB LEASING d.o.o. Sarajevo	NLB d.d. Ljubljana	100,00%
4.	PORSCHE LEASING d.o.o.	PORSCHE BANK Aktiengesellschaft Salzburg Austrija	100,00%
5.	RAIFFEISEN LEASING d.o.o. Sarajevo	RAIFFEISEN BANK d.d. Sarajevo, BiH	100,00%
6.	SPARKASSE LEASING d.o.o. Sarajevo	STEIERMAERKISCHE BANK UND SPARKASSEN AG, Graz	51,00%
		SPARKASSE BANK d.d. Sarajevo	49,00%
7.	VB LEASING d.o.o. Sarajevo	VB LEASING INTERNATIONAL GmbH, Vienna	100,00%

Annex 16-Consolidated Balance Sheet of Leasing Companies

-in 000 KM-

No.	Description	31.12.2017.		30.6.2018.		Index
1	2	3	4	5	6	7=5/3
	ASSETS	Amount	% in total assets	Amount	% in total assets	30.06.2018/ 30.06.2017
1.	Cash and cash equivalents	13.738	5,3%	11.273	4,1%	82
2.	Placements with banks	16.953	6,5%	11.832	4,3%	70
3.	Receivables for financial leasing, net (3a-3b-3c-3d)	176.007	67,6%	194.966	71,0%	111
3a)	Receivables for financial leasing, gross	192.488	74,0%	212.054	77,3%	110
3b)	Loss provisions	2.078	0,8%	1.393	0,5%	67
3c)	Deferred interest income	14.275	5,5%	15.562	5,7%	109
3d)	Deferred fee income	128	0,0%	133	0,0%	104
4.	Receivables from subsidiaries	2	0,0%	2	0,0%	100
5.	Tangible and intangible assets, net (5a+5b-5c-5d)	29.606	11,4%	35.616	13,0%	120
5a)	Tangible and intangible assets – own assets	4.864	1,9%	4.622	1,7%	95
5b)	Tangible and intangible assets – operational leasing	43.673	16,8%	51.328	18,7%	118
5c)	Value adjustment – own assets	3.874	1,5%	3.643	1,3%	94
5d)	Value adjustment – operational leasing	15.057	5,8%	16.691	6,1%	111
6.	Long-term investments	291	0,1%	291	0,1%	100
7.	Other assets (7a+7b)	23.607	9,1%	20.451	7,5%	87
7a)	Loans, net (7a1-7a2)	13.449	5,2%	10.856	4,0%	81
7a1)	Loans (due receivables + non-due principal)	15.345	5,9%	12.791	4,7%	83
7a2)	Loan reserves	1.896	0,7%	1.935	0,7%	102
7b)	Inventories	3.087	1,2%	2.557	0,9%	83
7c)	Other assets	7.071	2,7%	7.038	2,6%	100
	TOTAL ASSETS	260.204	100,0%	274.431	100,0%	105
	LIABILITIES					
9.	Receivables due for taken loans, net	209.085	80,4%	226.387	82,5%	108
9a)	Receivables due for short-term loans	0	0,0%	0	0,0%	n/a.
9b)	Receivables due for long-term loans	209.275	80,4%	226.701	82,6%	108
9c)	Prepaid costs and fees	190	0,1%	314	0,1%	165
10.	Other liabilities	10.329	4,0%	7.929	2,9%	77
	TOTAL LIABILITIES	219.414	84,3%	234.316	85,4%	107
11.	Core capital	34.004	13,1%	32.452	11,8%	95
12.	Reserves	576	0,2%	4.437	1,6%	770
13.	Accumulated profit/loss	6.210	2,4%	3.226	1,2%	52
	TOTAL CAPITAL	40.790	15,7%	40.115	14,6%	98
	TOTAL LIABILITIES	260.204	100,0%	274.431	100,0%	105
	Written-off receivables (initial balance)	95.111	36,6%	84.175	30,7%	89
	New write-off (+)	995	0,4%	662	0,2%	67
	Collection (-)	6.069	2,3%	3.204	1,2%	53
	Permanent write-off (-)	5.862	2,3%	4.959	1,8%	85
	Written-off receivables (final balance)	84.175	32,3%	76.674	27,9%	91

Annex 17-Balance Sheet Total Ranking of Leasing Companies

-in 000 KM-

31.12.2017.					30.06.2018.					
Rank	Leasing company	Balance sheet total	Share	Cumul. share	Rang	Leasing company	Balance sheet total	Share	Cumul. share	Rang
1.	Raiffeisen Leasing d.o.o. Sarajevo	121.419	46,7%	46,7%	1.	Raiffeisen Leasing d.o.o. Sarajevo	117.589	42,8%	42,8%	97
2.	Sparkasse Leasing d.o.o. Sarajevo	57.774	22,2%	68,9%	2.	Porsche Leasing d.o.o. Sarajevo	75.523	27,5%	70,4%	159
3.	Porsche Leasing d.o.o. Sarajevo	47.365	18,2%	87,1%	3.	Sparkasse Leasing d.o.o. Sarajevo	56.834	20,7%	91,1%	98
4.	VB Leasing Leasing d.o.o. Sarajevo	20.756	8,0%	95,0%	4.	VB Leasing Leasing d.o.o. Sarajevo	11.874	4,3%	95,4%	57
5.	NLB Leasing d.o.o. Sarajevo	9.750	3,7%	98,8%	5.	NLB Leasing d.o.o. Sarajevo	9.698	3,5%	98,9%	99
6.	ASA Leasing d.o.o. Sarajevo	3.140	1,2%	100,0%	6.	ASA Leasing d.o.o. Sarajevo	2.913	1,1%	100,0%	93
Total		260.204	100,0%		Total		274.431	100,0%		105

Annex 18-Overview of Key Financial Indicators of Leasing Companies and Banks which perform Financial Leasing Operations

-in 000 KM-

No.	Leasing company/ bank	Total capital (000 KM)	Rank based on total capital	Net profit/loss (000 KM)	Rank based on net profit/loss	Facilities in first half of 2018 (000 KM)	Rank based on facilities in first half of 2018	No. of arangements in first half of 2018	Rank based on no.of arangements
1.	Asa Aleasing d.o.o. Sarajevo	2.830	5.	-175	5.	0	-	0	-
2.	NLB Leasing d.o.o. Sarajevo	9.411	2.	2.414	1.	0	-	0	-
3.	Porsche Leasing d.o.o.	2.263	6.	646	3.	39.656	1.	1.139	1.
4.	Raiffeisen Leasing d.o.o. Sarajevo	15.891	1.	485	4.	24.124	2.	597	2.
5.	Sparkasse Leasing d.o.o. Sarajevo	6.646	3.	1.009	2.	14.705	3.	290	3.
6.	UniCredit Bank d.d. Mostar	-	-	-	-	10.767	4	221	4.
7.	VB Leasing d.o.o. Sarajevo	3.074	4.	-217	6.	0	-	0	-
	Total	40.115		4.162		89.252		2.247	

Annex 19-Overview of Reserves for Financial Leasing

-in 000 KM-

Days past due	Provisioning rate for financial leasing (moveables)	Provisioning rate for financial leasing (immoveables)	Amount of receivables for moveables	Amount of receivables for immoveables	Principal amount for moveables	Principal amount for immoveables	Reserves			Total reserves
							For moveables	For immoveables	Additional calculated and allocated reserves	
1	2	3	4	5	6	7	8=6*3	9=7*3	10	11=8+9+10
0-60	0,50%	0,50%	188.986	2.463	37.734	904	189	5	716	909
60-90	10%	10%	4.196	0	636	0	63	0	39	103
90-180	50%	50%	327	0	78	0	39	0	67	106
over 180	100%	75%	133	135	133	23	133	17	6	156
Over 360	100%	100%	119	0	119	0	119	0	0	119
Total			193.761	2.598	38.700	927	543	22	828	1.393

Annex 20-Overview of Reserves for Loans

-in000 KM-

Days past due	Provisioning rate	Amount of receivables	Reserves	Additional calculated allocated reserves	Total reserves
1	2	3	4=3*2	5	6=4+5
0-60	0,05%	12.791	6	1.929	1.935
60-90	5%	0	0	0	0
90-180	10%	0	0	0	0
180-270	30%	0	0	0	0
270-360	50%	0	0	0	0
over 360	100%	0	0	0	0
Total		12.791	6	1.929	1.935

Annex 21-Income Statement of Leasing Companies

in 000 KM-

R. br.	Opis	30.6.2017.		30.6.2018.		Index
1	2	3	4	5	6	7=5/3
		Amount	% in total income / expenses	Amount	% in total income / expenses	30.06.2018/ 30.06.2017
	FINANCIAL INCOME AND EXPENSES					
1.	Interest income	9.665	47,3%	5.436	32,6%	56
1a)	Interest for financial leasing	7.858	38,4%	4.464	26,7%	57
1b)	Interest on placements with banks	137	0,7%	137	0,8%	100
1c)	Fees (for processing leasing arrangements, etc.)	456	2,2%	303	1,8%	66
1d)	Other interest income	1.214	5,9%	532	3,2%	44
2.	Interest expenses	2.882	15,4%	1.571	12,5%	55
2a)	Interest on borrowed funds	2.824	15,1%	1.522	12,1%	54
2b)	Fees for loan processing	57	0,3%	46	0,4%	81
2c)	Other interest expenses	1	0,0%	3	0,0%	n/a
3.	Net interest income	6.783	33,2%	3.865	23,2%	57
	OPERATING INCOME AND EXPENSES					
4.	Operating income	10.785	52,7%	11.259	67,4%	104
4a)	Fees for services	2	0,0%	1	0,0%	n/a
4b)	Fee for operational lease	6.060	29,6%	6.093	36,5%	101
4c)	Income from sale of leasing facilities	0	0,0%	165	1,0%	n/a
4d)	Other operating income	4.723	23,1%	5.000	29,9%	106
4d1)	Income from collected written-off receivables	2.017	9,9%	3.172	19,0%	157
4d2)	Income from notifications	187	0,9%	103	0,6%	55
4d3)	Other	2.519	12,3%	1.752	10,5%	70
5.	Operating expenses	15.886	84,9%	10.912	87,1%	69
5a)	Salaries and contributions	3.515	18,8%	2.427	19,4%	69
5b)	Costs of business premises	5.437	29,1%	4.743	37,8%	87
5c)	Other costs	6.934	37,1%	3.742	29,9%	54
6.	Costs of loan loss provisions	-58	n/a	50	0,4%	n/a
7.	Profit before taxes	1.740	9,3%	4.162	24,9%	239
8.	Profit tax	34	0,2%	0	0,0%	n/a
9.	Net profit	1.706	8,3%	4.162	24,9%	244

ANNEXES FOR THE FACTORING SECTOR

Annex 22- General Information on Factoring Company

No.	Name of the company	Address and seat	Director	Phone	Date of issuing a licence	No.of employees	Web site
1.	Batagon factoring d.o.o. Sarajevo	Fra Anđela Zvizdovića 1, Sarajevo	Đenan Bogdanić	+387 33 296 600	28.12.2017. godine	3	www.batagon-factoring.ba



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