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ON THE FEDERATION OF BOSNIA AND HERZEGOVINA
BANKING SYSTEM ENTITIES, WITH BALANCE
AS OF JUNE 30TH, 2019

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FEDERATION OF BOSNIA AND HERZEGOVINA BANKING AGENCY

Acronyms and terms:

DIA	Deposit Insurance Agency of Bosnia and Herzegovina
BD	Brcko District of Bosnia and Herzegovina
BiH	Bosnia and Herzegovina
CAMELS	Uniform internal bank rating system, which includes main components: capital, asset quality, governance and management, profitability, liquidity and sensitivity to market risks
CBBiH	Central Bank of Bosnia and Herzegovina
CEDB	Council of Europe Development Bank
CCR	Central Credit Register in BiH
DEG	Deutsche Investitions - und Entwicklungsgesellschaft (German Investment and Development Corporation)
EBA	European Banking Authority
EBRD	European Bank for Reconstruction and Development
ECB	European Central Bank
EIB	European Investment Bank
EIR	Effective interest rate
EU	European Union
FBA	Federation of Bosnia and Herzegovina Banking Agency
FBiH	Federation of Bosnia and Herzegovina
FMF	Federation Ministry of Finance
FID	Financial Intelligence Department
FSAP	Financial Sector Assessment Program
FX risk	Foreign exchange risk
LCR	Liquidity coverage ratio
MCC	Microcredit company
MCF	Microcredit foundation
MCO	Microcredit organization
IMF	International Monetary Fund
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
NIR	Nominal interest rate
NPL	Non-performing loans
OMBUDSMAN	FBiH Banking System Ombudsman
GCR	General credit risk
PLL	Potential loan losses
LLR	Loan loss reserves
ML/FT	Money laundering and the financing of terrorism
RS	Republika Srpska
WB	World Bank
BSEs	FBiH banking system entities: banks, banking groups, development banks, MCOs, leasing companies, factoring companies, money changers, and other financial organizations whose operations are supervised by FBA
AML/CFT	Anti-money laundering and combating the financing of terrorism
SREP	Supervisory Review and Evaluation Process
BABiH	Banks Association of Bosnia and Herzegovina
BiHALC	BiH Association of Leasing Companies
MB	FBiH Banking Agency's Management Board
LoA	Law on Federation of Bosnia and Herzegovina Banking Agency
BL	Banking Law
LoF	Law on Factoring
LoL	Law on Leasing
LoMCOs	Law on Microcredit Organizations
FCPL	Financial Consumer Protection Law

TABLE OF CONTENTS:

Acronyms and terms:.....	3
List of Tables:.....	7
List of Charts:.....	9
INTRODUCTION.....	10
EXECUTIVE SUMMARY	11
1. BANKING SECTOR.....	15
1.1. FBiH BANKING SECTOR'S STRUCTURE	15
1.1.1. Status, Number and Business Network.....	15
1.1.2. Ownership Structure and Market Share	15
1.1.3. Staff Structure	17
1.2. FINANCIAL INDICATORS OF PERFORMANCE	18
1.2.1. Balance Sheet.....	18
1.2.2. Liabilities	22
1.2.3. Capital and Capital Adequacy.....	24
1.2.4. Assets and Asset Quality.....	27
1.2.5. Profitability	32
1.2.5.1. FBiH Banking Sector's Earnings Level, Quality and Trend.....	33
1.2.5.2. FBiH Banking Sector's Total Income.....	35
1.2.5.3. FBiH Banking Sector's Total Expenditures.....	35
1.2.5.4. FBiH Banking Sector's Operational Profitability, Productivity and Efficiency Ratios	36
1.2.6. Weighted NIR and EIR	37
1.2.7. Liquidity.....	38
1.2.8. Foreign Exchange (FX) Risk	41
1.3. BANKS' COMPLIANCE IN PERFORMANCE OF PAYMENT OPERATIONS AND WITH AML/CFT STANDARDS	43
1.3.1. Banks' Compliance in Performance of Payment Operations.....	43
1.3.2. Banks' Compliance with AML/CFT Standards.....	45
1.4. BANKING SECTOR RECOMMENDATIONS	47
2. NON-DEPOSITORY FINANCIAL INSTITUTIONS SECTOR	49
2.1. MICROCREDIT SECTOR.....	51
2.1.1. MICROCREDIT SECTOR STRUCTURE IN FBiH	51
2.1.1.1. Status, Number and Business Network	51
2.1.1.2. Ownership Structure	51
2.1.1.3. Staff Structure.....	51
2.1.2. FINANCIAL INDICATORS OF PERFORMANCE	52
2.1.2.1. Balance Sheet	52
2.1.2.2. Capital and Liabilities	53
2.1.2.3. Assets and Asset Quality	55
2.1.2.4. Profitability.....	58
2.1.3. COMPLIANCE OF MICROCREDIT SECTOR BUSINESS OPERATIONS WITH AML/CFT STANDARDS.....	60
2.1.4. MICROCREDIT SECTOR RECOMMENDATIONS	61
2.2. LEASING SECTOR.....	62
2.2.1. LEASING SECTOR STRUCTURE IN FBiH.....	62
2.2.1.1. Number of Leasing Companies	62
2.2.1.2. Ownership Structure.....	62
2.2.1.3. Staff Structure.....	62

2.2.2. FINANCIAL INDICATORS OF PERFORMANCE	63
2.2.2.1. Balance Sheet	63
2.2.2.2. Capital and liabilities.....	65
2.2.2.3. Assets and Asset Quality	67
2.2.2.4. Profitability.....	68
2.2.2.5. Structure of Placements According to Subject and Type of Leasing	70
2.2.3. COMPLIANCE OF BUSINESS OPERATIONS OF LEASING SECTOR WITH AML/CFT STANDARDS.....	71
2.2.4. LEASING SECTOR RECOMMENDATIONS.....	72
2.3. FACTORING SECTOR	72
2.3.1. Factoring Sector Characteristics in FBiH.....	72
2.3.2. Scope, Structure and Trend of Factoring Operations in FBiH.....	73
2.3.3. FACTORING SECTOR RECOMMENDATIONS	75
3. PROTECTION OF RIGHTS AND INTERESTS OF NATURAL PERSONS / USERS OF FINANCIAL SERVICES IN BSES IN FBiH.....	76
3.1. Activities on Protecting Rights and Interests of Natural Persons - Financial Users in BSEs in FBiH	76
3.2. OMBUDSMAN’S RECOMMENDATIONS FOR BSEs	78
CONCLUSION	80
BANKING SECTOR ANNEXES.....	82
Annex 1-Basic information on FBiH banks as at June 30 th , 2019	82
Annex 2- FBiH banks’ balance sheet according to FBA scheme (active sub-balance sheet).....	83
Annex 3-Overview of assets, loans, deposits and financial performance of FBiH banks-June 30 th , 2019	84
Annex 4- FBiH banks’ balance sheet asset classification-June 30 th , 2019	85
Annex 4a- FBiH banks’ at-risk off-balance sheet item asset classification-June 30 th , 2019	86
Annex 5-FBiH banks’ income statement according to FBA’s scheme-June 30 th , 2019.....	87
Annex 6-Weighted average NIR and EIR on loans and deposits as of June 30 th , 2019	88
Annex 6a-Weighted average NIR and EIR on loans and deposits by periods.....	89
MICROCREDIT SECTOR ANNEXES	90
Annex 7-Basic information on FBiH MCOs as at June 30 th , 2019.....	90
Annex 8-Overview of weighted NIR and EIR for MCOs established in FBiH for disbursed..... microloans for January 1 - June 30, 2019 period.....	91
Annex 8a-Overview of weighted NIR and EIR for MCOs from RS operating in FBiH for disbursed.. microloans for January 1 - June 30, 2019 period.....	92
Annex 8b - Comparative overview of average weighted EIR for MCOs established in FBiH for disbursed microloans	93
Annex 9-MCFs’ aggregate balance sheet-June 30 th , 2019.....	94
Annex 10-MCCs’ average balance sheet-June 30 th , 2019	95
Annex 11-Overview of MCOs’ core financial indicators - June 30 th , 2019	96
Annex 12- MCFs’ aggregate income statement-June 30 th , 2019.....	97
Annex 13- MCCs’ aggregate income statement-June 30 th , 2019	98
LEASING SECTOR ANNEXES.....	99

Annex 14-Basic information on leasing companies as at June 30 th , 2019.....	99
Annex 15-Overview of weighted NIR and EIR for financial leasing contracts for January 01 - June 30, 2019 period.....	100
Annex 15a-Overview of weighted NIR and EIR for financial leasing contracts by periods.....	101
Annex 16-Overview of leasing companies' ownership structure-June 30 th , 2019.....	102
Annex 17-Leasing companies' aggregate balance sheet-June 30 th , 2019.....	103
Annex 18-Overview of leasing companies' assets, financial leasing type receivables and net stock of assets leased under operating leasing, and financial performance as at June 30 th , 2019	105
Annex 19-Overview of core financial indicators for leasing companies and banks performing financial leasing operations-June 30 th , 2019.....	106
Annex 20-Overview of financial leasing reserves-June 30 th , 2019	107
Annex 21-Overview of loan reserves-June 30 th , 2019.....	108
Annex 22-Leasing companies' aggregate income statement-June 30 th , 2019	109
FACTORING SECTOR ANNEXES	110
Annex 23-Basic information on factoring company and ownership structure as at June 30 th , 2019....	110

List of Tables:

Table 1: Ownership structure according to total capital	16
Table 2: Ownership structure according to state-owned, private and foreign capital	17
Table 3: Qualification structure of employees in FBiH banks	17
Table 4: Assets per employee.....	18
Table 5: Balance sheet.....	18
Table 6: Banks' assets according to ownership structure	19
Table 7: Share of groups of banks in total assets through periods	20
Table 8: Banks' cash.....	21
Table 9: Investments in securities according to type of instrument.....	21
Table 10: Securities of BiH entity governments.....	22
Table 11: Sector structure of deposits.....	23
Table 12: Retail savings by periods.....	24
Table 13: Maturity structure of retail savings deposits by periods.....	24
Table 14: Report on stock of own funds.....	25
Table 15: Risk exposure structure.....	26
Table 16: Capital adequacy indicators.....	27
Table 17: Leverage ratio.....	27
Table 18: Assets (on- and off-balance sheet), LLR according to regulator and impairments under IFRS	28
Table 19: Total assets, gross on-balance sheet assets, at-risk and risk-free asset items.....	28
Table 20: Sector structure of loans.....	29
Table 21: Asset classification, GCR, and PLL.....	29
Table 22: Classification of retail and corporate loans.....	31
Table 23: Industry concentration of loans.....	32
Table 24: Actual financial performance: profit/loss.....	34
Table 25: Structure of total income.....	35
Table 26: Structure of total expenditures.....	36
Table 27: Profitability, productivity and efficiency ratios by periods.....	37
Table 28: LCR.....	39
Table 29: Maturity structure of deposits by residual maturity.....	39
Table 30: Liquidity ratios.....	39
Table 31: Maturity matching of financial assets and financial liabilities of up to 180 days.....	40
Table 32: Foreign exchange matching of financial assets and financial liabilities (EUR and total)	40
Table 33: Volume of foreign exchange payment system transactions in January 1 - June 30, 2019 period by transaction currencies.....	43
Table 34: Volume of authorized money changers' money exchange operations in January 1 - June 30, 2019 period by currencies	44
Table 35: Volume of money exchange operations performed by banks in January 1 - June 30, 2019 period by currencies.....	44
Table 36: Volume of payment transactions performed in the internal payments system in January 1 - June 30, 2019 period by transaction type.....	44
Table 37: Overview of opened and closed accounts in banks in January 1 - June 30, 2019 period by account type.....	45
Table 38: Number of reported transactions, by number and value	46
Table 39: Number of reported suspicious transactions, by number and value	46
Table 40: Overview of number of reported suspicious clients... ..	46
Table 41: Microcredit sector's balance sheet	52
Table 42: Maturity structure of loans taken out.....	54
Table 43: Microcredit sector's capital structure.....	54
Table 44: Net microloans	55

Table 45: Sectoral and maturity structure of microloans as at June 30 th , 2019	55
Table 46: LLR with balance as at June 30 th , 2019.....	54
Table 47: Aggregate income statement of microcredit sector.....	57
Table 48: Overview of number and value of reported transactions	60
Table 49: Overview of number reported suspicious clients.....	61
Table 50: Structure of financial leasing type receivables - June 30, 2019.....	64
Table 51: Structure of financial leasing type receivables – comparative overview.....	64
Table 52: Structure net balance sheet positions in assets.....	65
Table 53: Reserves created in leasing sector for financial leasing by default categories.....	67
Table 54: Seized items in leasing sector.....	68
Table 55: Financial performance.....	68
Table 56: Structure of total income.....	69
Table 57: Structure of total expenditures.....	69
Table 58: Structure of financing amount of leasing system.....	71
Table 59: Structure of concluded contracts.....	71
Table 60: Nominal amount of redeemed monetary claims across FBiH factoring system, by type of factoring and domicile.....	74
Table 61: Manner of resolution of complaints by periods	77
Table 62: Structure of completed cases by type of financial service.....	77

List of Charts:

Chart 1:	Foreign capital structure by countries, % share.....	16
Chart 2:	Foreign capital structure by countries – residence of group, % share.....	16
Chart 3:	Herfindahl index of concentration in assets, loans and deposits.....	19
Chart 4:	Concentration ratios for five biggest banks - CR5: assets, loans, and deposits.....	20
Chart 5:	Structure of investments in securities according to criterion of country issuer	22
Chart 6:	Retail savings by periods.....	24
Chart 7:	NPLs.....	31
Chart 8:	Maturity matching of financial assets and financial liabilities of up to 180 days.....	41
Chart 9:	Structure of liabilities.....	66

INTRODUCTION

The FBA was established in 1996 as an independent and self-standing institution which exercises its competences in accordance with the prescribed provisions of the LoA, international standards and supervision principles and professional rules. The MB performs general supervision of the FBA's operation, taking measures for efficient performance of the functions from the FBA's purview in accordance with its statutory competences and reporting to the FBiH Parliament. As part of its regular execution of its statutory competences, the FBA draws up and discloses publicly on its website quarterly updates on BSEs approved by the FBA's MB.

Accordingly, this Information on the BSEs, with balance as of June 30th, 2019 was drawn up using reference sources, comprising processed reporting data provided by the BSEs to the FBA in the prescribed formats and within the prescribed timelines, and other data and information provided by the FBiH BSEs to the FBA and used in regular supervision of the BSEs.

Content-wise, this Information is divided into three sections.

First section covers a detailed analysis of the FBiH's banking sector with regard to banking supervision, its structure, financial performance indicators, prudential regulations, banks' compliance with regulations in their performance of payment operations and with the AML/CFT standards, with the FBA's recommendations for the FBiH banking sector. An overview of average weighted NIRs and EIRs on approved loans and received deposits is presented through annexes which form an integral part of this Information, with a view to greater transparency and easier comparability for financial users.

Second section is on a detailed analysis of the non-depository financial institutions sector, as well as compliance of their operations with the laws and regulations and AML/CFT standards, within which microcredit, leasing and factoring sectors in the FBiH were addressed as separate segments, with the related sector-specific FBA's recommendations. This section of the Information provides an overview of average weighted NIRs and EIRs for non-depository financial institutions (microcredit and leasing sectors in the FBiH), through annexes which form an integral part of this Information. Factoring service providers are required to provide to the FBA regulatory quarterly reports on interest rates and fees, according to which data on interest rates, fees and administrative fees are to be input according to the level that applied on the last day of the reporting period and these data are presented in the related section of the Information.

The microcredit sector in the FBiH comprises MCFs and MCCs in accordance with the regulations, with the data in the related sections of the Information presented for the microcredit sector as a unit and for MCFs and MCCs depending on the context, content and relevance of the reported indicators and operating and/or supervision segments. In the Information's section on the supervision of leasing companies' operations in the FBiH, the terms leasing system and leasing sector are used, where leasing system means aggregated data on leasing sector (data of leasing companies' in the FBiH with license to perform leasing operations issued by the FBA) and data reported in the reports of one bank in the FBiH with receivables in its portfolio under financial leasing. In the Information's section on the supervision of factoring sector in the FBiH, the reported data are related to banks performing factoring operations and factoring company, which filed a request in July 2019 to the FBA for revocation of its license to perform factoring operations.

The Information's third section is on the segment of protection of the rights and interests of natural persons - financial users in BSEs, with the related Ombudsman's recommendations.

Data expressed in percentages in the Information are typically shown with one decimal place, except for the data on the NIR and EIR levels at the FBiH BSEs and other data wherein this is relevant.

EXECUTIVE SUMMARY

FBiH Banking Sector's Key Performance Indicators

15 commercial banks, with 538 organizational units employing a total of 6.754 persons, operated in the FBiH as at June 30th, 2019.

The total net assets across the FBiH banking sector as of June 30th, 2019 were BAM 23.1 billion and were higher by BAM 988.1 million or 4.5% compared to December 31st, 2018.

The loans, with a share of 64.7% in the composition of total assets, recorded an increase compared to the end of 2018 of BAM 597.3 million or 4.2%, amounting to BAM 14.9 billion as at June 30th, 2019. The increase in loans as of June 30th, 2019 compared to the end of 2018 was realized in the loans approved to households, private companies, non-bank financial institutions and public enterprises, while lending to government and banking institutions and other sectors decreased.

The corporate loans increased by BAM 271.6 million or 3.6%, amounting to BAM 7.7 billion as at June 30th, 2019, with a share of 51.9% in the total loans. The retail loans increased by BAM 325.7 million or 4.8% in the same period, with a share in the total loans of 48.1% and amounting to BAM 7.2 billion as at June 30th, 2019.

The share of NPLs decreased from 8.5% to 7.8%, dominantly as a result of credit growth and collection activities. The share of NPLs for corporates compared to the total corporate loans was 9.6%, which was lower by 1.0 percentage point compared to the end of 2018, while the share of NPLs for retail compared to the total retail loans was 5.9%, which was lower by 0.3 percentage points in the reporting period.

The cash amounted to BAM 7.0 billion or 30.1% of the total assets and was higher by BAM 365.3 million or 5.5% compared to the end of 2018.

The investments in securities amounting to BAM 1.4 billion as of June 30th, 2019, with a share in the assets of 6.0%, increased by 5.3% compared to the end of 2018.

The deposits reached BAM 18.3 billion, with a realized increase of BAM 701.9 million or 4.0%, remaining the most important funding source, with a share of 79.3% in the total liabilities. The savings deposits, as the most important and largest segment of banks' deposit and financial potential, increased by BAM 388.6 million or 4.4% and amounted to BAM 9.2 billion.

The loans taken out amounted to BAM 803.9 million, with a share of 3.5% in the total liabilities and decrease of BAM 59.0 million or 6.8% compared to the end of 2018.

The FBiH banks' total capital amounted to BAM 3.1 billion as at June 30th, 2019, which was higher by BAM 108.7 million or 3.7% compared to the end of 2018, of which shareholders' capital was BAM 1.3 billion. The share of total capital in the funding sources across the FBiH banking sector was 13.3%. The own funds amounted to BAM 2.7 billion and increased by BAM 192.1 million or 7.7% compared to the end of 2018. Tier 1 capital increased by BAM 186.4 million or 7.9%, while Tier 2 capital increased by BAM 5.7 million or 4.5%.

The FBiH banking sector's own funds ratio was 17.7% as at June 30th, 2019 and higher than the statutory minimum of 12%. It was higher by 0.2 percentage points compared to the end of 2018. Other higher capital ratios (Common Equity Tier 1 capital ratio and Tier 1 capital ratio) compared to regulatory minimums were also reported across the FBiH banking sector.

The leverage ratio across the FBiH banking sector was 10.5% (6% regulatory minimum) as at June 30th, 2019 and was higher by 0.4 percentage points compared to the end of 2018.

By observing the key liquidity indicators, qualitative and quantitative requirements, as well as other factors affecting banks' liquidity position, it could be inferred that the FBiH banking sector's liquidity was satisfactory as of June 30th, 2019.

Across the FBiH banking sector, according to banks' reporting data as of June 30th, 2019, positive financial performance - profit of BAM 181.7 million was reported, which was higher by BAM 6.9 million or 3.9% compared to the first semester of 2018.

FBiH Microcredit Sector's Key Performance Indicators

In the FBiH, as of June 30th, 2019, 13 MCOs comprising the FBiH microcredit sector had a license issued by the FBA, of which 11 were MCFs (non-profit organizations) and two MCCs (for-profit organizations). Compared to December 31st, 2018, a license was granted by the FBA in February 2019 to a new MCC, which started its business activities in the second quarter of 2019. There was no major expansion of the network of MCOs' organizational units in the FBiH in the first six months of 2019. The FBiH microcredit sector employed 1.506 persons as of June 30th, 2019, which was higher by 3.1% compared to December 31st, 2018.

The FBiH microcredit sector's total assets were BAM 611.3 million as of June 30th, 2019 and were higher by BAM 30.9 million or 5.3% compared to the stock as at December 31st, 2018. In the reporting period, the total MCCs' assets increased by BAM 4.9 million or 3.3%, while the total MCFs' assets increased by BAM 26.0 million or 6.0%.

The total net microloans were BAM 480.4 million, comprising 78.6% of the FBiH microcredit sector's total assets and increasing by BAM 26.4 million or 5.8% compared to December 31st, 2018. The net MCCs' microloans increased by BAM 4.8 million or 3.6%, while the total increase reported at the MCFs' level was BAM 21.6 million or 6.7% compared to December 31st, 2018.

The FBiH microcredit sector's total liabilities under loans taken out were BAM 294.1 million as of June 30th, 2019, with a share of 48.1% in the total liabilities and increasing by BAM 14.4 million or 5.1% compared to December 31st, 2018. In the reporting period, MCCs' credit obligations decreased by BAM 0.4 million or 0.5%, while MCFs' credit obligations increased by BAM 14.8 million or 8.3%.

The total capital across the FBiH microcredit sector was BAM 283.1 million or 46.3% of the total liabilities as of June 30th, 2019 and was higher by BAM 10.3 million or 3.8% compared to the end of 2018, where BAM 3.6 million or 9.1% of the total increase in the microcredit sector's capital related to the increase in the total MCCs' capital, while BAM 6.7 million or 2.9% related to the total MCFs' capital in the reporting period.

Across the FBiH microcredit sector, at the end of the first semester of 2019, positive financial performance of BAM 10.4 million was reported, which was lower by BAM 1.1 million or 9.8% compared to the same period of 2018. The MCCs reported net profit of BAM 3.1 million, which

is an increase of BAM 0.8 million or 33.5% compared to the same period of the preceding financial year. The MCFs reported a total surplus of revenues over expenditures of BAM 7.3 million, which is a decrease of BAM 1.9 million or 20.6% compared to the same period of 2018.

Operational efficacy of the FBiH microcredit sector's operations was 18.3% as of June 30th, 2019, which was within the regulatory indicator of up to 45%, while reported return on assets, adjusted for inflation, market price of capital and donations, was positive and amounted to 2.9%, which was in compliance with the regulatory limit.

Based on the aforementioned FBiH microcredit sector's key performance indicators, it could be inferred that the sector's performance was characterized by an increase in the total assets, microloan portfolio, staffing level and total capital. The sector's operation with a positive financial performance continued, where it decreased by 9.8% compared to June 30th, 2018. The microloan portfolio quality indicators across the sector were within the regulatory limits and did not significantly change.

FBiH Leasing Sector's Key Performance Indicators

The FBiH leasing system comprised, as of June 30th, 2019, six leasing companies (leasing sector) and one commercial bank performing financial leasing operations. The FBiH leasing sector employed a total of 129 persons as of June 30th, 2019.

The FBiH leasing sector's total assets were BAM 336.9 million as at June 30th, 2019 and were higher by BAM 39.8 million or 13.4% compared to December 31st, 2018. The net receivables under financial leasing, as the most material item in the composition of total assets, were BAM 238.1 million or 70.7% of the total assets and were higher by BAM 23.5 million or 10.9% compared to December 31st, 2018. With respect to the FBiH leasing sector's asset quality in the first semester of 2019, an increase in financial leasing loss reserves of 49.7% compared to December 31st, 2018 was observed, as well as an increase in overdue receivables of 12.3% in the same period. The total number and value of newly concluded leasing contracts (financial and operational leasing) in the reporting period recorded increases of 34.4% and 19.4% respectively.

The largest item in the composition of the FBiH leasing sector's total liabilities constituted, as of June 30th, 2019, liabilities of BAM 300.1 million under loans taken out, all of which were of a long-term character and accounted for 89.1% of the total liabilities. Compared to December 31st, 2018, these liabilities increased by BAM 47.7 million or 18.9%.

The FBiH leasing sector's total capital was BAM 29.5 million as at June 30th, 2019, comprising 8.8% of the FBiH leasing sector's total liabilities and decreasing by a total of BAM 7.2 million or 19.6% compared to December 31st, 2018.

Across the FBiH leasing sector, in the January 1 - June 30, 2019 period, a net profit of BAM 1.0 million was reported, which decreased by BAM 3.2 million or 76.8% compared to the same period of the preceding financial year, as a result of an increase in total expenditures by BAM 2.2 million or 17.3% and decrease in total revenues by BAM 1.0 million or 6.2% in the reporting period.

FBiH Factoring Sector's Key Indicators

The FBiH factoring system comprised, as of June 30th, 2019, one registered factoring company with license to perform factoring operations issued by the FBA, which had started its operation in the first quarter of 2018 (factoring sector) and four commercial banks, three of which were members of international banking groups established in the EU member states and one in majority

domestic ownership. After the financial date, the factoring company filed a request to the FBA for revocation of its license to perform factoring operations, based on a decision previously taken by the company's General Meeting to delete the activity of performing factoring operations.

Across the FBiH factoring system, the total volume (nominal amount) of purchased monetary claims in the January 1 - June 30, 2019 period was BAM 88.5 million, BAM 87.8 million or 99.3% of which related to banks, while BAM 0.7 million or 0.7% related to the factoring company. Compared to the same period of 2018, the total volume (nominal amount) of purchased monetary claims increased by BAM 31.4 million or 55.1%. The total number of concluded factoring contracts in the first semester of 2019 decreased by 21.1% compared to the same period of 2018, while the number of active factoring contracts increased by 33.8% in the reporting period.

The factoring service providers' total income across the FBiH factoring system for the January 1 - June 30, 2019 period was BAM 1.0 million, of which the banks' actual income accounted for 97.8% of the FBiH factoring system's total reported income. Compared to the same period of 2018, the factoring service providers' total income across the FBiH factoring system increased by 42.9%.

1. BANKING SECTOR

1.1. FBiH BANKING SECTOR'S STRUCTURE

1.1.1. Status, Number and Business Network

As at June 30th, 2019, 15 commercial banks had banking license in the FBiH. Number of banks remained the same as on December 31st, 2018. A special law regulates the establishment and operation of the Development Bank of the Federation of BiH, which is a successor to the Investment Bank of the Federation of BiH JSC since July 01st, 2008, with its supervision performed under a Decree on the FBiH Development Bank's Operations Supervision Criteria and Management Method and data on its operations not included in this Information.

Annex 1 provides basic information about the the FBiH banks as at June 30th, 2019.

The the FBiH banks had, as of June 30th, 2019, a total of 538 organizational units, which was fewer by 2.0% compared to December 31st, 2018. In the territory of the FBiH there are 480 organizational units of the banks. Six banks from the FBiH had 49 organizational units in the RS, while eight banks had nine organizational units in the BD.

Three banks from the RS have their organizational parts in the FBiH. The number of organizational units of the banks from the RS in the FBiH is 25 and it has not changed compared to December 31st, 2018.

All banks were licensed to perform interbank transactions in the internal payments system as at June 30th, 2019. All FBiH banks are members of the DIA.

1.1.2. Ownership Structure and Market Share

Ownership structure of the FBiH banks¹ as at June 30th, 2019, based on the available information and insight in the banks themselves, is the following:

- privately owned and predominantly privately owned - 14 banks,
- state-owned and predominantly state-owned² - one bank.

Of 14 predominantly privately owned banks, four banks are majority-owned by domestic legal and natural persons (residents), while ten banks are majority foreign-owned.

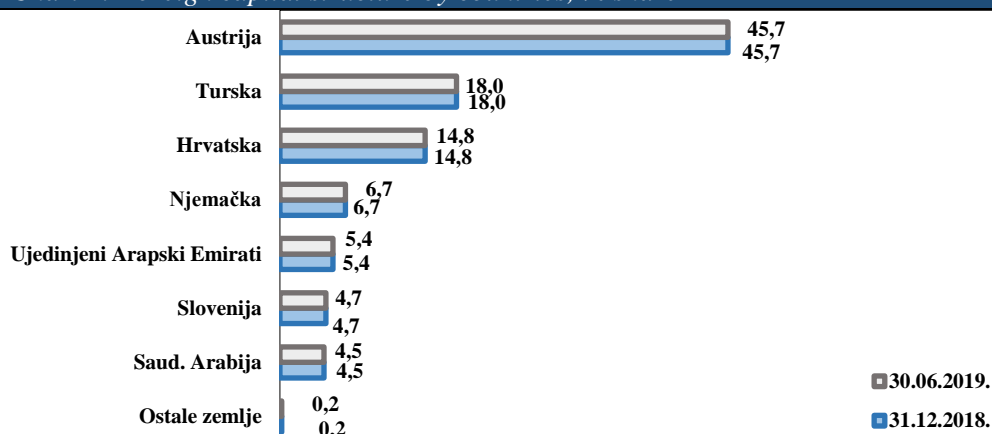
If only foreign capital is analyzed, according to the shareholder country of origin criterion, as at June 30th, 2019, the situation is unchanged compared to the end of 2018, since the highest share is still held by the shareholders from Austria, followed by the shareholders from Turkey and Croatia, while other countries have no major individual shares (below 7%).

The foreign capital structure by countries provides in the following chart:

¹ The criterion for division of the banks is ownership of the banks' share capital

² State-owned refers to the FBiH's state-owned capital

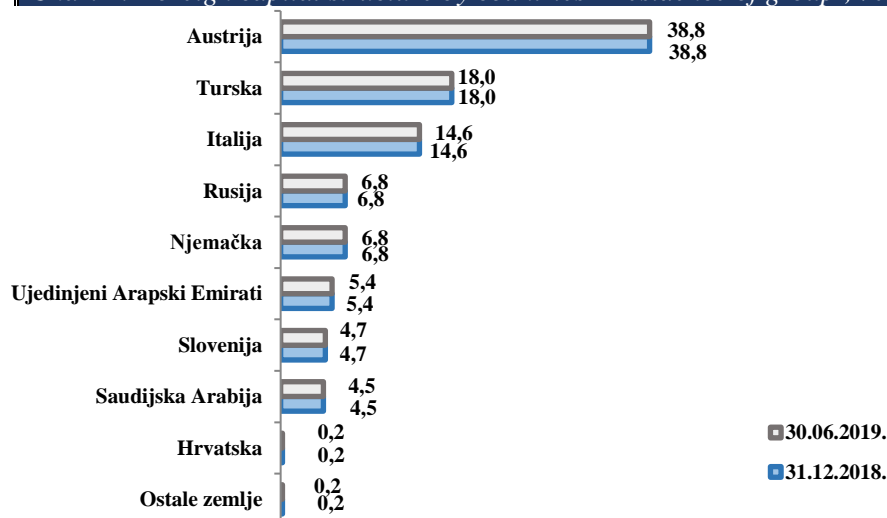
Chart 1: Foreign capital structure by countries, % share



If the capital ties are considered, the foreign capital structure can also be viewed according to the criterion of the country of residence of the parent, i.e. the banking group that majority-owns (directly or indirectly through the members from the banking group) the the FBiH banks.

According to this criterion the situation as at June 30th, 2019 is unchanged compared to the end of 2018, since the highest share is held by the banking groups and banks from Austria, followed by the banking groups and banks from Turkey and Italy, while the banking groups and banks from other countries have no major individual shares (below 7%).

The foreign capital structure by countries – residence of the group provides in the following chart:

Chart 2: Foreign capital structure by countries – residence of group³, % share

The ownership structure according to the value of the total capital provides in the following table:
-in BAM '000s-

Banks	July 31 st , 2017		December 31 st , 2018		June 30 th , 2019		Index	
	Amount	Share	Amount	Share	Amount	Share	8 (4/2)	9 (6/4)
State-owned banks	53,507	1.9%	61,488	2.1%	61,242	2.0%	115	100
Private banks	2,811,542	98.1%	2,909,598	97.9%	3,018,535	98.0%	103	104
Total	2,865,049	100%	2,971,086	100%	3,079,777	100%	104	104

The total capital of the FBiH banking sector with the balance as at June 30th, 2019 increased by 3.7% compared to the end of 2018, amounting to BAM 3.1 billion. The increase in the total capital

³ In addition to the countries of residence of the parent-banking group whose members are the banks from the FBiH, the countries that all other foreign shareholders of the banks from the FBiH come from are also included

by BAM 108.7 million was realized as a net effect of: the increase on the basis of the current actual financial performance of BAM 181.7 million and increase in the value of the securities classified at fair value through other comprehensive income of BAM 11.2 million and decrease on the basis of the transfers to the dividend payment obligations in two banks in the total amount of BAM 81.2 million and transfers to the accrued tax liabilities in four banks on the transferred loan loss reserves created from the profits in Tier 1 capital of BAM three million.

Viewed through the state-owned, private and foreign capital shares in the share capital of the banks, resulting in a more detailed analytical overview on the ownership structure of the banks' capital in the FBiH, which is shown in the following table:

-in BAM '000s-

Table 2: Ownership structure according to state-owned, private and foreign capital

Share capital	July 31 st , 2017		December 31 st , 2018		June 30 th , 2019		Index	
	Amount	Share	Amount	Share	Amount	Share	(4/2)	(6/4)
1	2	3	4	5	6	7	8	9
State-owned capital	31,619	2.6%	41,619	3.2%	41,619	3.2%	132	100
Private capital (residents)	142,109	11.6%	139,637	10.7%	139,664	10.7%	98	100
Foreign capital (non-residents)	1,052,061	85.8%	1,118,444	86.1%	1,118,417	86.1%	106	100
Total	1,225,789	100%	1,299,700	100%	1,299,700	100%	106	100

The total banks' share capital, as well as the state-owned capital, private capital (residents) and foreign capital (non-residents) shares as of June 30th, 2019, remained at the same level compared to the end of 2018. Minor changes relate to an increase in the private capital, i.e. a decrease in the foreign capital by BAM 27.0 million.

1.1.3. Staff Structure

The number of employees across the banking sector as at June 30th, 2019 is 6,754, which is higher by 15 employees or 0.2% compared to the end of 2018. An increase in the number of employees is present in seven banks, while the number of employees decreased in six banks and remained unchanged in two the FBiH banks banking sector compared to the end of 2018.

An overview of the qualification structure of employees across the FBiH banking sector provides in the following table:

Table 3: Qualification structure of employees in FBiH banks

Qualification level	The number of employees					Index		
	July 31 st , 2017		December 31 st , 2018		June 30 th , 2019		(4/2)	(6/4)
1	2	3	4	5	6	7	8	9
University degree	3,970	59.7%	4,102	60.9%	4,154	61.5%	103	101
Associate degree	525	7.9%	520	7.7%	509	7.5%	99	98
High school diploma	2,149	32.3%	2,108	31.3%	2,083	30.9	98	99
Other	11	0.2%	9	0.1%	8	0.1	82	89
Total	6,655	100%	6,739	100%	6,754	100%	101	100

An increase in the number of employees in the FBiH banking sector as of June 30th, 2019 compared to the end of 2018 is present in the employees with a university degree, which has the highest share in the overall qualification structure of employees in the FBiH banks.

One of the indicators affecting the assessment of the performance of an individual bank and banking sector is the assets to number of employees ratio, i.e. the amount of assets per an employee, where a higher ratio is an indicator of better operational efficiency of the bank and overall sector.

The following table provides an overview of the assets per an employee according to the ownership criterion:

-in BAM '000s-

Table 4: Assets per employee

July 31 st , 2017		December 31 st , 2018			June 30 th , 2019			
Number of employees	Assets	Assets per employee	Number of employees	Assets	Assets per employee	Number of employees	Assets	Assets per employee
6,655	20,209,851	3,037	6,739	22,094,135	3,279	6,754	23,082,271	3,418

1.2. FINANCIAL INDICATORS OF PERFORMANCE

1.2.1. Balance Sheet

The presented indicators of the FBiH banks' performance and banking sector analyses include the indicators from the active sub-balance sheet of one bank with a majority of state-owned capital⁴ in accordance with the provisions of the FBiH Law on the Opening Balance Sheet of Enterprises and Banks, under which banks with a majority of state-owned capital are required to report to the FBA based on the „total“ balance sheet broken down into: passive, neutral, and active sub-balance sheets.

In that respect, the data are reported in Annex 2 of this Information - Balance Sheet of FBiH Banks According to FBA Scheme (Active Sub-Balance Sheet). Annex 3 provides an overview of the assets, loans, deposits and financial performance of the FBiH banks as at June 30th, 2019.

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

-BAM '000s-

Table 5: Balance sheet

Description	July 31 st , 2017		December 31 st , 2018		June 30 th , 2019		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	5,794,664	28.7	6,591,117	29.8	6,956,446	30.1	114	106
Securities	1,228,432	6.1	1,304,626	5.9	1,374,023	6.0	106	105
Placements to other banks	350,980	1.7	270,604	1.2	116,398	0.5	77	43
Loans	13,178,860	65.2	14,325,634	64.8	14,922,929	64.7	109	104
Impairments	1,166,804	5.8	1,190,760	5.4	1,161,095	5.0	102	98
Net loans (loans minus impairments)	12,012,056	59.4	13,134,874	59.5	13,761,834	59.7	109	105
Business premises and other fixed assets	529,941	2.6	531,767	2.4	602,559	2.6	100	113
Other assets	293,778	1.5	261,147	1.2	271,011	1.1	89	104
TOTAL ASSETS	20,209,851	100	22,094,135	100	23,082,271	100	109	104
LIABILITIES:								
Deposits	15,814,723	78.3	17,604,487	79.7	18,306,386	79.3	111	104
Borrowings from other banks	0	0.0	0	0.0	0	0.0	0	0
Liabilities on loans	835,667	4.1	862,931	3.9	803,906	3.5	103	93
Other liabilities	694,412	3.4	655,631	3.0	892,202	3.9	94	136
CAPITAL								
Capital	2,865,049	14.2	2,971,086	13.4	3,079,777	13.3	104	104
TOTAL LIABILITIES (LIABILITIES AND CAPITAL)	20,209,851	100	22,094,135	100	23,082,271	100	109	104

The total net assets across the FBiH banking sector as of June 30th, 2019 are BAM 23.1 billion, which is by BAM 988.1 million or 4,5% higher compared to the end of 2018. The banks' net loans have the highest share (59.7%) within the assets in the banks' balance sheet, followed by the cash (30.1%), securities (6.0%), fixed assets (2.6%), other assets (1.1%), and placements to other banks (0.5%). The deposits (79.3%) have the highest share within the liabilities in the banks' balance sheet, followed by the capital (13.3%), other liabilities (3.9%), and liabilities on loans (3.5%).

⁴ The majority state-owned banks report in the "total" balance sheet passive and neutral items of BAM 709.7 million, which are to be taken over by the government once the privatization program has been executed

As of June 30th, 2019, compared to the end of 2018, the cash in the assets in the banks' balance sheet increased by BAM 365.3 million or 5.5%, securities by BAM 69.4 million or 5.3%, loans by BAM 597.3 million or 4.2%, business premises and other fixed assets by BAM 70.8 million or 13.3%, as well as other assets by BAM 9.9 million or 3.8%. The deposits in the liabilities in the banks' balance sheet increased by BAM 701.9 million or 4.0% in the reporting period, other liabilities by BAM 236.6 million or 36.1%, as well as the total capital by BAM 108.7 million or 3.7%.

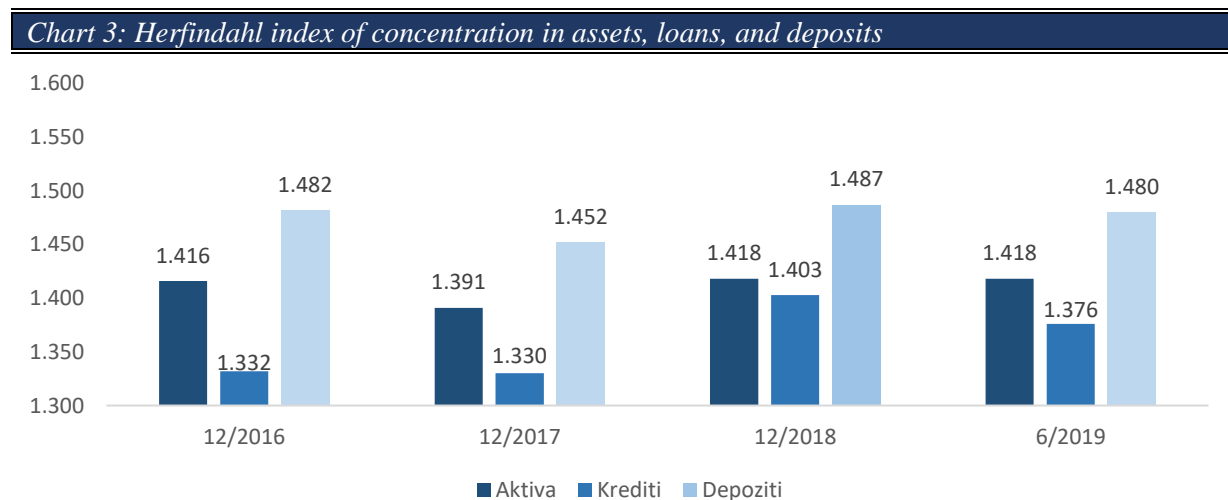
The following table provides an overview of the banks' assets banks according to the ownership structure:

-BAM '000s-

Banks	July 31 st , 2017			December 31 st , 2018			June 30 th , 2019			Index	
	Number of banks	Assets (BAM '000s)	% share	Number of banks	Assets (BAM '000s)	% share	Number of banks	Assets (BAM '000s)	% share	11=(6/3)	12=(9/6)
1	2	3	4	5	6	7	8	9	10	11=(6/3)	12=(9/6)
State-owned	1	654,373	3.2%	1	775,490	3.5%	1	775,022	3.4%	119	100
Private	14	19,555,478	96.8%	14	21,318,645	96.5%	14	22,307,249	96.6%	109	105
Total	15	20,209,851	100%	15	22,094,135	100%	15	23,082,271	100%	109	104

In the FBiH banking sector banks' assets according to the ownership structure as of June 30th, 2019, the share of the banks with private capital increased by 0.1 percentage point, while the share of the banks with state-owned capital decreased by the same percentage point.

An indicator of the concentrations in the three most important segments of the banking business: in the assets, loans, and deposits is the value of the Herfindahl index⁵. Its overview by periods provides in the following chart:



The Herfindahl index of concentration as of June 30th, 2019, compared to the end of 2018, remained at the same level for the assets, while this index decreased by 27 units for the loans and

⁵ It is also called Hirschmann-Herfindahl index or HHI and it is calculated according to the formula $HI = \sum_{j=1}^n (S_j)^2$, representing

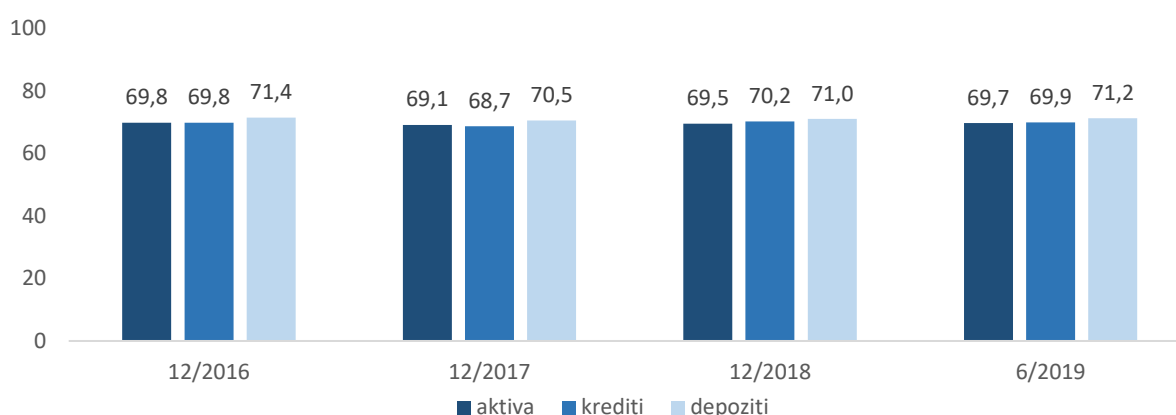
the sum of the squares of the percentage shares of a specific size (e.g. assets, deposits, loans) of all market participants in the system. It should be noted that the index does not increase linearly and that the value of e.g. 3000 does not mean that the concentration in the system is 30%. In a hypothetical case of there being only one bank in the system, the HHI would be maximum 10000.

by seven units for the deposits. The Herfindahl index of concentration for the reporting period shows a moderate concentration⁶ in all three relevant categories (assets, loans, and deposits).

Another indicator of the banking sector concentration is the market concentration ratio, i.e. the concentration ratio⁷ (hereinafter: CR), showing a total share of the biggest banks in the sector in the selected relevant categories: in the assets, loans, and deposits. If a total share of the five biggest banks in the sector - CR5 as of June 30th, 2019 is viewed compared to the end of 2018, it slightly increased for the market share and deposit categories by 0.2 percentage points, while the share for loans decreased by 0.3 percentage points. The two biggest banks in the sector account for 46.7% of the market (assets 47.0%, loans 44.8%, and deposits 48.4%).

An overview of the concentration ratios for the five biggest banks in the sector provides in the following chart:

Chart 4: Concentration ratios for five biggest banks - CR5: assets, loans, and deposits



The banking sector can also be analyzed according to the criterion of belonging to the groups created according to the size of assets⁸. As of June 30th, 2019 three banks in the FBiH banking sector with a 56.6% share stand out according to the size of assets, comprising group I of banks with the assets of over BAM 2.0 billion. A change in the structure, i.e. the share of the groups of banks compared to the FBiH banking sector's total assets as of June 30th, 2019 compared to the end of 2018 occurred in group II of banks (a decrease in the share by 4.2 percentage points) due to one bank transitioning to group III of banks. No bank has assets of less than BAM 100 million in the reporting period.

The following table provides an overview of the amounts and shares of the groups of banks in the total assets through the periods:

-BAM '000s-

Amount of assets	July 31 st , 2017			December 31 st , 2018			June 30 th , 2019		
	Amount	% share	Number of banks	Amount	% share	Number of banks	Amount	% share	Number of banks
I (over BAM 2 billion)	9,404,805	46.5	2	12,456,111	56.4	3	13,064,271	56.6	3
II (BAM 1-2 billion)	6,626,507	32.8	5	6,075,157	27.5	5	5,380,761	23.3	4
III (BAM 0.5-1 billion)	2,465,564	12.2	3	2,168,293	9.8	3	3,236,172	14.0	4
IV (BAM 0.1-0.5 billion)	1,613,136	8	4	1,394,200	6.3	4	1,401,067	6.1	4
V (below BAM 0.1 billion)	99,839	0.5	1	0	0.0	0	0	0.0	0

⁶ If the HHI value is less than 1000, it is considered that there is no market concentration, for the index value between 1000 and 1800 units there is a moderate market concentration, if the HHI value is above 1800, it is an indicator of there being a high concentration.

⁷ In English: concentration ratio (CR), designated according to the number of banks included in the calculation.

⁸ Banks are divided into five groups depending on the size of assets.

Total	20,209,851	100	15	22,093,761	100	15	23,082,271	100	15
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The cash across the FBiH banking sector as of June 30th, 2019 amounted to BAM 7.0 billion and its overview through the periods provides in the following table:

-in BAM '000s-

Cash	July 31 st , 2017		December 31 st , 2018		June 30 th , 2019		Index	
	Amount	% share	Amount	% share	Amount	% share	(4/2)	(6/4)
1	2	3	4	5	6	7	8	9
Cash	800,215	13.8	910,481	13.8	906,125	13.0	114	100
Reserve account with CBBiH	3,823,980	66.0	4,002,281	60.7	4,021,832	57.8	105	100
Accounts with depository institutions in BiH	41,411	0.7	38,746	0.6	37,840	0.6	94	98
Accounts with depository institutions abroad	1,127,877	19.5	1,639,544	24.9	1,990,565	28.6	145	121
Cash in process of collection	1,181	0.0	65	0.0	84	0.0	6	129
Total	5,794,664	100	6,591,117	100	6,956,446	100	114	106

As of June 30th, 2019, compared to the end of 2018, there were no major changes in the structure of the banks' cash. The most significant increase in the cash as of June 30th, 2019, compared to the end of 2018, is present in the banks' funds in the accounts with the depository institutions abroad, the increase by BAM 351.0 million or 21.4%.

In the currency structure of the cash, as of June 30th, 2019, there was a change by 3.5 percentage points compared to the end of 2018. The domestic currency's share decreased from 71.3% to 67.8%, with a simultaneous increase in the share of the funds in foreign currency from 28.7% to 32.2%.

The portfolio of securities as at June 30th, 2019 amounted to BAM 1.4 billion, which was higher by 5.3% compared to the end of 2018, with a 6.0% share in the assets.

The following tables provide an overview of the portfolio according to the type of instruments and issuer:

- BAM '000s -

Investments in securities	July 31 st , 2017		December 31 st , 2018		June 30 th , 2019		Index	
	Amount	Share %	Amount	Share %	Amount	Share %	4/2	6/4
1	2	3	4	5	6	7	8	9
Equity securities	1,773	0.1	5,281	0.4	6,337	0.5	298	120
Debt securities:	1,226,659	99.9	1,299,345	99.6	1,367,686	99.5	106	105
- Securities of all levels of governments in BiH	751,163	61.2	619,536	47.5	685,653	49.9	82	111
- Government securities (other countries)	400,855	32.6	533,666	40.9	534,508	38.9	133	100
- Corporate bonds ⁹	74,641	6.1	146,143	11.2	147,525	10.7	196	101
Total	1,228,432	100	1,304,626	100	1,374,023	100	106	105

The most significant item within the investments in debt securities are the securities of the entity governments, namely the securities issued by the FBiH¹⁰ of the total value of BAM 461.2 million, and the securities of the RS as the issuer of BAM 210.0 million. In the first semester of 2019, an

⁹ The major proportion, of approximately 78%, relates to the EU and US banks' bonds, while the remainder relates to the EU and BiH companies' bonds

¹⁰ All types of securities of the FBiH as the issuer

increase was recorded in the investments in the entity governments' bonds compared to the end of 2018.

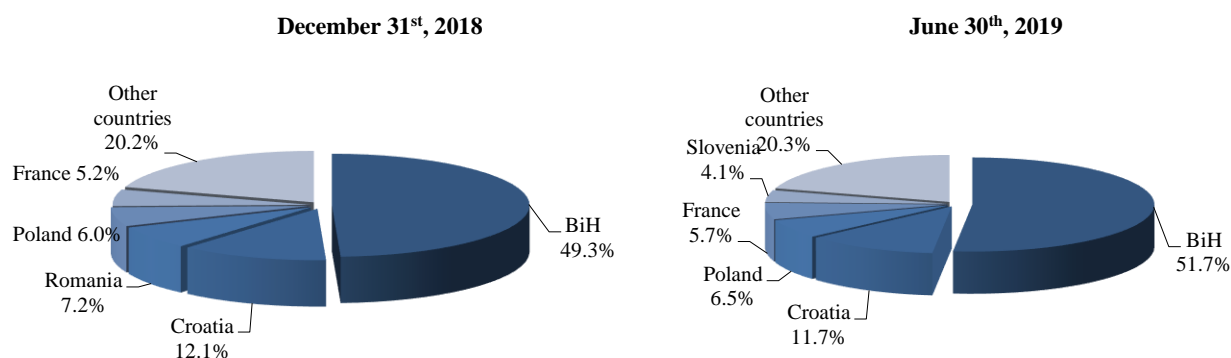
- BAM '000s -

Table 10: Securities of BiH entity governments

Investments in securities	July 31 st , 2017		December 31 st , 2018		June 30 th , 2019		Index	
	Amount	Share %	Amount	Share %	Amount	Share %	4/2	6/4
1	2	3	4	5	6	7	8	9
Debt securities of FBiH as issuer:	587,687	78.9	436,164	73.2	461,228	68.7	74	106
- Treasury bills	99,949	13.4	35,179	6.1	35,030	5.2	35	100
- Bonds	487,738	65.5	400,985	67.1	426,198	63.5	82	106
Debt securities emitenta RS:	157,353	21.1	175,395	26.8	209,969	31.3	111	120
- Treasury bills	65,848	8.8	0	0.0	17,997	2.7	0	0
- Bonds	91,505	12.3	175,395	26.8	191,972	28.6	192	109
Total	745,040	100	611,559	100	671,197	100	82	110

If the total investments in the securities are analyzed according to the exposures by countries, the highest share of 51.7% is to the issuers from BiH, followed by Croatia with a 11.7% share, Poland with a 6.5% share, France with a 5.7% share, Slovenia with a 4.1% share, etc.

Chart 5: Structure of investments in securities according to criterion of country issuer



1.2.2. Liabilities

As of June 30th, 2019, the share of the deposits, as the most significant source of the banks' funding, decreased to 79.3% (0.4 percentage points), as well as the share of the loan obligations, amounting to 3.5% (0.4 percentage points).

The banks' loan obligations with the amount of BAM 803.9 million and share of 3.5%, have a downward trend of BAM 59.0 million or 6.8% compared to the end of 2018. If the subordinated loans of BAM 197.9 million are also added to the loan obligations, the total loans have a 4.4% share in the funding sources.

The banks had, as at June 30th, 2019, the biggest liabilities to the following creditors, accounting for 93.0% of the total loan obligations: EIB, TC Ziraat Bankasi a.s., Procredit Holding AG, EBRD, European Fund for Southeastern Europe, Procredit Bank AG Frankfurt, and Nova Ljubljanska banka JSC Ljubljana.

The deposits recorded an increase of BAM 701.9 million or 4.0% compared to the end of 2018,

amounting to BAM 18.3 billion as at June 30th, 2019. According to the data reported by the banks, of the total amount of the deposits at the end of the reporting period, 5.9% relate to the deposits collected in the FBiH banks' organizational parts in the RS and BD.

The following table provides an overview of the sector structure of the deposits:

-in BAM '000s-

Table 11: Sector structure of deposits

Sectors	July 31 st , 2017		December 31 st , 2018		June 30 th , 2019		Index	
	Amount	% share	Amount	% share	Amount	% share	(4/2)	(6/4)
1	2	3	4	5	6	7	8	9
Government institutions	1,482,708	9.4	1,778,835	10.1	1,956,935	10.7	120	110
Public enterprises	1,310,610	8.3	1,538,501	8.7	1,618,887	8.8	117	105
Private enterprises and companies	2,612,441	16.5	2,834,717	16.1	2,819,602	15.4	109	99
Banking institutions	847,965	5.4	1,215,334	6.9	1,256,877	6.9	143	103
Non-bank financial institutions	655,360	4.1	746,690	4.3	733,779	4.0	114	98
Retail	8,500,668	53.8	9,071,061	51.5	9,464,503	51.7	107	104
Other	404,971	2.6	419,349	2.4	455,803	2.5	104	109
Total	15,814,723	100	17,604,487	100	18,306,386	100	104	104

As of June 30th, 2019, changes were recorded in the sector structure of the deposits.

The highest share in the sector structure of the deposits is accounted for by the retail deposits with 51.7% of the FBiH banking sector's total deposits, increasing by 0.2 percentage points compared to the end of 2018. The retail deposits as at June 30th, 2019 were BAM 9.5 billion.

An increase in the deposits as of June 30th, 2019, compared to the end of 2018, was realized in the government institutions' deposits by BAM 178.1 million or 10.0%, public enterprises' deposits by BAM 80.4 million or 5.2%, banking institutions' deposits by BAM 41.5 million or 3.4%, the retail deposits by BAM 393.4 million or 4.3%, as well as other deposits by BAM 36.5 million or 8.7%.

A decrease in the deposits as of June 30th, 2019, compared to the end of 2018, was recorded in the private enterprises' deposits by BAM 15.1 million or 0.5% and in non-bank financial institutions' deposits by BAM 12.9 million or 1.7%. The banking group's financial support is present in seven FBiH banks, so 90.7% of the total banking institutions' deposits relate to banking groups' financial support.

The currency structure of the deposits as at June 30th, 2019 changed compared to the end of 2018. The deposits in BAM increased by BAM 577.3 million or 5.6%, while the deposits in foreign currencies increased by BAM 124.6 million or 1.7%. Compared to the end of 2018, the currency structure of the deposits changed by 0.9 percentage points, i.e. the share of the deposits in domestic currency increased to 59.6%, while the share of the deposits in foreign currency decreased to 40.4%.

The structure of the deposits according to the origin of the depositors as of June 30th, 2019, compared to the end of 2018, has the following structure: the residents' deposits of BAM 16.8 billion have a 91.5% share (+0.1 percentage point), while the non-residents' deposits are BAM 1.5 billion, which was 8.5% of the total deposits (-0.1 percentage point). The changes in the structure are a result of an increase in the residents' deposits (BAM 659.4 million or 4.1%) and increase in the non-residents' deposits (BAM 42.5 million or 2.8%).

The long-term upward trend in the savings deposits, as the most significant segment of the banks' deposit and financial potential, continued in the first semester of 2019 too, considering that it increased by BAM 388.6 million or 4.4%, amounting to BAM 9.2 billion as at June 30th, 2019.

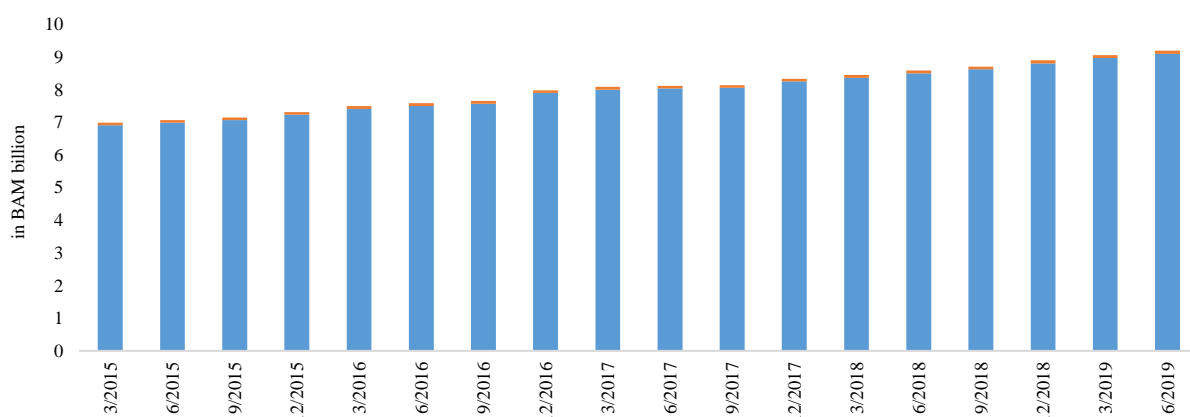
The retail savings trend is shown in the following table and chart:

-in BAM '000s-

Table 12: Retail savings by periods

Banks	Amount			Index	
	July 31 st , 2017	December 31 st , 2018	June 30 th , 2019	(3/2)	(4/3)
	1	2	3	4	5
State-owned	83,530	91,645	91,999	110	100
Private	8,166,750	8,712,454	9,100,738	107	104
Total	8,250,280	8,804,099	9,192,737	107	104

Chart 6: Retail savings by periods



54.7% of the savings are concentrated in the two biggest banks, while five banks have the individual shares of less than 2.0%, amounting to 5.5% of the total savings in the sector. Of the total amount of the savings, 46.9% relate to the savings deposits in domestic currency, while 53.1% relate to the savings deposits in foreign currency.

The maturity structure of the savings deposits compared to the end of 2018 changed as a result of an increase in the short-term deposits by BAM 363.1 million or 7.3%, as well as their share by 1.6 percentage points, which can be seen in the following table:

-in BAM '000s-

Table 13: Maturity structure of retail savings deposits by periods

1	July 31 st , 2017		December 31 st , 2018		June 30 th , 2019		Index	
	Amount	% share	Amount	% share	Amount	% share	(4/2)	(6/4)
	2	3	4	5	6	7	8	9
Short-term savings deposits	4,460,734	54.1%	4,977,201	56.5%	5,340,332	58.1%	112	107
Long-term savings deposits	3,789,546	45.9%	3,826,898	43.5%	3,852,405	41.9%	101	101
Total	8,250,280	100%	8,804,099	100%	9,192,737	100%	107	104

1.2.3. Capital and Capital Adequacy

In the process of harmonizing the FBA's bylaws with the new laws, a new Decision on Bank Capital Calculation came to effect in late 2017.

Under the new Decision on Bank Capital Calculation, the contents and form of the regulatory reports changed. The most significant changes relate to the own funds calculation method with the application of a relevant capital requirements calculation methodology for credit, market, and operational risks, new methodology for maintaining capital buffers, and leverage calculation.

As of June 30th, 2019, the total banks' capital was BAM 3.1 billion, increasing by BAM 108.7 million or at the increase rate of 3.7% compared to the end of 2018 (more details are provided under Subheading 1.1.2 - Ownership Structure and Market Share).

The following table provides a report on the stock, i.e. the structure of the FBiH banks' own funds:

-in BAM '000s-

<i>Table 14: Report on stock of own funds</i>				
No.	Description	December 31 st , 2018	June 30 th , 2019	Index
1.	Own funds	2,478,985	2,671,121	108
1.1.	Tier 1 capital	2,351,425	2,537,837	108
1.1.1.	Common Equity Tier 1	2,351,425	2,537,837	108
1.1.1.1.	Paid-up capital instruments	1,290,878	1,299,335	101
1.1.1.2.	Share premium	137,290	137,290	100
1.1.1.3.	(-) Own Common Equity Tier 1 instruments	-215	-215	100
1.1.1.4.	Previous year retained profit	238,344	291,136	122
1.1.1.5.	Recognized gain or loss	-34,743	-35,293	102
1.1.1.6.	Accumulated other comprehensive income	10,296	20,158	196
1.1.1.7.	Other reserves	876,626	966,750	110
1.1.1.8.	(-) Other intangible assets	-56,116	-54,025	96
1.1.1.9.	(-) Deferred tax assets that rely on future profitability and of up to not arise from temporary differences less related tax liabilities	-101	-10	10
1.1.1.10.	(-) Deduction from Addition Tier 1 items exceeding Additional Tier 1	0	-1,012	-
1.1.1.11.	(-) Deferred tax assets that are deductible and rely on future profitability and arise from temporary differences	-1,625	-1,631	100
1.1.1.12.	(-) Financial sector entities' Common Equity Tier 1 instruments if bank has material investment	-12,118	-12,213	101
1.1.1.13.	Elements or deductions from Common Equity Tier 1 – other	-97,091	-72,433	75
1.1.2.	Additional Tier 1	0	0	-
1.1.2.1.	Deduction from Additional Tier 1 items exceeding Additional Tier 1 (deducted from Common Equity Tier 1 capital)	0	-1,012	-
1.2.	Tier 2 capital	127,560	133,284	104
1.2.1.	Paid-up capital instruments and subordinated debts	105,592	165,428	157
1.2.2.	(-) Own Tier 2 instruments	-14	-14	100
1.2.3.	General impairments for credit risk under standardized approach	153,706	164,386	107
1.2.4.	Deduction from Tier 2 items exceeding Tier 2 capital (deducted from Additional Tier 1 capital)	0	1,012	-
1.2.5.	Elements or deductions from Tier 2 – other	-131,724	-197,528	150

The FBiH banks' own funds as of June 30th, 2019 were BAM 2.7 billion and compared to the end of 2018 increased by BAM 192.1 million or 7.7%. The banks' Tier 1 capital as at the reporting period is BAM 2.5 billion, with a realized increase of BAM 186.4 million or 7.9%, while Tier 2 capital is BAM 133.3 million, with a realized increase of 5.7 million BAM or 4.5% compared to the end of 2018.

The share of Tier 1 capital in the own funds structure is 95.0%, while the share of Tier 2 capital is 5.0% in the FBiH banking sector's total own funds. The increase in Tier 1 capital under 2018 profits distribution to Tier 1 capital of BAM 105.8 million, transfers of LLR of BAM 36.3 million created from the profits to Tier 1 capital under the decisions of the general meetings in nine banks, decrease in deductible items of BAM 24.7 million, increase in the value of the securities classified at fair value through other comprehensive income of BAM ten million, and conversions of preferred stocks to common stocks in one bank of BAM 8.5 million had the biggest impact on the increase in the own funds.

The total risk exposure amount under the Decision on Bank Capital Calculation is the sum of the risk weighted exposures for credit, market, operational risk, settlement/free delivery risk and risk associated with large exposures arising from the trading book items.

The FBiH banking sector's total risk exposure with the balance as at June 30th, 2019 was BAM 15.1 billion, whose structure provides in the following table:

-in BAM '000s-

Table 15: Risk exposure structure

No.	Description	December 31 st , 2018		June 30 th , 2019		Index
		Amount	% share	Amount	% share	
1.	Risk weighted exposures for credit risk	12,296,292	86.7	13,150,777	87.3	107
2.	Settlement/free delivery risk exposures	0	0.0	0	0.0	0
3.	Market risk (position and currency risk) exposures	223,778	1.6	201,002	1.3	90
4.	Risk exposures for operational risk	1,657,561	11.7	1,710,293	11.4	103
5.	Total risk exposure amount	14,177,630	100	15,062,072	100	106

The total risk exposure amount across the FBiH banking sector increased in the reporting period by BAM 884.4 million or 6.2% compared to the end of 2018. In the risk exposure structure as of June 30th, 2019, compared to the end of 2018, the biggest increase by BAM 854.5 million or 6.9% was realized within the risk weighted exposure for credit risk.

As of June 30th, 2019, the banks were most exposed to the credit risk (87.3% share), which is dominant in the FBiH banking sector. In the reporting period there were changes in the shares by individual risk types, i.e. the share of the risk weighted credit risk exposure increased by 0.6 percentage points, while the shares of the market risk exposure and operational risk exposure decreased by 0.3 percentage points each.

The banking sector's capital adequacy has continuously been maintained above 15% in the last few years, which is satisfactory capitalization across the sector. The Decision on Bank Capital Calculation provides that banks must at all times meet the capital requirements with respect to Common Equity Tier 1 capital ratio of 6.75%, Tier 1 capital ratio of 9% and own funds ratio of 12%. Also, it sets a requirement for banks to maintain capital conservation buffer as own funds in the form of Common Equity Tier 1 capital in the amount of 2.5% of the total risk exposure amount. The FBiH banking sector capital adequacy indicators with the balance as at June 30th, 2019, are provided in the following table:

-in BAM '000s-

Table 16: Capital adequacy indicators

No.	Description	% and amount of regulatory minimum surplus or deficit	% and amount of regulatory minimum surplus or deficit
		December 31 st , 2018	June 30 th , 2019
1.	Common Equity Tier 1 capital ratio	16.6%	16.8%
2.	Surplus (+) / Deficit (-) of Common Equity Tier 1 capital	1,394,434	1,521,148
3.	Tier 1 capital ratio	16.6%	16.8%
4.	Surplus (+) / Deficit (-) of Tier 1 capital	1,075,438	1,182,252
5.	Own funds ratio	17.5%	17.7%
6.	Surplus (+) / Deficit (-) of own funds	777,668	863,672

The own funds rate as at June 30th, 2019 is 17.7% and it is considerably higher compared to the statutory minimum of 12%. Compared to the end of 2018, the own funds ratio as of June 30th, 2019 increased by 0.2 percentage points.

Other higher capital ratios compared to regulatory minimums (Common Equity Tier 1 capital and Tier 1 capital ratios) were reported across the banking sector.

The Decision on Bank Capital Calculation also provides for a new calculation methodology and regulatory framework for monitoring of leverage levels. Banks are required to ensure and maintain leverage ratio, as Tier 1 capital to total exposure measure ratio of minimum 6%. The following overview provides the FBiH banking sector's leverage ratio with the balance as at June 30th, 2019:

-in BAM '000s-

Table 17: Leverage ratio

No.	Exposure values	December 31 st , 2018	June 30 th , 2019
1.	Leverage ratio exposures - under Article 37(4) of Decision on Bank Capital Calculation	23,162,644	24,167,282
2.	Tier 1 capital - under Article 37(3) of Decision on Bank Capital Calculation	2,351,425	2,537,838
3.	Leverage ratio - under Article 37(2) of Decision on Bank Capital Calculation	10.1%	10.5%

The leverage ratio across the banking sector as at June 30th, 2019 is 10.5% and is higher by 0.4 percentage points compared to the end of 2018. As of June 30th, 2019, eight banks have their leverage ratios above the FBiH banking sector average, i.e. seven banks have their leverage ratios below the FBiH banking sector average.

1.2.4. Assets and Asset Quality

The Decision on the Minimum Standards for Credit Risk Management and Bank Assets Classification lays down the criteria for assessing banks' credit risk exposures through a review of their assets quality and adequacy of their reserves for loan and other losses according to the risk profiles of the placements and assets-on- and off-balance sheet items. When assessing banks' credit risk exposures, the banks are required to account for LLR in accordance with the criteria from the above Decision, while having regard for already created impairments of on-balance sheet assets and provisions for losses on off-balance sheet items recorded in the banks' books (accounted for in accordance with the applicable IAS and IFRS), also taking into account LLR created from the profits (in the capital accounts).

Since January 01st, 2018, banks are required to apply a new financial reporting standard IFRS 9 - Financial Instruments, which replaced IAS 39.

The following table provides an overview of the assets, LLR under regulatory requirements and impairments under IFRS:

-in BAM '000s-

Table 18: Assets (on- and off-balance sheet), LLR according to regulator and impairments under IFRS

Description	July 31 st , 2017	December 31 st , 2018	June 30 th , 2019	Index	
	1	2	3	4	5=(3/2) 6=(4/3)
1. Assets at risk ¹¹	17,224,329	18,468,934	19,130,295	107	104
2. Accrued regulatory LLR	1,492,475	1,479,654	1,463,997	99	99
3. Impairment and reserves for off-balance sheet items	1,262,277	1,311,031	1,279,933	104	98
4. Required regulatory reserves from profits for estimated losses	402,640	404,539	410,369	100	101
5. Created regulatory reserves from profits for estimated losses	315,734	181,480	142,164	57	78
6. Shortfall in regulatory reserves from profits for estimated losses	198,771	228,816	269,960	115	118
7. Risk-free items	7,699,195	8,874,457	9,037,568	115	102
8. Total assets (1+7)	24,923,524	27,343,391	28,167,863	110	103

The FBiH banks' total assets with the off-balance sheet items (assets)¹² as at June 30th, 2019 are BAM 28.2 billion and are higher by BAM 824.5 million or 3.0% compared to the end of 2018. The assets at risk are BAM 19.1 billion and are higher by BAM 661.4 million or 3.6%, while the risk-free items with the off-balance sheet are BAM 9.0 billion and are higher by BAM 163.1 million or 1.8% compared to the end of 2018. The following table provides an overview of the total assets, gross on-balance sheet assets, at-risk and risk-free asset items across the banking sector:

-in BAM '000s-

Table 19: Total assets, gross on-balance sheet assets, at-risk and risk-free asset items

Description	July 31 st , 2017		December 31 st , 2018		June 30 th , 2019		Index	
	Amount	% share	Amount	% share	Amount	% share	8=(4/2)	9=(6/4)
1	2	3	4	5	6	7		
Loans	11,910,826	83.5	12,762,366	83.8	13,422,341	84.4	107	105
Interest	66,894	0.5	91,669	0.6	91,193	0.6	137	99
Past-due receivables	1,036,949	7.3	992,177	6.5	993,163	6.2	96	100
Receivables on paid guarantees	31,080	0.2	30,127	0.2	30,713	0.2	97	102
Other placements	400,584	2.8	511,914	3.4	434,892	2.7	128	85
Other assets	814,496	5.7	835,125	5.5	930,602	5.9	103	111
1. On-balance sheet assets at risk	14,260,829	100	15,223,378	100	15,902,904	100	107	104
2. Risk-free on-balance sheet assets	7,172,606		8,140,926		8,416,996		113	103
3. Gross on-balance sheet assets (1+2)	21,433,435		23,364,304		24,319,900		109	104
4. Off-balance sheet at risk	2,963,500		3,245,556		3,227,391		110	99
5. Risk-free off-balance sheet	526,589		733,531		620,572		139	85
6. Total off-balance sheet items (4+5)	3,490,089		3,979,087		3,847,963		114	97
7. Assets at risk with off-balance sheet (1+4)	17,224,329		18,468,934		19,130,295		107	104
8. Risk-free items (2+5)	7,699,195		8,874,457		9,037,568		115	102
9. Assets with off-balance sheet (3+6)	24,923,524		27,343,391		28,167,863		110	103

As of June 30th, 2019, there were no major changes compared to the end of 2018 in the item shares in the banks' total assets at risk.

The gross on-balance sheet assets¹³ are BAM 24.3 billion and are higher by BAM 955.6 million or 4.1% compared to the end of 2018, of which on-balance sheet assets at risk are BAM 15.9 billion, which is 65.4% of gross on-balance sheet assets, with a realized increase of BAM 679.5 million or 4.5%, while risk-free on-balance sheet assets are BAM 8.4 billion and are higher by BAM 276.1 million or 3.4%.

Unlike the at-risk and risk-free on-balance sheet assets, as of June 30th, 2019, compared to the end of 2018, a decrease was recorded in the at-risk and risk-free off-balance sheet items. The off-

¹¹ Excluding the amount of placements and contingent liabilities of BAM 254.7 million secured by cash deposits

¹² Assets defined by Article 2 of the Decision on the Minimum Standards for Credit Risk Management and Bank Assets Classification („Official Gazette of the Federation of BiH“, number 85/11-consolidated text, 33/12-correction, 15/13)

¹³ Excluding the amount of loans of BAM 208.6 million covered by cash deposit (included in risk-free on-balance sheet assets)

balance sheet items at risk are BAM 3.2 billion and decreased by BAM 18.2 million or 0.6%, while the risk-free off-balance sheet items are BAM 620.6 million, with a realized decrease of BAM 113.0 million or 15.4% compared to the end of 2018.

As at June 30th, 2019, the loans are BAM 14.9 billion and an increase of BAM 597.3 million or 4.2% was realized in them compared to the end of 2018. The trend and changes in the shares of individual sectors in the total structure of the loans are provided in the following table:

-in BAM '000s-

Sectors	July 31 st , 2017		December 31 st , 2018		June 30 th , 2019		Index	
	Amount	% share	Amount	% share	Amount	% share	8=(4/2)	9=(6/4)
1	2	3	4	5	6	7		
Government institutions	245,102	1.9	216,596	1.5	198,444	1.3	88	92
Public enterprises	210,461	1.6	321,493	2.3	327,259	2.2	153	102
Private enterprises and companies	6,295,558	47.8	6,625,641	46.3	6,915,987	46.3	105	104
Banking institutions	12	0.0	217,706	1.5	205,817	1.4	1814217	94
Non-bank financial institutions	58,992	0.4	75,804	0.5	82,381	0.6	128	109
Retail	6,358,707	48.2	6,853,979	47.8	7,179,681	48.1	108	105
Other	10,028	0.1	14,415	0.1	13,360	0.1	144	93
Total	13,178,860	100	14,325,634	100	14,922,929	100	109	104

As of June 30th, 2019, compared to the end of 2018, there were no major changes in the loan shares by sectors.

As of June 30th, 2019, compared to the end of 2018, an increase of BAM 343.7 million or 4.8% was realized in the retail loans, with an increase of BAM 290.3 million or 4.4% in the private corporate loans, as well as an increase of BAM 6.6 million or 8.7% in the loans approved to non-bank financial institutions, and increase of BAM 5.8 million or 1.8% in the loans approved to public enterprises.

As of June 30th, 2019, compared to the end of 2018, a decrease in loans was recorded in three sectors, i.e. a decrease of BAM 18.2 million or 8.4% in the loans approved to government institutions, decrease of BAM 11.9 million or 5.5% in the loans approved to banking institutions, and decrease of BAM 1.1 million or 7.3% in the loans approved to other sectors.

The loans approved in the domestic currency have the highest share of 49.8% or BAM 7.4 billion in the loans' currency structure, followed by the loans approved with a currency clause with a share of 48.3% or BAM 7.2 billion (EUR: BAM 7.2 billion or 99.7%, CHF: BAM 20.7 million or 0.3%), while the loans approved in a foreign currency have the lowest share of 1.9% or BAM 280.9 million (of which BAM 279.8 million or 99.6% relate to EUR).

The total amount of the loans with CHF currency clause of BAM 20.7 million has a share of 0.1% in the sector's total loan portfolio and the entire amount relates to one bank in the sector.

The quality of the assets and off-balance sheet items at risk, GCR and PLL by classification categories are provided in the following table:

-in BAM '000s-

Classification category	July 31 st , 2017			December 31 st , 2018			June 30 th , 2019			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	14,834,609	86.1	296,693	16,225,548	87.9	324,512	16,885,502	88.3	337,710	109	104
B	1,032,373	6.0	82,700	919,119	4.9	72,972	972,688	5.1	79,696	89	106
C	166,456	1.0	45,486	140,776	0.8	40,189	125,443	0.7	37,848	85	89
D	301,598	1.8	178,304	345,526	1.9	204,017	333,684	1.7	195,770	115	97
E	889,293	5.2	889,292	837,965	4.5	837,964	812,978	4.2	812,973	94	97
At-risk assets (A-E)	17,224,329	100	1,492,475	18,468,934	100	1,479,654	19,130,295	100	1,463,997	107	104
Classified (B-E)	2,389,720	13.9	1,195,782	2,243,386	12.1	1,155,142	2,244,793	11.7	1,126,287	94	100

Non-performing (C-E)	1,357,347	7.9	1,113,082	1,324,267	7.2	1,082,170	1,272,105	6.6	1,046,591	98	96
Risk-free assets ¹⁴	7,699,195			8,874,457			9,037,568			115	102
Total (at-risk and risk-free)	24,923,524			27,343,391			28,167,863			110	103

As at June 30th, 2019, the past-due receivables are BAM 1.0 billion and are higher by BAM 1.7 million or 0.2% compared to the end of 2018, while their share decreased from 7.1% to 6.9% compared to the FBiH banking sector's total loans.

The classified assets (categories from B to E) as at June 30th, 2019 are BAM 2.2 billion, while the non-performing assets (categories from C to E) are BAM 1.3 billion. As of June 30th, 2019, compared to the end of 2018, the classified assets increased by BAM 1.4 million or 0.1%. The non-performing assets decreased in the reporting period by BAM 52.2 million or 3.9%, as a result of a decrease in the non-performing assets in the majority of the banks and permanent write-off of the assets.

The total level of the accrued LLR as of June 30th, 2019 is BAM 1.5 billion and a decrease of BAM 15.7 million is reported compared to the end of 2018, while individually by categories, an increase in LLR was realized for A and B categories, while in the rest of the categories a decrease in LLR was realized compared to the end of 2018. The reserves for A category increased by 4.1% and for B category by 9.2%, while a 5.8% decrease in LLR was reported for C category, as well as a 4.0% decrease for D category, and a 3.0% decrease for E category.

One of the most important asset quality indicators, the PLL and assets at risk to off-balance sheet ratio is 5.9% and is lower by 0.3 percentage points compared to the end of 2018. As at June 30th, 2019, the banks had on an average, at approximately the same level as at the end of 2018, the accrued reserves at a 8% rate for B category, at a 30% rate for C category, as well as at a 59% rate for D category, and at a 100% rate for E category¹⁵ (increase in C category by 1.6 percentage points).

As of June 30th, 2019, compared to the end of 2018, a downward trend was realized in the following FBiH banking sector asset quality indicators: non-performing assets to assets at risk ratio amounting to 6.6% (decrease of 0.6 percentage points) and share of classified assets in the assets at risk amounting to 11.7% (decrease of 0.4 percentage points).

Annexes 4 and 4a provide separate overviews of the classification of the total on-balance sheet assets and total off-balance sheet items at risk.

The sector analysis of the data is based on the quality indicators of the loans granted in the two most important sectors: corporate and retail.

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

¹⁴ The asset item that are, under Article 2(2) of the Decision on the Minimum Standards for Credit Risk Management and Bank Assets Classification, not classified and items on which, under Article 22(8) of the Decision, no 2% reserves for ECL are accrued

¹⁵ Under the Decision on the Minimum Standards for Credit Risk Management and Bank Assets Classification, banks are required to account for LLR by classification categories in the following percentages: A-2%, B 5-15%, C 16-40%, D 41-60%, and E 100%

Table 22: Classification of retail and corporate loans

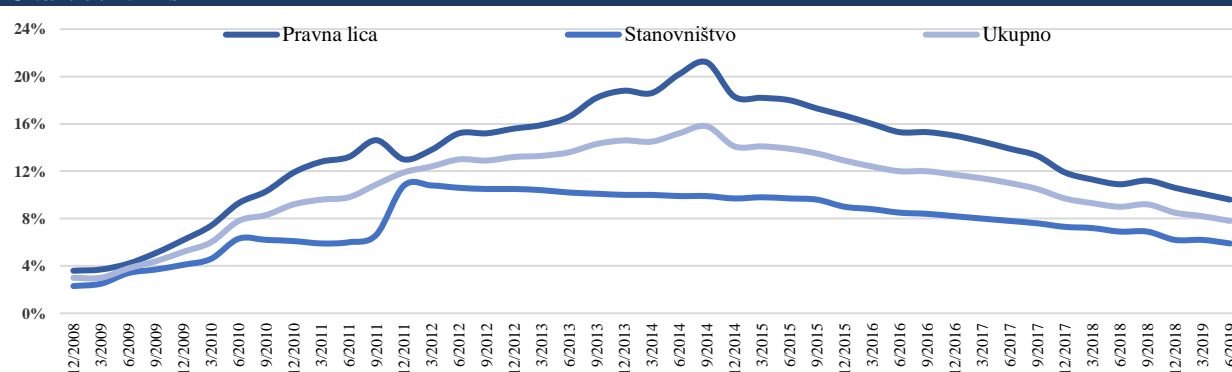
Classification category	December 31 st , 2018						June 30 th , 2019						Index
	Retail		Corporate		Total		Retail		Corporate		Total		
	Amount	% share	Amount	% share	Amount	% share	Amount	% share	Amount	% share	Amount	% share	
1	2	3	4	5	6 (2+4)	7	8	9	10	11	12=(8+10)	13	14=(12/6)
A	6,275,311	91.5	6,107,597	81.7	12,382,908	86.4	6,585,774	91.7	6,408,845	82.8	12,994,619	87.1	105
B	151,062	2.2	573,795	7.7	724,857	5.1	172,371	2.4	592,252	7.6	764,623	5.1	105
C	60,150	0.9	73,815	1.0	133,965	0.9	64,360	0.9	55,654	0.7	120,014	0.8	90
D	46,055	0.7	288,575	3.9	334,630	2.3	44,081	0.6	276,467	3.6	320,548	2.2	96
E	321,401	4.7	427,873	5.7	749,274	5.3	313,095	4.4	410,030	5.3	723,125	4.8	96
Total	6,853,979	100	7,471,655	100	14,325,634	100	7,179,681	100	7,743,248	100	14,922,929	100	104
B-E loan classification	578,668	8.4	1,364,058	18.2	1,942,726	13.6	593,907	8.3	1,334,403	17.2	1,928,310	12.9	99
C-E non-performing loans	427,606	6.2	790,263	10.6	1,217,869	8.5	421,536	5.9	742,151	9.6	1,163,687	7.8	96
		47.8		52.2		100		48.1		51.9		100	
Share by sectors in classified loans, non-performing loans, and B category:													
B-E classification		29.8		70.2		100		30.8		69.2		100	
C-E non-performing		35.1		64.9		100		36.2		63.8		100	
B category		20.8		79.2		100		22.5		77.5		100	

As of June 30th, 2019, the share of the classified loans decreased by 0.7 percentage points and was 12.9%. The classified retail loans increased by BAM 15.2 million or 2.6%, while the classified corporate loans decreased by BAM 29.7 million or 2.2%. As of June 30th, 2019, the non-performing loans decreased by BAM 54.2 million or 4.4%. Decreases were recorded in all categories within the non-performing loans: a BAM 14.0 million decrease in C category, BAM 14.1 million decrease in D category, and BAM 26.1 million decrease in E category.

The share of the NPLs decreased from 8.5% to 7.8%, dominantly as a result of the credit growth and collection activities. Of the total corporate loans, the NPLs account for BAM 742.2 million or 9.6%, which is lower by 1.0 percentage point than at the end of 2018. The NPLs in retail sector are BAM 421.5 million or 5.9%, which is lower by 0.3 percentage points than at the end of 2018.

An overview of the NPLs, through the periods, is provided in the following chart:

Chart 7: NPLs



A more detailed and complete analysis of the NPLs is based on the data on the industry concentration of loans within the corporate sector (by sectors) and retail sector (by purpose) and is provided in the following table:

Table 23: Industry concentration of loans

Description	December 31 st , 2018				June 30 th , 2019				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)	187,278	1.3	36,311	19.4	161,306	1.1	25,573	15.9	86	70
Industrial sector (IND)	2,130,781	14.9	269,505	12.6	2,140,960	14.3	250,734	11.7	100	93
Construction (CON)	441,833	3.1	74,092	16.8	491,914	3.3	74,865	15.2	111	101
Trade (TRD)	2,642,599	18.4	274,333	10.4	2,906,670	19.5	270,545	9.3	110	99
Hotels and restaurants (HTR)	268,239	1.9	16,074	6.0	285,835	1.9	13,547	4.7	107	84
Other ¹⁶	1,800,925	12.6	119,948	6.6	1,756,563	11.8	106,887	6.1	97	89
Total 1	7,471,655	52.2	790,263	10.6	7,743,248	51.9	742,151	9.6	104	94
2. Retail loans for:										
General consumption	5,574,057	38.9	326,714	5.9	5,866,504	39.3	347,757	5.9	105	106
Housing	1,178,483	8.2	87,273	7.4	1,210,458	8.1	60,485	5.0	103	69
Pursuit of business (craftspeople)	101,439	0.7	13,619	13.4	102,719	0.7	13,294	12.9	101	98
Total 2	6,853,979	47.8	427,606	6.2	7,179,681	48.1	421,536	5.9	105	99
Total (1 + 2)	14,325,634	100	1,217,869	8.5	14,922,929	100	1,163,687	7.8	104	96

The trade sector (19.5%) and industrial sector (14.3%) have the highest share in the corporate loans compared to the total loans.

The BAM 2.1 billion loans placed to the industrial sector increased as of June 30th, 2019 compared to the end of 2018 by BAM 10.2 million or 0.5%, while the NPLs in these loans are BAM 250.7 million and decreased by BAM 18.8 million or 7.0%. Notwithstanding the decrease of 0.9 percentage points compared to the end of 2018, their share is still high at 11.7%.

The loans approved to the trade sector as of June 30th, 2019 are BAM 2.9 billion and increased by BAM 264.1 million or 10.0% compared to the end of 2018, while the NPLs are BAM 270.5 million and decreased by BAM 3.8 million or 1.4%, while their share also decreased by 1.1 percentage point, i.e. to 9.3%.

In the corporate loans as of June 30th, 2019, the highest NPLs shares are present in the loans approved to agriculture (15.9%, 3.5 percentage point decrease compared to the end of 2018) and in the loans approved to the construction sector (15.2%, 1.6 percentage point decrease compared to the end of 2018).

The general consumption loans (39.3%) and housing loans (8.1%) have the highest shares in the retail loans compared to the total loans have. As of June 30th, 2019, compared to the end of 2018, the general consumption loans increased by BAM 292.4 million or 5.2%, while the NPLs share remained at the same level and is 5.9%. The housing loans had an increase of BAM 32.0 million or 2.7% and decrease of 2.4 percentage points in the NPLs share compared to the end of 2018, which are 5.0% as at the reporting date.

Credit risk is the dominant risk in the FBiH banking sector, which is why the supervisor's focus is on reviewing the credit risk management practices, i.e. credit risk identification, measurement, monitoring, and control and asset classification. The FBiH banking sector's key asset quality indicators point to improved asset quality as of June 30th, 2019.

1.2.5. Profitability

Bank profitability is most materially affected by the asset quality, structure, diversification and funding costs, cost efficiency, FBiH banking, i.e. financial sector specific external factors

¹⁶ Including the following sectors: transport, storage and communications (TRC); financial intermediation (FIN); real estate, renting and business activities (RER); public administration and defense, compulsory social security (GOV) and other

(financial system development, regulatory features, industry concentration, etc.) and external macroeconomic factors (economic growth, global market interest rates, employment and unemployment rates, salary trend, inflation, etc.).

In addition to credit risk which is measured by the loan portfolio quality, the FBiH banking sector's financial performance is influenced by price and interest rate risks. These risks are reflected on the side of the availability of funding and bank funding price trends, as well as on the side of the ability to realize an adequate level of net interest margin.

From the supervisory perspective, the profitability of the FBiH banking sector, as well as that of the individual banks in the sector, is viewed in the context of sustainability, i.e. the stability of the earnings level and quality and strengthening of the capital base through retained earnings. The ability of the banks to realize reasonable, sustainable and stable profit is related to their business model risks, i.e. the factors affecting the business model sustainability and ability to generate profit derived from adequate sources of funding and capital and appropriate risk appetite through a full business and economic cycle, which is adequately reported as a result of proper, full and consistent application of IAS and IFRS.

In the coming period, with a gradual transition to the new SREP framework, the focus of the supervisory processes and procedures in the profitability segment will be steered toward assessing the banks' business models with regard to their viability and sustainability, i.e. the banks' ability to realize reasonable returns over an appropriate time period, i.e. throughout business cycle, i.e. economic cycle.

Presented below in this section of the Information are the data and information on the FBiH banking sector's profitability based on the reporting data provided by the banks according to the balance as at June 30th, 2019, which are analyzed in the context of the applicable elements for the assessment of the quality and level of profitability and ranking criteria for the main components of the banks' financial and operational conditions (CAMELS).

1.2.5.1. FBiH Banking Sector's Earnings Level, Quality and Trend

Positive financial performance of BAM 181.7 million across the FBiH banking sector was reported for the January 1 - June 30, 2019 period, which was higher by BAM 6.9 million or 3.9% compared to the same period of 2018. The total net profit reported for the first semester of 2019 across the FBiH banking sector was BAM 182.2 million (14 banks), with a BAM 0.5 million net loss reported by one bank, which reported minimum net profit in the same period of 2018, i.e. a BAM 2.1 million loss in the same period of 2017.

The three biggest banks, which account for 56.6% of the total on-balance sheet assets across the FBiH banking sector according to the assets level as of June 30th, 2019, reported the net profit of BAM 137.6 million, accounting for 75.7% of the total financial performance. Of the three biggest banks, the reported net profit of the bank which accounts for 28.1% of the FBiH banking sector's total assets according to the assets level accounts for 34.8% of the sector's total net profit.

It is noted through an analysis of the structure of income and expenditures across the FBiH banking sector for the January 1 - June 30, 2019 period compared to the same period of 2018 that the reported positive financial performance-net profit of BAM 181.7 million is a result of the effects of the following changes:

- an increase in the total operating income by BAM 6.8 million or 3.1%, where in its structure an increase is evident in the income from trading operations, service fees, fees on off-balance sheet operations and from foreign exchange operations, while other operating income and income under fees on loans decreased;

- a slight decrease in the total non-interest expenditures by BAM 0.8 million or 0.2%, where the total operating and direct expenditures decreased by BAM 3.1 million or 3.5%, while the total operating expenditures increased by BAM 2.2 million or 0.9%; and
- a slight increase in the net interest and similar income by BAM 0.3 million or 0.1%, which is the net effect of a decrease in the total interest and similar expenditures by BAM 3.9 million or 5.9% and decrease in the total interest and similar income by BAM 3.6 million or 1.0%.

In the structure of the total interest and similar income, the interest income on loans and leasing operations decreased by BAM 4.6 million or 1.4% compared to the first semester of 2018 and other interest income and similar income decreased by BAM 1.6 million or 4.5%, while other categories of the interest and similar income recorded an increase, which is the most pronounced in the interest income on placements to other banks (151.2%). At the same time, the downward trend continued in the interest expenditures on deposits, which are a dominant bank funding source. This category of the interest and similar expenditures decreased by BAM 7.1 million or 13.2% compared to the first semester of 2018. The net interest and similar income changed slightly by BAM 0.3 million or 0.1% compared to the first semester of 2018, where average active interest rates recorded a decrease (from 2.01% to 1.83%, while average passive interest rates decreased from 0.54% to 0.46%).

In the reporting period, in the structure of the total operating and direct costs across the FBiH banking sector, there was a significant decrease in the costs of impairments of assets at risk, provisions for contingent liabilities and other value adjustments by BAM 9.9 million in total or 30.5% compared to the first semester of 2018. At the same time, other operating and direct costs increased by BAM 6.8 million or 11.8%.

The reported increase of BAM 2.2 million or 0.9% in the total operating expenditures compared to the first semester of 2018 is a result of an increase in the salary and contribution costs by BAM 2.8 million or 2.2% and in business premises, other fixed assets and overhead costs by BAM 1.4 million or 1.8%. In the reporting period, there was a slight increase in the number of employees in the FBiH banking sector (by 35 employees or 0.5%), while there was no expansion of the business network of the FBiH banks' organizational units, i.e. there was a slight decrease in the number of the FBiH banks' organizational units. At the same time, a decrease of BAM 1.8 million or 3.3% in other operating costs was reported.

Annex 5 shows the FBiH banks' income statement for the January 1 - June 30, 2019 period, according to the FBA's scheme, with the comparative data for the same reporting period of 2018.

The following table provides an overview of the reported financial performance across the FBiH banking sector, through the following reporting periods:

-BAM '000s-

Description	June 30 th , 2017		June 30 th , 2018		June 30 th , 2019	
	Amount	Number of banks	Amount	Number of banks	Amount	Number of banks
1	2	3	4	5	6	7
Loss	-2,126	1	0	0	-550	1
Profit	153,815	14	174,820	15	182,231	14
Total	151,689	15	174,820	15	181,681	15

The reported financial performance across the FBiH banking sector has continuously recorded an increase through the reporting periods, which was more pronounced in the first semester of 2018 compared to the same period of 2017 (15.2%), while the increase rate was 3.9% in the first semester of 2019 compared to the same period of 2018.

1.2.5.2. FBiH Banking Sector's Total Income

According to the banks' reporting data as of June 30th, 2019, the total income across the FBiH banking sector is BAM 589.6 million and, compared to June 30th, 2018, it increased by BAM 3.2 million, which is an increase of 0.6% in a relative expression.

-BAM '000s-

Table 25: Structure of total income

Structure of total income	June 30 th , 2018		June 30 th , 2019		Index
	Amount	%	Amount	%	
1	2	3	4	5	6=(4/2)
I Interest income and similar income					
Interest-bearing deposit accounts with depository institutions	2,022	0.3	2,582	0.4	128
Loans and leasing operations	328,878	56.1	324,284	55.0	99
Other interest income	38,325	6.5	38,755	6.6	100
Total I	369,225	63.0	365,621	62.0	99
II Operating income					
Service fees	157,868	26.9	152,085	25.8	96
Prihodi from posl. with devizama	28,001	4.8	28,732	4.9	103
Other operating income	31,275	5.3	43,166	7.3	138
Total II	217,144	37.0	223,983	38.0	103
The total income (I+II)	586,369	100	589,604	100	101

The total interest and similar income reported a slight decrease in the reporting period, which is a result of a decrease in the interest income on loans and leasing operations, whose share in the total income decreased from 56.1% to 55.0%. At the same time, the share of loans and leasing type receivables in the total assets slightly decreased from 64.8% to 64.7%. The highest increase was recorded in the income on interest-bearing deposit accounts with depository institutions, which account for less than 1% of the total income. At the same time, the share of interest-bearing deposit accounts with depository institutions in the FBiH banking sector's total assets increased from 16.4% to 17.1% in the reporting period. The above increase in this category of the interest income, i.e. the on-balance sheet position of time deposits in other banks was generated by an increase in the level of time deposits of one bank, with the effect on an increase in the interest income (BAM 1.3 million). Within the interest income, an increase of BAM 0.8 million or 52.1% was recorded on the position of the interest income on securities held to maturity and accounted for at amortized cost, where the share of this interest income in the total interest income is below 1%. This increase in the interest income mainly relates to one bank, which increased this portfolio.

The total operating income recorded an increase of BAM 6.8 million or 3.1% in the reporting period, where their share in the total income slightly increased from 37.0% to 38.0%. The largest item in the structure of the total operating income is income on service fees with a 67.9% share, which recorded an increase of BAM 10.6 million or 7.5%. There was also an increase in the income from trading operations, while the income from foreign exchange operations and fees on off-balance sheet operations was for the most part maintained at the same level compared to the first semester of 2018.

1.2.5.3. FBiH Banking Sector's Total Expenditures

According to the banks' reporting data as of June 30th, 2019, the total expenditures across the FBiH banking sector are BAM 406.9 million, which decreased by BAM 4.7 million or 1.1% compared to June 30th, 2018.

The structure of the FBiH banking sector's total expenditures in the reporting period is provided in the following table:

-BAM '000s-

Table 26: Structure of total expenditures

Structure of total expenditures	June 30 th , 2018		June 30 th , 2019		Index
	Amount	%	Amount	%	
1	2	3	4	5	6=(4/2)
I Interest expenditures and similar expenditures					
Deposits	54,238	13.2	47,091	11.6	87
Liabilities on loans and other borrowings	4,535	1.1	4,544	1.1	100
Other interest expenditures	7,702	1.9	10,934	2.7	142
Total I	66,475	16.2	62,569	15.4	94
II Total non-interest expenditures					
Costs of impairments of assets at risk, provisions on contingent liabilities and other value adjustments	32,297	7.8	22,432	5.5	69
Salary and contribution costs	126,993	30.8	129,746	31.9	102
Business premises costs and depreciation	74,364	18.1	75,722	18.6	102
Other operating and direct costs	57,171	13.9	63,937	15.7	112
Other operating costs	54,249	13.2	52,460	12.9	97
Total II	345,074	83.8	344,297	84.6	100
Total expenditures (I+II)	411,549	100	406,866	100	99

In the reporting period, the interest and similar expenditures decreased by 5.9%, primarily as a result of a 13.2% decrease in the interest expenditures on deposits, which are the FBiH banking sector's dominant funding source. In the reporting period, the FBiH banking sector's deposit potential increased by BAM 701.9 million or 4.0%, where their share in the total on-balance sheet sum slightly decreased from 79.7% to 79.3%. The share of the interest expenditures on loans and other borrowings is maintained at the same level, even though the FBiH banking sector's level of indebtedness on loans and other borrowings decreased by BAM 59.0 million or 6.8% in the reporting period. Other interest and similar expenditures increased by BAM 3.2 million or 42.0%, as a result of introducing IFRS 16 - Incremental borrowing rate on financial liabilities (financing cost), negative interest rates on the deposits in foreign banks and excess reserves at the CBBiH, while in one bank they increased as a result of repo transactions performed since the fourth quarter of 2018 at a negative interest rate.

Across the FBiH banking sector, there was a slight 0.2% decrease in the total non-interest expenditures in the reporting period, where the most significant structural changes relate to a 30.5% decrease in the costs of impairments of assets at risk and provisions for contingent liabilities and other value adjustments. A decrease in this category of costs is a result of improved recovery of the non-performing loans and decrease in the inflow of new non-performing assets in the majority of banks in the FBiH banking sector.

Other operating and direct costs recorded an increase rate higher than 10%, where the highest increase relates to the fees paid by banks for international card settlement services, since an increase in the fees on domestic and international transactions was recorded in the reporting period, as well as in the number and volume of transactions on card operations.

1.2.5.4. FBiH Banking Sector's Operational Profitability, Productivity and Efficiency Ratios

The following table provides an overview of the most important ratios that are used as measures for assessing the FBiH banks' operational profitability, productivity, and efficiency:

-in %-

Table 27: Profitability, productivity, and efficiency ratios by periods

Ratio	June 30 th , 2017	June 30 th , 2018	June 30 th , 2019
Profit on average assets	0.8	0.9	0.8
Profit on average total capital	5.5	6.1	5.9
Profit on average shareholders' capital	12.4	14.3	14.0
Net interest income/ average assets	1.6	1.5	1.3
Operating income/ average assets	1.1	1.1	1.0
Total income/ average assets	2.7	2.5	2.3
Operating and direct expenditures/ average assets ¹⁷	0.5	0.4	0.4
Operating expenditures/ average assets	1.4	1.2	1.1
Total non-interest expenditures/ average assets	1.9	1.7	1.5

When analyzing the presented FBiH banking sector indicators, one should take into account that the reporting period was marked by a continuous increase in the total, i.e. the average assets, and in the average total and shareholders' capital, which are the basis for calculating the above ratios. The increase in the assets was more pronounced compared to the increase in the total and shareholders' capital, and in the total income, with slight changes in the level of net interest income and similar income in the first semester of 2019 compared to the same period of 2018.

The profits on average assets, average total capital, and average shareholders' capital have been maintained stable in the observed reporting periods, with somewhat more favorable indicators as of June 30th, 2018. The indicators of the above income and expenditure categories are showing a slight downward, i.e. stagnating trend compared to the average assets in the observed reporting periods.

One of the indicators for assessing the FBiH banking sector's performances is the amount of assets per an employee, which has recorded a continuous increase in the observed reporting periods, indicating an increase in the FBiH banking sector's operational efficiency, where that increase has been slower in the first semester of 2019 compared to the aforementioned reporting periods.

1.2.6. Weighted NIR and EIR

In order to increase transparency and facilitate the comparability of the banks' terms for approving loans and receiving deposits, as well as to protect clients through introduction of transparent disclosure of the loan costs, i.e. the deposit income, in accordance with the international standards, criteria, and practices in other countries, the FBA prescribed a uniform method of calculating and disclosing EIR for all banks established in the FBiH, as well as the organizational parts of the banks established in the RS, which operate in the FBiH, and mandatory monthly reporting to the FBA on weighted NIR and EIR on approved loans and received deposits in the reporting month, in accordance with the prescribed methodology¹⁸.

For the purposes of loan beneficiaries and when analyzing the interest rate trend, it is relevant to monitor the weighted EIR trend since it includes all costs paid by the beneficiary, which are directly related to the loan, i.e. the terms of use of the loan, and are factored in the pricing of the loan (for example, loan processing costs, insurance premium costs for natural persons if insurance is a loan approval requirement, then other costs related to ancillary services paid by the client, which are a requirement for using the loan).

Annex 6 provides weighted average NIR and EIR on loans and deposits as of June 30th, 2019, while Annex 6a provides weighted average NIR and EIR on loans and deposits by periods.

¹⁷ Expenditures include impairment costs

¹⁸ The Decision on the Uniform Method of Calculating and Disclosing Effective Interest Rates on Loans and Deposits ("Official Gazette of the Federation of BiH", no. 81/17), and Instruction for Calculating Weighted Nominal and Effective Interest Rates

The total weighted average EIR on the loans in the FBiH banking sector as of June 30th, 2019 is 3.98% and is lower by 0.17 percentage points compared to the end of 2018, when it was 4.15%. The downward trend in the weighted average EIR is present across the FBiH banking sector in the reporting period, both in the short-term loans (0.2 percentage points, decrease from 2.97% to 2.77%) and in the long-term loans (0.05 percentage points, from 5.62% to 5.57%). Viewed in the aforementioned period according to the sector structure, EIR on the total commercial loans decreased by 0.23 percentage points (from 3.13% to 2.90%), while on the retail loans it decreased by 0.35 percentage points (from 7.22% to 6.87%).

The total weighted average EIR on the deposits in the FBiH banking sector as of June 30th, 2019 is 0.77% and is higher by 0.12 percentage points compared to the end of 2018, when it was 0.65%. Viewed according to the deposit maturity, the weighted average EIR on the short-term deposits recorded a decrease of 0.04 percentage points (from 0.36% to 0.32%), while it increased by 0.06 percentage points (from 1.16% to 1.22%) on the long-term deposits.

On the overall level in the reporting period, the decrease in EIR on the loans (0.17 percentage points) was slightly more pronounced compared to the increase in EIR on the deposits (0.12 percentage points).

The weighted EIR on the total loans on account overdrafts for the banking sector in June 2019 compared to December 2018 slightly decreased from 6.28% to 6.20% or by 0.08 percentage points, while the weighted EIR on the sight deposits remained at the same level compared to December 2018 (0.02%).

1.2.7. Liquidity

In addition to credit risk management, liquidity risk management is one of the most important and complex segments of banking operations. Maintaining liquidity in market economy is a permanent requirement for a bank and a main prerequisite for its sustainability in the financial market, as well as one of the key prerequisites for building and maintaining trust in the banking sector in any country, its stability and security.

Given a high correlation of credit risk, as a dominant risk in banking operations, and liquidity risk, one of the most important factors affecting banks' liquidity positions is banks' ability to adequately manage assets and liabilities, which entails securing soundly performing assets whose quality ensures repayment of the bank loans, together with the interest, in accordance with the maturity periods.

The Decision on Liquidity Risk Management in Banks provides for the minimum qualitative requirements for liquidity risk management in banks, starting from the regulatory standards for risk management in banks, quantitative requirements for banks in respect of LCR and securing stable funding, as well as using additional mechanisms for liquidity risk monitoring and assessment.

The following table provides the trend of LCR evolution in the FBiH banking sector:

-BAM '000s-

Description	December 31 st , 2018	June 30 th , 2019	Index
1	2	3	4 (3/2)

Liquidity buffer	4,325,281	4,274,711	99
Net liquidity outflows	1,392,629	1,457,168	105
LCR	311%	293%	94

As of June 30th, 2019, LCR across the FBiH banking sector is 293% and is lower by 18.0 percentage points compared to the end of 2018. All banks in the FBiH banking sector with the balance as at June 30th, 2019 meet the requirements in respect of LCR, while the majority of the banks is significantly above the regulatory minimum.

In the banking sector's funding structure as at June 30th, 2019, the deposits have the highest share of 79.3%, followed by the loans taken out (including subordinated debts) with a 4.4% share. The loans taken out are with longer maturity periods and are a high-quality source for long-term placements, improving the maturity matching of financial asset items and financial liability items, even though there has been a downward trend present in them already for a while now.

The maturity structure of the deposits by residual maturity is shown in the following table:

-in BAM '000s-

Table 29: Maturity structure of deposits by residual maturity

Deposits	July 31 st , 2017		December 31 st , 2018		June 30 th , 2019		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 sight deposits (up to 7 days)	9,227,317	58.4	10,562,758	60.0	10,984,389	60.0	114	104
7-90 days	988,235	6.2	1,058,414	6.0	1,115,517	6.1	107	105
91 days to one year	2,144,316	13.6	2,616,873	14.9	2,371,781	13.0	122	91
1. Total short-term	12,359,868	78.2	14,238,045	80.9	14,471,687	79.1	115	102
Up to 5 years	3,280,639	20.7	3,193,809	18.1	3,632,463	19.8	97	114
Over 5 years	174,216	1.1	172,783	1.0	202,386	1.1	99	117
2. Total long-term	3,454,855	21.8	3,366,592	19.1	3,834,849	20.9	97	114
Total (1 + 2)	15,814,723	100	17,604,637	100	18,306,536	100	111	104

As of June 30th, 2019, the short-term deposits by residual maturity had a 79.1% share, while the long-term ones had a 20.9% share, with the share of the short-term deposits decreasing, i.e. the share of the long-term ones increasing by 1.8 percentage points compared to the end of 2018. In the reporting period, an increase of BAM 233.6 million or 1.6% was recorded in the short-term deposits, with an increase of BAM 468.3 million or 13.9% recorded in the long-term deposits. An increase in the long-term deposits was also realized in the deposits of up to 5 years (BAM 438.7 million or 13.7%) and in the deposits of over 5 years (BAM 29.6 million or 17.1%).

If the structure of the long-term deposits is analyzed by residual maturity, it is evident that the deposits with residual maturity of up to five years (94.7% of long-term deposits and 19.8% of total deposits). An overview of the core liquidity indicators is shown in the following table:

-in %-

Table 30: Liquidity ratios

Ratios	July 31 st , 2017	December 31 st , 2018	June 30 th , 2019
1	2	3	4
Liquid assets ¹⁹ / total assets	30.2	30.8	30.4
Liquid assets/ short-term financial liabilities	47.6	46.3	46.6
Short-term financial liabilities/ total financial liabilities	74.9	77.7	76.1
Loans/ deposits and loans taken out ²⁰	79.2	77.6	78.1
Loans/ deposits, loans taken out and subordinated debts ²¹	78.5	77.1	77.3

¹⁹ Liquid assets in the strict sense: cash and deposits and other financial assets with residual maturity period of less than three months, excluding interbank deposits

²⁰ Empirical standards are: less than 70% - very solid, 71%-75% - satisfactory, 76%-80% - borderline satisfactory, 81%-85% - insufficient, over 85% - critical

²¹ Previous ratio is expanded, the funding also includes subordinated debts, which is a more realistic indicator

The loans to deposits and loans taken out ratio as at June 30th, 2019 is 78.1%, which was higher by 0.5 percentage points compared to the end of 2018. In six banks, this ratio is higher than 85.0%. The share of the short-term financial liabilities in the total financial liabilities is still high, but the liquid assets to total assets ratio is continuously satisfactory.

An important aspect of the liquidity position monitoring and analysis is maturity matching of the residual maturities of financial asset items and financial liability items against the timeline set by the minimum limits and created for a 180-day time horizon²². In the function of planning the required level of liquid resources, banks should plan the funding and structure of an adequate liquid potential and also plan a credit policy in this regard. The maturity of placements, i.e. the loan portfolio is determined precisely by the maturity of the funding. Given that the maturity transformation of the funds in banks is inherently related to the functional characteristics of banking operations, the banks continuously control and hold maturity mismatches between the funding and placements in accordance with regulatory limits.

The following table and chart provide an overview of the maturity matching of financial assets and liabilities of up to 180 days:

-in BAM '000s-

<i>Table 31: Maturity matching of financial assets and financial liabilities of up to 180 days</i>					
Description	July 31 st , 2017	December 31 st , 2018	June 30 th , 2019	Index	
	Amount	Amount	Amount	5=(3/2)	6=(4/3)
1	2	3	4		
I 1-30 days					
1. Amount of financial assets	8,462,124	9,513,412	9,810,973	112	103
2. Amount of financial liabilities	9,193,511	10,425,706	10,932,195	113	105
3. Balance (+ or -) = 1-2	-731,387	-912,294	-1,121,222	-	-
<i>Calculation of compliance with regulatory requirements in %</i>					
a) Actual % = no. 1 / no. 2	92.0%	91.2%	89.7%		
b) Regulatory minimum %	85.0%	85.0%	85.0%		
More (+) or less (-) = a - b	7.0%	6.2%	4.7%		
II 1-90 days					
1. Amount of financial assets	9,416,671	10,556,830	10,862,700	112	103
2. Amount of financial liabilities	10,041,101	11,345,741	11,865,837	113	105
3. Balance (+ or -) = 1-2	-624,430	-788,911	-1,003,137	-	-
<i>Calculation of compliance with regulatory requirements in %</i>					
a) Actual % = no. 1 / no. 2	93.8%	93.0%	91.5%		
b) Regulatory minimum %	80.0%	80.0%	80.0%		
More (+) or less (-) = a - b	13.8%	13.0%	11.5%		
III 1-180 days					
1. Amount of financial assets	10,476,675	11,640,075	12,114,075	111	104
2. Amount of financial liabilities	10,734,265	12,644,902	12,777,864	118	101
3. Balance (+ or -) = 1-2	-257,590	-1,004,827	-663,789	-	-
<i>Calculation of compliance with regulatory requirements in %</i>					
a) Actual % = no. 1 / no. 2	97.6%	92.1%	94.8%		
b) Regulatory minimum %	75.0%	75.0%	75.0%		

²² Article 41 of the Decision on Liquidity Risk Management in Banks („Official Gazette of the Federation of BiH“, no. 81/17): „Until NSFR from Article 34 hereof is introduced as a mandatory quantitative requirement for banks, the banks shall apply and report on maturity matching of financial assets and financial liabilities and the structure of the largest funding sources, and accordingly Articles 6(3)(1), 6a, 6b, 11(2), and 12 of the Decision on the Minimum Standards for Liquidity Risk Management in Banks („Official Gazette of the Federation of BiH“, nos. 48/12, 110/12, and 45/14) shall remain effective“. Regulatory percentages for the maturity matching of financial assets and financial liabilities: minimum 85% of the funding with the maturity period of up to 30 days must be engaged in the placements with the maturity period of up to 30 days, minimum 80% of the funding with the maturity period of up to 90 days must be engaged in the placements with the maturity period of up to 90 days, and minimum 75% of the funding with the maturity period of up to 180 days must be engaged in the placements with the maturity period of up to 180 days

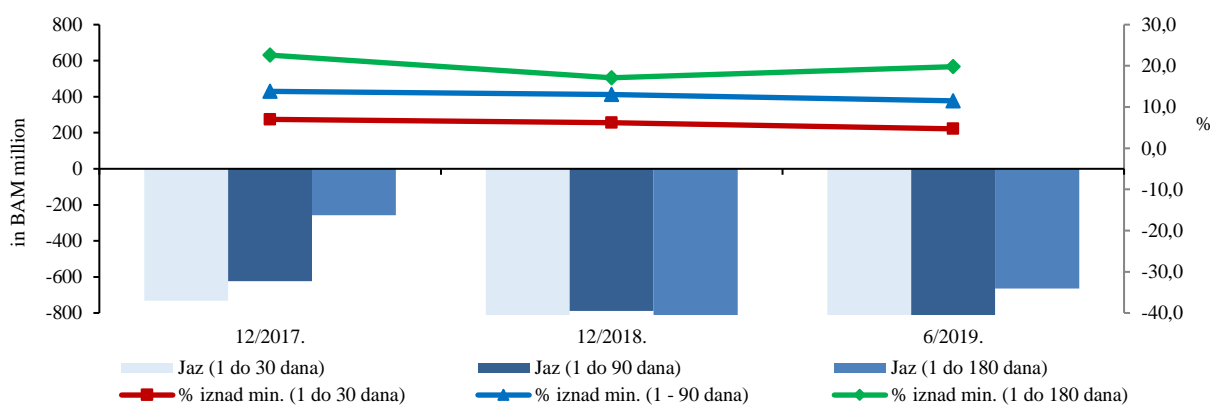
More (+) or less (-) = a - b

22.6%

17.1%

19.8%

Chart 8: Maturity matching of financial assets and liabilities of up to 180 days



As at June 30th, 2019, the financial assets in all three time buckets were lesser than the financial liabilities, due to the higher increase in the financial liabilities, primarily in the deposits, than the increase in the financial assets. The actual percentages of the maturity matching in the time buckets of 1-30 and 1-90 days as at June 30th, 2019 are somewhat lower (by 1.5 percentage points in both time buckets), while in the time bucket of 1-180 days the percentage is higher (by 2.7 percentage points) compared to the end of 2018, with the percentages being higher than the regulatory minimums, namely in the first time bucket by 4.7%, in the second one by 11.5%, and in the third time bucket by 19.8%.

By observing the key liquidity indicators, qualitative and quantitative requirements, as well as other factors affecting banks' liquidity position, it could be inferred that the FBiH banking sector's liquidity as of June 30th, 2019 is satisfactory.

Since this business area and liquidity risk exposure level are in correlation with credit risk (lower inflows of liquid assets related to difficulties in collection of loans), while having regard to other important factors (maturity structure of the deposits, repayment of past-due loan obligations, and significantly lower borrowing from international financial institutions, which was the banks' funding source of the highest quality in the previous years from the aspect of the maturity), it should be noted that liquidity risk management and monitoring should be in the focus of the banks through establishment and implementation of liquidity policies, which will ensure meeting of all obligations as they come due in a timely fashion, based on ongoing planning of future liquidity requirements, taking into account changes in the operational, 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 arising from potential losses on on- and off-balance sheet items resulting from changes in market prices. One of those risks is also FX risk, arising as a result of changes in exchange rates and/or mismatches in the levels of assets, liabilities, and off-balance sheet items in the same currency - individual foreign exchange position or all currencies combined with which the bank operates - the bank's total foreign exchange position. The Decision on Foreign Exchange Risk Management in Banks²³ provides for how the foreign exchange position is calculated and maximum permitted FX risk exposure, i.e. the limits for open individual and total

²³ "Official Gazette of the Federation of BiH", no. 81/17

foreign exchange positions (long or short), calculated by reference to the bank's eligible capital²⁴. In order for the FBA to monitor banks' compliance with the regulatory limits and FX risk exposure level, the banks are required to report to the FBA on a daily basis.

Based on the control, monitoring and analysis of the reports, it could be inferred that the banks comply with the regulatory limits and that they perform their FX activities within them.

According to the balance as at June 30th, 2019, the items in foreign currencies amounted to BAM 3.4 billion, with a 14.6% share (BAM 3.2 billion or 14.4% at the end of 2018) in the currency structure of the banks' assets across the banking sector. The currency structure of the liabilities is materially different, because the share of the liabilities in foreign currency is significantly higher and amounts to BAM 8.5 billion or 36.6% (BAM 8.3 billion, with 37.6% share at the end of 2018). The following table provides the structure of the financial assets and financial liabilities and foreign exchange position for EUR, as the most important currency, and total foreign exchange position across the banking sector:

-in BAM million-

Description	December 31 st , 2018				June 30 th , 2019				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 Financial assets										
1. Cash	1,437	15.5	1,882	19.0	1,807	19.0	2,237	22.0	126	119
2. Loans	264	2.9	265	2.7	255	2.7	255	2.5	97	96
3. Loans with currency clause	6,482	70.1	6,490	65.6	6,531	68.7	6,536	64.4	101	101
4. Other	843	9.1	1,029	10.4	665	7.0	871	8.6	79	85
5. Other financial assets with currency clause	225	2.4	225	2.3	249	2.6	249	2.5	111	111
Total I (1+2+3+4+5)	9,251	100	9,891	100	9,507	100	10,148	100	103	103
II Financial liabilities										
1. Deposits	6,614	74.8	7,284	76.5	6,747	74.6	7,403	76.2	102	102
2. Loans	855	9.7	855	9.0	796	8.8	796	8.2	93	93
3. Deposits and loans with currency clause	1,204	13.6	1,204	12.7	1,259	13.9	1,259	13.0	105	105
4. Other	166	1.9	172	1.8	246	2.7	253	2.6	148	147
Total II (1+2+3+4)	8,839	100	9,515	100	9,048	100	9,711	100	102	102
III Off-balance sheet										
1. Assets	80		131		34		68			
2. Liabilities	456		463		444		449			
IV Position										
Long (amount)	37		44		49		56			
%	1.5%		1.8%		1.8%		2.1%			
Short										
%										
Permitted	30.0%		30.0%		30.0%		30.0%			
Less than permitted	28.5%		28.2%		28.2%		27.9%			

Viewed by banks and as the total across the FBiH banking sector, it could be noted that the banks and sector's FX risk exposures as of June 30th, 2019 ranged within the regulatory limits. As of June 30th, 2019, seven banks had long foreign exchange positions, while eight banks had short positions. A long foreign exchange position of 2.1% of the banks' total eligible capital was reported across the sector, which was lower by 27.9 percentage points than the permitted one. The individual foreign exchange position for EUR was 1.8%, which was lower by 28.2 percentage points than the permitted one, where the financial asset items were higher than the financial liabilities (net long position).

²⁴ Article 3 of the Decision on Foreign Exchange Risk Management in Banks provides for the limits: maximum of up to 30% for the individual foreign exchange position for EUR, up to 20% for other currencies, and maximum of up to 30% of the bank's eligible capital for the bank's foreign exchange position

²⁵ Source: Template 5 – Foreign Exchange Position

If the structure of foreign currencies in the financial assets is analyzed²⁶, the EUR's 81.1% share is dominant (80.1% as at December 31st, 2018), with an increase in the nominal amount of BAM 183.0 million or 7.2%. The EUR's share in the financial liabilities is 92.2% and, compared to the end of 2018, it increased by BAM 154.0 million or 2.0%. The calculation basis for EUR's share in the financial assets and financial liabilities does not include the items with a currency clause.

1.3. BANKS' COMPLIANCE IN PERFORMANCE OF PAYMENT OPERATIONS AND WITH AML/CFT STANDARDS

1.3.1. Banks' Compliance in Performance of Payment Operations

Under the FBA's internal organization, payment system control activities are organized through onsite and offsite compliance supervision of the internal payment system and foreign exchange operations in banks.

Control activities in the internal and foreign exchange payment systems in the January 1 - June 30, 2019 period were reflected in the onsite and offsite inspections of the banks, ensuring of ongoing reporting on the performance of internal and foreign exchange payment operations, and reporting control.

Through control of data collected for the Banks, Authorized Money Changers, and Money Exchange Locations Register, as well as through comparison of data received from the banks and from the FMF, and through their adjustment, ongoing keeping, updating, and maintenance of the Banks, Authorized Money Changers, and Money Exchange Locations Register's database continued in the previous period. As at June 30th, 2019, 75 authorized money changers and 401 money exchange locations that have concluded contracts on the performance of money exchange operations with the banks established in the FBiH were registered in the Register.

Based on the reports provided by the banks to the FBA on the volume of the foreign exchange payment operations, the following volume of the transactions in the FBiH banks broken down by currencies was recorded:

Table 33: Volume of foreign exchange payment system transactions in January 1 - June 30, 2019 period by transaction currencies

Transaction currency	Total number of transactions	Total value of transactions in BAM
EUR	587,509	5,268,308,540
USD	23,044	480,431,841
Other currencies	39,621	317,923,670
Total	650,174	6,066,664,051

Based on the reports provided by the banks to the FBA on the volume of the money exchange operations of the authorized money changers, the following volume of the money exchange operations performed by the authorized money changers broken down by currencies was recorded:

Table 34: Volume of authorized money changers' money exchange operations in January 1 - June 30, 2019 period by currencies

Currency	Transactions - value in BAM
----------	-----------------------------

²⁶ Source: Report on Bank's Foreign Exchange Position: Part of Financial Assets (in Foreign Currencies Denominated in BAM). Financial assets are reported in net terms, i.e. minus impairments and reserves for contingent liabilities

	Buy		Sell	
	Number	Value	Number	Value
EUR	144,934	60,207,015	6,061	2,528,500
USD	7,635	1,925,383	87	36,569
Other currencies	23,083	10,057,437	3,203	416,535
Total	175,652	72,189,835	9,351	2,981,604

Based on the reports provided by the banks to the FBA on the volume of the money exchange operations of the banks, the following volume of the money exchange operations performed by the banks broken down by currencies was recorded:

Table 35: Volume of money exchange operations performed by banks in January 1 - June 30, 2019 period by currencies

Currency	Transactions - value in BAM			
	Buy		Sell	
	Number	Value	Number	Value
EUR	116,102	66,248,202	15,526	13,183,078
USD	14,151	7,752,065	664	660,032
Other currencies	28,496	13,443,845	9,731	2,009,521
Total	158,749	87,444,112	25,921	15,852,631

Based on the reports provided by the banks to the FBA on the volume of the internal payment operations, the following volume of the payment transactions performed by the banks in the internal payments system was recorded:

Table 36: Volume of payment transactions performed in internal payments system in January 1 - June 30, 2019 period by transaction type

Transaction type	Transactions	
	Number	Value
Cash - G	817,756	897,585,078
Cashless - UBPT	2,323,766	3,250,066,071
Cashless - MBPT GC	2,953,396	839,364,423
Cashless - MBPT RTGS	74,120	3,758,635,711
Total	6,169,038	8,745,651,283

An overview of opened and closed accounts of businesses and entrepreneurs in the banks in the January 1 - June 30, 2019 period, divided by account type, was drawn up based on the banks' reports:

Table 37: Overview of opened and closed accounts in banks in January 1 - June 30, 2019 period

<i>by account type</i> ²⁷		
Account type	Number of opened accounts	Number of closed accounts
1. Main account	1,102	391
2. Other accounts	1,106	1,127
2.1. Ordinary business accounts (R)	362	631
2.2. Organizational units' accounts (O)	27	13
2.3. Special purpose accounts (P)	171	129
2.4. Public revenue accounts (J)	1	1
2.5. Foreign exchange accounts (D)	505	243
2.6. Collateral deposit accounts (K)	26	34
2.7. Bankruptcy accounts (S)	5	10
2.8. Financial consolidation accounts (F)	0	0
2.9. Accounts without account type designation	9	66
Total (1.+2.)	2,208	1,518

Some non-compliances were identified in the payment operation controls in the FBiH banks for which remedy orders were issued.

The FBA will continue to improve and develop regulations in the segment of payment system supervision in accordance with its prescribed authorities, with a view to maintaining and strengthening the FBiH banking sector's stability and improving its lawful, safe, and high-quality operations.

1.3.2. Banks' Compliance with AML/CFT Standards

In the January 1 - June 30, 2019 period, according to the Reports on Cash Transactions of BAM 30,000 or More, Related, and Suspicious Transactions (AML/CFT Template, Tables A to F) provided to the FBA by banks, the banks reported to the FID a total of 137,385 transactions (2.6% more compared to the same period of the previous year) in the total value of BAM 6,756,063,928 (higher by 0.5% compared to the same period of the previous year).

In the same reporting period, the banks reported a total of 53 suspicious transactions (89.3% more compared to the same period of the previous year) in the total value of BAM 4,050,134 (higher by 162.0% compared to the same period of the previous year).

In the observed reporting period, the banks reported 65 suspicious clients (4.8% more compared to the same period of the previous year). The FID requested provision of information for one client.

The following tables show the number and value of the total reported transactions and reported suspicious transactions and clients.

An overview of the reported transactions by number and value:

Description	Period January 1 - June 30, 2018		Period January 1 - June 30, 2019		Index	
	Number	Value	Number	Value	Number	Value
	2	3	4	5	6 (4/2)	7 (5/3)
Transactions reported before execution	4	193,312	4	1,633,675	100	845
Transactions reported within 3 days	133,878	6,722,901,922	137,367	6,753,814,180	103	100

²⁷ Banks established in the RS, which operate in the territory of the FBiH are not covered by the aforementioned reports

Table 38: Number of reported transactions, by number and value

Description	Period January 1 - June 30, 2018		Period January 1 - June 30, 2019		Index	
	Number	Value	Number	Value	Number	Value
	1	2	3	4	5	6 (4/2)
Transactions reported after 3-day period	20	730,704	14	616,073	70	84
Total	133,902	6,723,825,938	137,385	6,756,063,928	103	100

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

Table 39: Number of reported suspicious transactions, by number and value

Description	Period January 01 - June 30, 2018		Period January 01 - June 30, 2019		Index	
	Number	Value	Number	Value	Number	Value
	1	2	3	4	5	6 (4/2)
Transactions reported before execution	4	193,312	4	1,633,675	100	845
Transactions reported within 3 days	20	1,265,781	36	1,974,022	180	156
Transactions reported after 3-day period	4	86,513	13	442,437	325	511
Total	28	1,545,606	53	4,050,134	189	262

An overview of the reported suspicious clients:

Table 40: Overview of number of reported suspicious clients

Reported suspicious clients for which FID:	January 01 - June 30, 2018	January 01 - June 30, 2019	Index
1	2	3	4 (3/2)
Requested additional information	4	1	25
Did not request additional information	58	64	110
Total	62	65	105

The information that the number and value of the suspicious transaction and number of the reported suspicious clients increased points to the conclusion that the banks improved their controls and that they pay more attention to transaction monitoring and client activities. An upward trend in the transactions reported post-execution is especially pronounced, indicating that the banks paid more attention to corrective transaction monitoring. It can be said that the banks acted preventively in four cases (8.0%), when the banks provided reports on suspicious transactions to the FID before the transaction execution. This points to the conclusion that the banks should pay more attention to transaction analysis before execution.

Based on the statistics and documentation in the FBA's records collected in the preparation of inspections, as well as the information and documentation collected during inspections in the banks, an assessment of the banks' risk profiles was performed, constituting a measure, i.e. an assessment of the structure and level of ML/FT risk that the bank is or may be exposed to in its operations.

Based on an assessment of the measures undertaken by the banks to protect against misuses for the purposes of ML/FT and assessment of potential ML/FT threats, it could be inferred that the banking sector is for the most part compliant with the AML/CFT standards.

1.4. BANKING SECTOR RECOMMENDATIONS

The previous period in the banking supervision was marked by the major, demanding, and extensive processes related to the reform of the regulatory banking supervisory and operating framework and establishment of a new framework for resolution of banks, implementation of a multi-year project of transitioning from the current CAMELS-based supervisory methodology to a completely new supervisory framework - SREP, and establishment of a new supervisory reporting framework. To that effect, the FBA has continued to strengthen its supervisory capacities with a view to implementing a new regulatory framework in accordance with the BL, LoA, and set of the bylaws issued based on them.

The FBA will, in accordance with its prescribed supervisory authorities for the FBiH banks' operations, continue to undertake the measures and activities to maintain and strengthen the banking sector's stability and to protect depositors, as well as to improve the FBiH banks' safe, high quality, and lawful operations. The above measures and activities will especially focus on continuation of ongoing supervision of the banks, with an emphasis on:

- controls of the dominant risky business areas, inspections of the systemically important banks for the development of credit activities and banks in which large amounts of savings and other deposits are concentrated, and controls of practices applied in the banks in the segment of protection of financial users and guarantors, etc.;
- implementation of capital strengthening plans of the banks, especially those with a major increase in the assets, and the banks wherein capital adequacy ratios are decreasing;
- monitoring of the IAS/IFRS implementation, with a view to adequately valuating financial assets and allocating reserves for expected loan losses in the function of maintaining adequate capitalization of the FBiH banks;
- establishing, expanding, and improving cooperation with competent supervisory authorities for the supervision of banking groups from the EU and third countries whose members are domiciled in the FBiH, with a view to supervising more efficiently and improving supervisory practices and cooperating and sharing information with the ECB and EBA on the issues of supervision and banking regulations, as well as with the international financial institutions;
- improving cooperation by signing new cooperation agreements with the relevant institutions in BiH, which are included in the institutional framework for the performance of supervision, crisis and systemic risk management, financial users' protection and
- continuing cooperation with the BABiH, with a view to improving banks' operations, compliance of their operations with regulations, international standards, and professional rules, and market requirements, etc.

Starting from the prescribed authorities, the FBA will continue to undertake measures and activities with a view to implementing the FSAP mission's recommendations aimed at improving the quality of the banking sector supervision, as well as the commitments undertaken under the Letter of Intent signed by the governments in BiH as part of the arrangement with the IMF, relating to the entity banking agencies, banking supervision strengthening projects under the technical assistance provided by the international financial institutions WB and IMF, and under the USAID FINRA Project, etc.

Implementation of the above activities is conditioned by continued engagement and concerted institutional actions of all elements of the system, judicial, legislative, and executive branches, efficient implementation of economic reforms, in order to align the progress achieved in the monetary sphere and banking sector by improving legal regulation in the segments of accounting and auditing, asset management, establishment of mechanisms for out-of-court corporate debt workout, security and safety of money in banks' treasuries and cash in hand and in transport,

working out or mitigating overindebted citizens' issues, special commercial departments in courts, etc., which is a prerequisite for creating a more conducive overall economic environment, which would have a stimulating effect on the banking sector, real sector, and public.

Enforcement of the supervisory measures and activities requires ongoing operational development of the information system, as an important prerequisite for efficient supervision of banks' operations, i.e. the IT support in the function of early warning and preventive action in addressing weaknesses in banks' operations, as well as permanent staff training and professional development.

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

- corporate and retail credit support, with implementation of the regulatory requirements in respect of credit risk management and maintenance of adequate capitalization against banks' risk profiles;
- efficiency of an integrated risk management system and improvement of a system for early increased credit risk identification, i.e. deterioration in the loan portfolio's quality, as well as more efficient NPL management measures;
- bringing operations in compliance with the new regulatory requirements for banks' operations and supervision, including also the requirements related to recovery planning and resolution of banks;
- consistent and full implementation of the IAS/IFRS;
- improving the ICAAP and ILAAP in accordance with the new regulatory requirements;
- consistent implementation of regulations in the segments of payment operations, AML/CFT, protection of financial users and guarantors, security and safety of money in banks and in transport;
- active participation in implementation of the reform measures and measures to address the issues of overindebtedness of citizens, and in corporate financial consolidation, etc.

2. NON-DEPOSITORY FINANCIAL INSTITUTIONS SECTOR

In accordance with the FBA's prescribed supervisory authorities for non-depository financial institutions in the FBiH (MCOs, leasing companies and factoring companies, for which founding, operations, management, supervision and termination of their activities are regulated under special laws and regulations), this section of the Information provides an overview of the structure and financial indications of operations of the aforementioned non-depository financial institutions in the FBiH in the first semester of 2019.

In addition to that, with the objective of increasing transparency and facilitating comparability of the terms for using financial services and protection of clients – financial users, through introduction of a transparent presentation of the cost of micro crediting, financing through leasing and factoring, in accordance with international standards, criteria and practices in other countries, the FBA has regulated a single manner of calculation and disclosure of the EIR, specifically: in the Decision on Uniform Manner of Calculation and Disclosure of Effective Interest Rates on Loans and Deposits, which applies to banks and MCOs that submit the prescribed monthly reports on weighted NIR and EIR, and also the Decision on Uniform Manner of Calculation and Disclosure of Effective Interest Rates for Financial Leasing Contracts, which applies to leasing companies that submit the prescribed monthly reports on nominal and effective interest rates. Mandatory monthly reporting to the FBA on the part of MCOs and leasing companies is being performed in accordance with FBA bylaws that regulate in more detail the manner and the methodology under which EIR is to be calculated and disclosed for microloans and financial leasing contracts, and reports are submitted. Within its direct and indirect supervision activities, the FBA is performing compliance control over MCOs and leasing companies relating to provisions prescribed on protection of financial users and application of the single manner of calculation and disclosure of EIR.

For the needs of financial users of microloans and financing through financial leasing agreements, it is relevant to monitor the evolution of weighted EIR, since it includes all costs paid by the user, which are directly related to these types of financing (microloan and financial leasing contracts) and which enter into price calculations for microloans, i.e. financial leasing agreements (for example, costs for processing microloan applications, i.e. financing through financial leasing and all other costs incurred as a condition for their approval, then other costs related to ancillary services paid by the client-user of financial services, and are a precondition for the use of microloans or financial leasing).

Factoring service providers, i.e. factoring companies licensed by the FBA to perform factoring operations are, in compliance with the Decision on Minimum Standards for the Structure, Content, Manner and Deadlines for Submission of Information and Reports of Factoring Companies to the Federation of BiH Banking Agency, under obligation to submit the prescribed quarterly reports on interest rates and fees. According to the prescribed reporting template, data on interest rates, fees and administrative fees are to be entered according to the amount as on the last day of the reporting period. According to reporting data as of June 30, 2019, the highest interest rates on the advance paid on the factoring market in the FBiH, stood at 8.0% on the last day of the reporting period for the second quarter of 2019, while the discount interest rates amounted to 5.0% and both were accrued in domestic factoring. Factoring companies and banks that performed factoring charged a factoring fee, while only those banks and companies charged an administrative fee for providing factoring services.

This section of the Information will continue with discussing the weighted NIR and EIR for non-depository financial institutions (microcredit and leasing sectors in the FBiH) for January 1 - June

30, 2019, with reference to the same period of 2018, the overview of which is given in the corresponding appendices, which form an integral part of the Information.

Weighted NIR and EIR on Microloans and Financial Leasing Agreements

At the total microloan portfolio level, for the reporting period, the weighted NIR amounted to 19.58%, while EIR amounted to 23.98%, and for short-term microloans they amounted to 21.26%, i.e. 29.83%, while on long-term microloans 19.29%, i.e. 22.98%. The weighted average EIR on total microloans at the microcredit sector level in the first semester of 2019, compared to the same period of 2018, recorded a moderate increase, from 23.92% to 23.98% (by 0.06 percentage points), where average weighted EIR on short-term microloans recorded an increase from 27.00% to 29.83% (by 2.83 percentage points), while weighted EIR on long-term microloans recorded a decrease from 23.34% to 22.98% (by 0.36 percentage points).

Annex 8 provides an overview of weighted average NIR and EIR on microloans, by maturity and by purpose, as well as by microloan agreements which were concluded, i.e. disbursed in January 1 - June 30, 2019 in MCOs registered in the FBiH.

Annex 8a provides an overview of weighted average NIR and EIR on microloans, by maturity and by purpose, as well as by microloan agreements which were concluded, i.e. disbursed in January 1 - June 30, 2019 in MCOs registered in RS that have subsidiaries in the FBiH. It is evident that at the total level, in the reporting period, the weighted NIRs amounted to 17.28%, and the EIRs amounted to 38.53% and they were higher compared to MCOs registered in the FBiH by 14.55 percentage points. The weighted average NIR on short-term microloans paid in MCOs operating in the FBiH, with headquarters in RS, was 16.28%, while the EIR was 84.81%. The high EIRs of these MCOs on short term microloans were affected by the enormously high weighted average EIR for other purposes, which are primarily charged by one MCC established in the RS for the disbursed microloans for this purpose, which were subject to FBA control and it was concluded that the EIR reporting data of this MCC was a consequence of specifically contracted microloans for other purposes which were not contracted at a nominal interest rate, but at an enormously high fee charged. Control activities are ongoing in this segment, and they are carried out in collaboration of FBA and BARS. In the coming period, the impact of the entry of the new MCC in the FBiH market on the level of EIR microloans should be monitored in order to prevent any negative effects on users of financial services and ensure compliance of the MCO business with regulations from the consumer -financial users protection segment.

Weighted average NIR and EIR on long-term microloans that were disbursed in the first semester of 2019 by the MCOs that are operating in the FBiH but have headquarters in RS are lower compared to those applying to MCOs with headquarters in the FBiH.

Annex 8b provides a comparative overview of average weighted NIR and EIR on disbursed microloans (short-term, long-term and total) as of June 30, 2019 compared to the same financial date for four preceding years (2015-2019).

Total average NIR for financial leasing contracts concluded in the first half of 2019 amounted to 8.9% for short-term contracts and to 6.5% for long-term contracts, while EIR for short-term contracts amounted to 18.0%, and for long-term contracts to 10.0% in the first half of 2019. The total weighted NIR in the first half of 2019 amounted to 6.5%, while EIR amounted to 10.0% in the aforementioned period.

Annex 15 provides an overview of weighted NIR and EIR for financial leasing contracts concluded January 1 - June 30, 2019, by maturity, leasing object, i.e. lessee.

Compared to the same period of 2018, when total weighted NIR of 4.3% and EIR of 6.9% were reported, there is a noticeable increase in NIR and EIR due to a significant increase of the amount of financing to lessees from categories natural persons on the part of one leasing company, whose market orientation is on that type of lessees and it is approving its financing at an interest rate higher compared to average for the sector and the system in general. Significant differences in the level of the weighted EIR by lessees are caused by the fact that the method of calculation of EIR on contracts concluded with natural persons is not identical to the method used to calculate it in contracts concluded with legal persons, as that does not include Casco insurance premium, which represented a statutory obligation for contracts with natural persons.

Annex 15a provides a comparative overview of weighted NIR and EIR for financial leasing contracts by periods, by maturity, leasing object, i.e. lessee.

2.1. MICROCREDIT SECTOR

2.1.1. MICROCREDIT SECTOR STRUCTURE IN FBiH

2.1.1.1. Status, Number and Business Network

In the FBiH as of June 30, 2019, FBA's operating licenses are in possession of 13 MCOs that comprise the microcredit sector in the FBiH, of which 11 are MCF (not for profit organizations) and two are MCC (for profit organizations). Compared to December 31, 2018, an operating license of the FBA was awarded to one new MCC in February of 2019, which started its business activities in the second quarter of 2019.

The microcredit sector in the FBiH is, as of June 30, 2019, doing business through the total of 364 registered organizational parts of MCOs with headquarters in the FBiH, which, compared to data as of December 31, 2018 represents an increase by two organizational parts, i.e. 0.6%. As of June 30, 2019, five MCCs with headquarters in RS are doing business in the FBiH through 46 organizational units, which, compared to December 31, 2018 represents an increase by one organizational part, i.e. 2.2%.

Annex 7 provides basic information on MCFs and MCCs which, as of June 30, 2019 have the FBA's license for performing the activity of awarding microloans.

2.1.1.2. Ownership Structure

An MCO is a legal person that, in accordance with the regulations, can be founded and do business as an MCF or an MCC. MCF in the FBiH were founded by non-governmental, mostly humanitarian organizations, citizens' associations and natural persons. The founders had, with the capital donated for founding the MCF, acquired the right to be registered as the founders, without the right of ownership over capital, which the MCC is in 100% ownership of one MCF. The newly registered MCC, which acquired the FBA's license in the first quarter of 2019, is in the ownership of three non-resident natural persons.

2.1.1.3. Staff Structure

The microcredit sector in the FBiH, as of June 30, 2019, employs the total of 1,506 persons, which is higher by 43 employees, i.e. 2.9%, compared to the stock as of December 31, 2018. Analytically viewed, in eight MCOs there is an evident increase in the number of employees by 55 persons, in three MCO there is a decrease in the number of employees by 12 persons, and in two MCOs the number of employees remained unchanged. The increase in the number of employees in the microcredit sector in the FBiH was mostly affected by employment in the newly founded MCC (14 newly employed, i.e. 32.6% of the total increase in the number of employees in the sector). Of the total number of employees in the microcredit sector in the FBiH, MCFs employ 1,200, i.e. 79.7%, while the two MCCs employ 306, i.e. 20.3%.

As of June 30, 2019, in the structure of employees the highest share is the share of employees with university level education - 51.3%, followed by the share of employees with secondary school qualifications – 39.0%, and with college level qualifications – 8.7%. The remaining share - 1.0% relates to employees with lower qualifications, qualified and highly qualified workers. Upon analyzing data on staff efficiency across the FBiH microcredit sector as of June 30, 2019, one could conclude that of the total number of employees, 718 microcredit officers, i.e. 47.7%, the number of active microloans by credit officer amounted to 221, which was slightly lower compared to December 31, 2018 (by six active microloans, i.e. 2.6%).

2.1.2. FINANCIAL INDICATORS OF PERFORMANCE

2.1.2.1. Balance Sheet

Total assets of the FBiH microcredit sector as of June 30, 2019 amount to BAM 611.3 million and are higher by BAM 30.9 million, i.e. 5.3% compared to the stock as of December 31, 2018. The increase in total assets of MCCs in the reporting period amounts to BAM 4.9 million, i.e. 15.9% of total increase in assets, where the amount of BAM 1.2 million, i.e. 3.9% of the increase of assets in the FBiH microcredit sector related to the increase in assets of the newly founded MCC, which started its business operations in the second quarter of 2019. The increase in total assets of 11 MCFs amounted to BAM 26.0 million, which represented 84.1% of the total increase in assets of the micro crediting sector. Therein four MCF reported a decrease in the total assets in an amount that is not materially significant, while out of the seven MCF with reported increase in total assets the highest increase in assets was reported by MCFs in the total amount of BAM 19.5 million, comprising 63.1% total of the increase in assets for the sector in the reporting period.

Annexes 9 and 10 of this Information provide a summary review of balance sheets of MCFs and MCCs, while Annex 11 provides an overview of basic financial indicators of MCOs according to reporting data as of June 30, 2019.

The summary balance sheet of the FBiH microcredit sector as of June 30, 2019 and comparative data with December 31, 2018 are shown in the following table:

-BAM '000s-

No.	Description	December 31, 2018			June 30, 2019			%	Index
		Stock for MCFs	Stock for MCCs	Total	Stock for MCFs	Stock for MCCs	Total		
1	2	3	4	5=(3+4)	6	7	8=(6+7)	9	10
ASSETS									
1.	Cash	48,291	9,107	57,398	44,459	6,404	50,863	8.3	89
2.	Placements to banks	210	0	210	220	0	220	0.0	105
3.	Microloans	322,369	134,551	456,920	344,322	139,513	483,835	79.2	106
4.	Loan loss provisions	-2,232	-672	-2,904	-2,608	-791	-3,399	-0.6	117
5.	Net microloans	320,137	133,879	454,016	341,714	138,722	480,436	78.6	106
6.	Premises and other fixed assets	24,918	1,751	26,669	31,540	4,545	36,085	5.9	135
7.	Long-term investments	33,061	0	33,061	33,061	0	33,061	5.4	100

8.	Other assets	6,900	2,270	9,170	8,568	2,237	10,805	1.8	118
9.	Reserves on other items in assets, apart from loans	-135	-36	-171	-166	-49	-215	0.0	126
Total assets		433,382	146,971	580,353	459,396	151,859	611,255	100,0	105
LIABILITIES									
10.	Liabilities on loans	177,970	101,712	279,682	192,803	101,247	294,050	48.1	105
11.	Other liabilities	21,647	6,155	27,802	26,118	7,942	34,060	5.6	123
12.	Capital	233,765	39,104	272,869	240,475	42,670	283,145	46.3	104
Total liabilities		433,382	146,971	580,353	459,396	151,859	611,255	100	105
13.	Off-balance sheet records	105,572	1,506	107,078	102,781	2,068	104,849	-	98

In the structure of assets of the FBiH microcredit sector as of June 30, 2019, the level and the share of cash is reduced, while other on-balance sheet positions recorded an increase in the reporting period. The biggest increase rates are disclosed in the position for business premises and other fixed assets, which is mostly caused by the application of IFRS 16 - Leases, which is mandatory from January 1, 2019, and which was connected with the increase in other liabilities in liabilities, as well as the position of provisions on other items in assets, apart from microloans. Growth rates exceeding 10% were disclosed in positions of other assets and loan loss provisions for microloans.

The rate of fixed assets compared to total assets reduced by donated capital across the FBiH microcredit sector as of June 30, 2019 amounts to 6.4%, which is within the prescribed limit (up to 10.0%), where one MCF reported a rate (64.5%) significantly higher than the prescribed limit, and one MCF is at the cusp of the prescribed limit (9.6%).

The net microloan portfolio, as the dominant item of assets in the microcredit sector with a share of 78.6%, recorded increase in absolute amount of BAM 26.4 million, i.e. 5.8%, of which BAM 21.6 million, i.e. 81.8% relate to increase in net microloans in MCF, and BAM 4.8 million, i.e. 18.2% relate to MCCs, compared to December 31, 2018. The level of loan loss provisions in the reporting period is higher by BAM 0.5 million, i.e. 17.0%, where BAM 0.4 million relates to increase in MCFs, with the increase rate of 16.8%, while the amount of BAM 0.1 million BAM, with the increase rate of 17.7%, relates to MCCs.

Total off-balance sheet records as of June 30, 2019 amount to BAM 104.8 million and compared to December 31, 2018 they are reduced by BAM 2.2 million, i.e. 2.1%, where in MCF they were reduced by BAM 2.8 million, i.e. 2.6%, while in MCC they increased by BAM 0.6 million, i.e. 37.3%. Of the total amount in off-balance sheet records as of June 30, 2019, the largest item relates to the written off principal under microloans of BAM 92.7 million, i.e. 88.5%, while the amount of BAM 10.0 million, i.e. 9.5% relate to written off interest. The total number of written off microcredit subaccounts as of June 30, 2019 is 38,427, which, compared to December 31, 2018, represents a decrease by the total of 736 microcredit subaccounts, as the net effect of the number of new write offs, permanent write offs and fully recovered microcredit subaccounts.

2.1.2.2. Capital and Liabilities

The biggest items in liabilities in the FBiH microcredit sector as of June 30, 2019 relate to liabilities on loans, which amount to BAM 294.1 million, i.e. 48.1% of the total liabilities and capital, amounting to BAM 283.1 million and representing 46.3% of total liabilities. The remaining amount of BAM 34.1 million, i.e. 5.6% relate to other liabilities (under profit tax, liabilities to employees, suppliers, etc.).

Compared to December 31, 2018, in the first semester of 2019 there is an evident increase in liabilities for loans taken out, by BAM 14.4 million, i.e. 5.1%. Maturity structure liabilities for loans taken out is presented in the following table:

-BAM '000s-

Table 42: Maturity structure of loans taken out

No.	Description	December 31, 2018				June 30, 2019				Index
		MCFs	MCCs	Total	%	MCFs	MCCs	Total	%	
1	2	3	4	5=(3+4)	6	7	8	9=(7+8)	10	11=9/5
1.	Liabilities on short-term loans taken out	69,189	33,197	102,386	36.6	76,737	41,405	118,142	40.2	115
2.	Liabilities on long-term loans taken out	108,781	68,515	177,296	63.4	116,066	59,842	175,908	59.8	99
	Total	177,970	101,712	279,682	100	192,803	101,247	294,050	100	105

In the structure of total liabilities on loans taken out as of June 30, 2019, credit obligations of MCFs represent 65.6%, while credit obligations of MCC represent 34.4%. In respect of the maturity structure of liabilities on loans taken out compared to December 31, 2018, there is an increased share of short-term liabilities, i.e. a decreased share of long-term liabilities, by 3.6 percentage points. The largest creditors of the FBiH microcredit sector, according to their share in total credit borrowing of MCOs as of June 30, 2019, are EFSE with 45.7%, Symbiotics - Switzerland with 21.5% and BlueOrchard - Switzerland with 20.9%.

In the reporting period, across the FBiH microcredit sector, the total increase in capital amounted to BAM 10.3 million, i.e. 3.8%, of which the amount of BAM of 3.6 million, i.e. 35.0% of the total increase in the microcredit sector's capital relate to MCCs, while the capital of all the MCFs in the reporting period increased by the amount of BAM 6.7 million, i.e. 65% of the total increase of capital of the microcredit sector in the first semester of 2019. The structure of capital of the FBiH microcredit sector is shown in the following table:

-BAM '000s-

Table 43: Microcredit sector's capital structure

No.	Description	December 31, 2018					June 30, 2019					Index
		Stock for MCFs	%	Stock for MCCs	%	Total	Stock for MCFs	%	Stock 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	48,076	20.6	0	0.0	48,076	48,076	20.0	0	0.0	48,076	100
2.	Tier 1 capital	3,820	1.6	30,600	78.3	34,420	3,820	1.6	31,100	72.9	34,920	101
3.	Surplus & deficit of revenue over expenditures	181,168	77.5	0	0.0	181,168	187,886	78.1	0	0.0	187,886	104
4.	Emission premium	0	0.0	0	0.0	0	0	0.0	0	0.0	0	0
5.	Unallocated profits	0	0.0	6,504	16.6	6,504	0	0.0	9,042	21.2	9,042	139
6.	Regulatory reserves	0	0.0	2,000	5.1	2,000	0	0.0	2,528	5.9	2,528	126
7.	Other reserves	701	0.3	0	0.0	701	693	0.3	0	0.0	693	99
	Total capital	233,765	100	39,104	100	272,869	240,475	100	42,670	42,670	283,145	104

Of the total capital of the FBiH microcredit sector which, as of June 30, 2019 amounts to BAM 283.1 million, the total capital of MCFs amounts to BAM 240.4 million, i.e. 84.9%, and the biggest items are the surplus of revenues over expenditures, amounting to BAM 187.9 million and representing 78.1% of total capital of MCFs, and donated capital, amounting for BAM 48.1 million, i.e. 20.0%. Of the total amount of donated capital, donations for credit fund are reported by nine MCF, where 64.5% relate to three MCFs, of which one MCF is responsible for 39.1% of the total donations for the credit fund. The five largest individual donors in MCF in the FBiH participate with 69.1% (BAM 33.2 million), where the largest donor participates with BAM 10.1 million, i.e. 21.0% of the total donated capital.

The total capital of MCCs amounts to BAM 42.7 million, comprising 15.1% the total capital of the microcredit sector, and in its structure the biggest items are: Tier 1 capital of BAM 31.1 million, i.e. 72.9%, and unallocated profit of BAM 9.1 million, i.e. 21.3%. The remaining BAM 2.5 million, i.e. 5.8% of MCC capital relate to statutory reserves.

The total capital of the FBiH microcredit sector, reduced by the total amount of donated capital, as of June 30, 2019, amounts to BAM 235.1 million, comprising 38.5% of total liabilities, where in two MCFs the total capital excluding donated capital would have a negative value.

By observing the indicator of capital rates reduced by donated capital, compared to assets, which as of June 30, 2019 amounts to 38.5% at the level of the microcredit sector, one could conclude that it complies with the prescribed limit (exceeding 10%), while two MCFs do not comply with this standard, as for them this indicator has a negative value.

Other liabilities across the FBiH microcredit sector as of June 30, 2019 amount to BAM 34.1 million, i.e. 5.6% of total liabilities, and compared to December 31, 2018 they have increased by BAM 6.3 million, i.e. 22.5%, which was primarily the consequence of the initial application of IFRS 16 - Leases and is connected with the increase in balance sheet positions for business premises and other fixed assets.

2.1.2.3. Assets and Asset Quality

The microloan portfolio reported in gross amount in the total balance sum of the FBiH microcredit sector as of June 30, 2019 amounts to BAM 483.8 million, i.e. 79.2% of total assets of the microcredit sector, i.e. with a reduction for the corresponding LLR in the total amount of BAM 3.4 million, i.e. 0.6%, the net microloan portfolio amounts to BAM 480.4 million, i.e. 78.6% of total assets the FBiH microcredit sector. Compared to December 31, 2018, the gross microloan portfolio increased by BAM 26.9 million, i.e. by 5.9%, while the net microloan portfolio increased by the amount of BAM 26.4 million, i.e. 5.8%. in the same period. The level of LLR increased by amount of BAM 0.5 million, i.e. 17.0%. The LLR to total gross microloan portfolio ratio as of June 30, 2019 amounts to 0.7%, which, compared to the same ratio as of December 31, 2018, when it amounted to 0.6%, represents an increase by 0.1 percentage points.

In the structure of total net portfolio of the microcredit sector in the FBiH as of June 30, 2019, the net microloans of MCFs amount to BAM 341.7 million and represent 71.1% of the total net microloans across the sector, while the amount of BAM 138.7 million, i.e. 28.9% of the total net microloans across the sector relate to MCCs. Compared to December 31, 2018, net microloans of MCFs increased by BAM 21.6 million, i.e. 6.7%, while the net microloans of MCCs increased by BAM 4.8 million, i.e. 3.6%.

Net microloans as of June 30, 2019, comprising total gross microloans reduced by LLR, are shown in the following table:

-BAM '000s-

No.	Description	December 31, 2018			June 30, 2019			Index
		MCFs	MCCs	Total	MCFs	MCCs	Total	
1	2	3	4	5=(3+4)	6	7	8=(6+7)	9=8/5
1.	Microloans (gross)	322,369	134,551	456,920	344,322	139,513	483,835	106
2.	Loan loss provisions	2,232	672	2,904	2,608	791	3,399	117
3.	Net microloans (1.-2.)	320,137	133,879	454,016	341,714	138,722	480,436	106

Viewed in relative ratios, increase rates of loan loss provisions in the reporting period exceeded the increase rates of total (gross) microloans.

Detailed data on the sector and the maturity structure of the microloan portfolio as of December 31, 2018 are shown in the following table:

-BAM '000s-

No.	Microloans	Short-term microloans	Long-term microloans	Past-due receivables	Total	%
1	2	3	4	5	6=(3+4+5)	7
1.	Corporate					

a)	Services	280	7,180	32	7,492	55.4
b)	Trade	186	2,990	21	3,197	23.6
c)	Agriculture	41	846	0	887	6.6
d)	Manufacturing	94	1,758	12	1,864	13.8
e)	Other	10	74	1	85	0.6
Total 1:		611	12,848	66	13,525	100
2. Retail						
a)	Services	4,565	79,697	250	84,512	18.0
b)	Trade	1,246	13,480	64	14,790	3.2
c)	Agriculture	7,454	151,814	249	159,517	33.9
d)	Manufacturing	575	7,968	18	8,561	1.8
e)	Housing needs	3,010	103,148	221	106,379	22.6
f)	Other	14,680	81,491	380	96,551	20.5
Total 2:		31,530	437,598	1,182	470,310	100
Total (1+2):		32,141	450,446	1,248	483,835	

In the maturity structure of the total microloan portfolio as of June 30, 2019, reported on gross basis, the highest share is the share of long-term microloans with 93.1%, while short-term microloans have a 6.6% share and past-due receivables on microloans have a 0.3% share.

Upon observing the sectoral structure, the dominant share is the share of retail microloans, with 97.2%, while the remaining 2.8% relate to corporate microloans. Within of the retail microloan portfolio, the biggest is share is the share of microloans approved for agriculture, which amounts to 33.9% and for housing needs, at 22.6%. By share levels, other sectors follow with 20.5% and services with 18.0%. The share of microloans for trade is 3.2%, a for manufacturing 1.8%. In the structure of corporate microloans, the dominant share is the share of microloans for services – 55.4%.

As of the stock on June 30, 2019, across FBiH the microcredit sector has 158,371 active microcredit subaccounts, which is, by 1,668 subaccounts, i.e. 1.1%, higher compared to the end of 2018. The average amount of microloans at sector level, as of June 30, 2019 is BAM 3,055, which is, compared to December 31, 2018, higher by 4.8%. From analytical perspective, the average amount of microloans in MCFs amounts to BAM 2,668 and has increased, by 4.5%, compared to December 31, 2018, while in MCC it amounts to BAM 4,759, and in the reporting period it has increased by 7.6%.

Analyzing the sectoral and maturity structure of microloans, one could conclude that microloans mainly relate to long-term microloans granted to individuals, implying that in the largest number of cases they are granted to persons who do not have access to traditional sources of funding, both because of the riskiness of the work they do and the lack of adequate collateral.

The provisions of the Decision on the Amount and Method of Forming and Maintaining Reserves for Credit Loss Coverage of Micro Credit Organizations, which is in application since 2007, prescribe the obligation of MCOs to allocate the placed microloans and other receivables monthly to specific groups applying the criterion of the number of days in default in repayment and to allocate reserves for each group to cover credit losses at the expense of operating costs, according to established rates for provisions. In doing so, the basis for calculating the amount of reserves is the amount of unpaid microloans, interest and fees due and all other items in which the MCO is exposed to the risk of inability to collect, i.e. business failure. Related to that, MCOs are required to implement a system that allows for the formation and maintenance of loan loss provisions, and to submit FBA reports on prescribed templates. In compliance with the aforementioned reporting obligation, the following table provides an overview of receivables with related provisions by groups according to the number of days of in default, as well as data on outstanding overdue receivables over 180 days, which is removed from the balance sheet, as of June 30, 2019:

Table 46: LLR with balance as at June 30, 2019

No.	Days in default	Rate of provisions	Amount of loans	Share (%)	Past due interest		Amount of other asset items	Provisioning			Total provisions
					Rate of provisions	Amount of interest		By microcred it	By past -due interest	Po other items in assets	
1	2	3	4	5	6	7	8	9=(4x3)/100	10=(7x6)/100	11=(8x3)/100	12=(9+10+11)
1.	0	0%	474,278	98.0	0%	6	390	0	0	0	0
2.	1-15	2%	2,998	0.6	2%	41	0	60	1	0	61
3.	16-30	15%	2,924	0.6	100%	42	0	457	42	0	499
4.	31-60	50%	1,140	0.3	100%	32	0	575	32	0	607
5.	61-90	80%	895	0.2	100%	35	0	716	35	0	751
6.	91-180	100%	1,591	0.3	100%	105	0	1,591	105	0	1,696
	Total		483,835	100		261	390	3,399	215	0	3,614
7.	over 180	Write off	960		100%	80	0	0	0	0	0

In the total microloan portfolio at the sector level, 98.0% relate to microloans in whose repayment there are is no default, while in the remaining 2.0% microloans there are defaults, of which defaults of up to 30 days represent 1.2%, while 0.8% are defaults of 31 to 180 days. Receivables for microloans in which there are defaults in repayment exceeding 180 days amount to BAM 1.0 million, which represents 0.2% total gross of the microloan portfolio.

Of the total amount of past-due interest (BAM 0.3 million), defaults in repayment of up to 30 days represent 34.1%, while defaults of 31 to 180 days represent 65.9%. For past-due interest that has not been collected within the deadline of up to 15 days MCOs are under obligation to form loan loss provisions in 100% amount of - receivables. Written off interest as of June 30, 2019 amounts to BAM 0.1 million.

Of the total amount of provisions under microloans, interest and other asset items as of June 30, 2019 (BAM 3.6 million), the largest item corresponds to provisions executed for microloans in default of 91 to 180 days, which amount to BAM 1.7 million and represent 46.9% of total amount of provisions. Total provisions for past-due interest in the balance sheet amount to BAM 0.2 million and represent 5.9% of the total amount of provisions.

Key Indicators of Microcredit Portfolio Quality

Compared to December 31, 2018, gross microloan portfolio as of June 30, 2019 records increase in the absolute amount of 26.9 million, i.e. 5.9%. In the same period, the coverage of gross microloans with loan loss provisions increased from 0.64%, which is what it amounted to on December 31, 2018, to 0.70%, which represents an increase by 0.06 percentage points.

The portfolio at risk indicator for more than 30 days in default (PAR>30 days) as of June 30, 2019 amounts to 0.75% at the level the microcredit sector and it increased by 0.03 percentage points compared to December 31, 2018, when it amounted to 0.72%. This indicator of riskiness of the microloan portfolio at the sector level is within the prescribed standard (below 5%), while one MCF fails to comply with the prescribed standard taking into account that the indicator in question amounts to 17.4%, a one MCF is at the upper limit of the prescribed standard, as this indicator for it amounts to 4.97%.

The portfolio at risk indicator for more than one day of default (PAR>1 days) at the microcredit sector level as of June 30, 2019 amounts to 1.98% and, compared to December 31, 2018, it increased by 0.39 percentage points, as it amounted to 1.59%.

The NPL rate across the FBiH microcredit sector as of June 30, 2019 amounts to 18.0% and in continuity from December 31, 2014, when it had amounted to 34.8%, it has recorded decrease. Compared to December 31, 2018 the NPL rate decreased by 1.2 percentage points.

At the microcredit sector level, the rate of write off of microloans as of June 30, 2019 amounts to 0.84%, which is within FBA standards (below 3%). This indicator is recording a constant trend of decrease since the end of 2014, then it was above the aforementioned standard. Therein, two MCFs fail to comply with that standard, as their indicator is above 3% (5.5%, i.e. 6.1%), and they fail to comply the standard even in respect of portfolio at risk for over 30 days of default.

Based on the stock as of June 30, 2019 the indicator of total write-off of receivables across the FBiH microcredit sector in off-balance sheet records compared to total gross microloans is 21.6%. Four MCO are significantly above the indicator at the sector level, where in two MCOs the aforementioned indicator is extremely high (exceeding 100%), of which is the newly founded MCC.

2.1.2.4. Profitability

In accordance with laws and regulations, MCOs operate as a non-depository financial organization, whose core business is microloans, which they conduct with the aim of improving the financial position of microloans users, increasing employment, supporting entrepreneurship development and profit generation. Pursuant to statutory regulation, a MCO is a legal person that may be established and operate as a MCC or a MCF, where the provisions of Article 13 of the Decisions on Conditions and Other Standards of Business and Limits in Microcredit Organizations, prescribe the distribution of surplus income over expenditures for MCFs and profit allocation for MCCs. In accordance with the aforementioned provision of the Decision, no direct or indirect distribution of surplus income over expenditures to founders, members of bodies, responsible persons and employees of MCFs and other related parties, donors and third parties is permitted. Also, no indirect distribution of profits of an MCC founded by a MCF or a MCC in which a MCF has investments is permitted. Therein there are precisely prescribed provisions for what is meant by indirect distribution of surplus income over expenditures.

Pursuant to other business standards for MCOs and restrictions prescribed by Articles 11 and 12 of the subject Decision, an MCF shall be under obligation to use the profits from the operations of the MCC exclusively to carry out the activities referred to in Article 15 of the Law on MCOs and the objectives set out in the Statute of the MCF that are in accordance with legal provisions. MCOs are required to ensure that the return on assets, adjusted for inflation, the market price of capital and donation, is positive and that operating efficiency must not exceed 45%.

Financial performance the FBiH microcredit sector

According to reporting data for MCOs, in the first semester of 2019, total financial performance at the level of the FBiH microcredit sector was positive and amounted to BAM 10.4 million, which was by BAM 1.1 million, i.e. 9.8% lower than in the same period 2018.

The structure of the summary income statement at the level of the FBiH microcredit sector is shown in the following table:

-BAM '000s-

No.	Description	For January 1 - June 30, 2018				For January 1 - June 30, 2019				Index
		MCFs	MCCs	Total	%	MCFs	MCCs	Total	%	
1	2	3	4	5=(3+4)	6	7	8	9=(7+8)	10	11=(9/5)
1.	Income									
1.1.	Interest income and similar income	31,902	8,583	40,485	90.2	32,240	11,902	44,142	90.9	109
1.2.	Operating income	3,635	761	4,396	9.8	3,363	1,034	4,397	9.1	100
2.	Total income (1.1.+1.2.)	35,537	9,344	44,881	100	35,603	12,936	48,539	100	108

3.										
3.1.	Interest expenditures and similar expenditures	4,155	1,722	5,877	14.8	4,055	2,265	6,320	14.8	108
3.2.	Operating expenditures	27,017	4,330	31,347	79.2	27,224	6,578	33,802	79.0	108
3.3.	Costs of provisions for loan and other losses	1,687	671	2,358	6.0	1,950	722	2,672	6.2	113
4.	Total expenditures (3.1.+3.2.+3.3.)	32,859	6,723	39,582	100	33,229	9,565	42,794	100	108
5.	Extraordinary income	6,870	18	6,888	-	5,177	101	5,278	-	77
6.	Extraordinary expenditures	310	88	398	-	216	28	244	-	61
7.	Total income-expenditures (2+5-4-6)	9,238	2,551	11,789	-	7,335	3,444	10,770	-	91
8.	Surplus / deficit of income over expenditure	9,238	-	9,238	-	7,335	-	7,335	-	79
9.	Profit before taxation	-	2,551	2,551	-	-	3,444	3,444	-	135
10.	Taxes	-	255	255	-	-	379	379	-	149
11.	Net profit/loss	-	2,296	2,296	-	-	3,065	3,065	-	133
12.	Total financial performance			11,534	-			10,400	-	90

MCF reported surplus of revenues over expenditures, which is by BAM 1.9 million, i.e. 20.6% lower compared to June 30, 2018. The aforementioned decrease was affected by a slight decrease of total income by 0.2%, as a result of decrease in operating income by 7.5%, while interest and similar income recorded slight increase by 1.1%, and there was also an increase of total expenditures by 1.1%, where interest and similar expenditures decreased by 2.4%, along with a mild increase in operating expenditures by 0.8%. In the reporting period, extraordinary income at the level of MCFs slightly increased, by 0.3%, while extraordinary expenditures are higher by 28.4%. The costs of provisions for loan losses and other losses in MCFs increased by 15.6%.

At the level of MCCs reported net profit was reported of BAM 3.1 million, which, compared to June 30, 2018 represents an increase by BAM 0.8 million, i.e. 33.5%. The aforementioned amount of net profit as of June 30, 2019 represents the net effect of net profit of one MCC of BAM 3.4 million and net losses from regular business operations of the other, newly founded MCC of BAM 0.3 million, which at the beginning of business operations reported higher interest and similar expenses compared to interest and similar income, as well as operating expenses exceeding operating income, taking into account that it started its operational business activities as late as in the second quarter of 2019.

In the reporting period, net financial income of MCCs increased by BAM 2.8 million, i.e. 40.5%, total operating income increased by BAM 0.3 million, i.e. 35.9%, and extraordinary income increased by BAM 0.1 million, i.e. 461.1%, while operating expenditures increased by BAM 2.2 million, i.e. 51.9%, and extraordinary expenditures decreased by 68.2%. Within the increase in operating expenditures, the highest rate of increase was recorded by costs of business premises, other fixed assets and overheads by BAM 0.5 million, i.e. 74.0%, and significant increase rates were also recorded by categories of other operating costs at BAM 0.3 million, i.e. 60.8% and salary and contribution costs, at BAM 1.4 million, i.e. 45.5%.

Costs of provisions for loan losses and other losses in MCC amount to BAM 0.7 million and compared to June 30, 2018 they increased by 7.6% (BAM 51 thousand).

Annexes 12 and 13 provide a summary income statement for MCFs and a summary income statement for MCCs.

From the analytical perspective, one MCF reported as of June 30, 2019 a deficit of income over expenditures, while other MCFs reported a surplus of revenues over expenditures. The share of three MCFs in a total of reported surplus of income over expenditures is 74.6%, while one MCF participates with 43.6% in total amount of surplus income over expenditures of all MCF. From the structural perspective, six MCF reported deficit of income over expenditures from regular business operations, which causes one to conclude that five MCFs, are, thanks to extraordinary income, disclosing a positive business performance in the first semester of 2019.

Efficiency and Sustainability Indicators for FBiH Microcredit Sector

Operational efficacy of business operations of the FBiH microcredit sector as of June 30, 2019 amounts to 18.3%, which is within the prescribed range for the indicator of up to 45%, which represents the prescribed obligation of compliance on the part of MCOs with Article 12(1)(b) of the Decision on Conditions and Other Standards for Business Operations and Limits in Microcredit Organization. Three MCOs diverge from the prescribed indicator, taking into account that, according to reporting data, they report this indicator as exceeding 45%, while one MCO²⁸ has an extremely high breach of this indicator.

At the FBiH microcredit sector level as of June 30, 2019 the reported return on assets, adjusted for inflation, market price of capital and donations, is positive and amounts to 2.9%, while four MCOs are not meeting the prescribed limitation, as their indicators in question are negative, of which one MCO²⁹ reports on significant negative values of this indicator (exceeding 100%).

The indicator of operational sustainability of the FBiH microcredit sector, which is used as the usual standard and expresses as the ratio of total income from regular business operations (not including extraordinary income) and total expenditures amounts to 112.8% which points to operational sustainability of the sector (above 100%). Therein, seven MCO are disclosing this indicator below 100%, including also the newly founded MCC (1.1%). Of the other six MCOs, one MCF is at the limit of operational sustainability (99.5%), while indicators for the remaining five MCFs are reported in the range from 43.3% to 94.2%.

2.1.3. COMPLIANCE OF MICROCREDIT SECTOR BUSINESS OPERATIONS WITH AML/CFT STANDARDS

During the January 1 to June 30, 2019 period, according to Reports on Cash Transactions of BAM 30,000 or More, Related and Suspicious transactions (AML/CFT Template, tables A and B), which they submit to the FBA, MCOs reported 821 transactions to the FID (by 266.5% more compared to the same period of last year) in the value of BAM 607,274 (by 123.8% more compared to the same period of last year). The FID requested additional information for only one transaction. In the same period, 55 suspicious clients were reported (by 7.8% more compared to the same period of last year). The FID requested additional information for only one client.

Table 48 provides the number and value of reported transactions, and Table 49 provides the number of reported suspicious clients:

Description	Period January 1- June 30, 2018		Period January 1- June 30, 2019		Index	
	Number	Value	Number	Value	Number	Value
1	2	3	4	5	6 (4/2)	7 (5/3)
Transactions for which FID requested information	0	0	1	29,243	0	0
Transactions for which FID did not request information	224	271,397	820	578,031	366	213
Total	224	271,397	821	607,274	366	224

²⁸ The newly founded MCC, which did not start its business activities until the second quarter

²⁹ The newly founded MCC, which did not start its business activities until the second quarter

Table 49: Overview of number of reported suspicious clients

Description	Period January 1- June 30, 2018	Period January 1- June 30, 2019	Index
	Number	Number	Number
1	2	3	4 (3/2)
Suspicious clients for which FID requested information	0	1	0
Suspicious clients for which FID did not request information	51	54	106
Total	51	55	108

The fact that the number and value of reported suspicious transactions and suspicious clients has a trend of increase, suggests that MCOs have paid more attention to monitoring transactions and client activity. However, the fact that FID requested additional data for one transaction (0.12% of reported transactions) and for one suspicious client reported (1.81% of suspicious clients reported) indicates certain weaknesses in the suspicious transaction and suspected client recognition system. In order to improve the quality of submitted reports, MCOs should improve indicators for recognizing suspicious transactions and suspicious client activities.

2.1.4. MICROCREDIT SECTOR RECOMMENDATIONS

The FBA will, within its prescribed supervisory authorities for the FBiH microcredit sector continue with planned supervisory activities, which shall be focused on the supervision of:

- compliance of MCOs' business operations with laws and regulations, with the aim of full implementation of the Law on MCOs provisions in respect of achievement of the prescribed objectives of micro crediting, in terms of improving the financial position of microloans users, contributing to increase of employment and supporting entrepreneurship development,
- implementation of the by-law framework for business operations and supervision of MCOs in the FBiH, with the aim of fully and adequately enforcing applicable regulations and increasing the transparency of business operations of the FBiH microcredit sector and undertaking appropriate supervisory measures;
- timely and adequate undertaking of activities in the MCOs according to the corrective measures imposed to eliminate irregularities and weaknesses in business operations.

In the exercising competencies for supervision and maintenance of stability in the FBiH microcredit sector, the FBA will continue to cooperate with the RSBA to enhance efficient supervision of MCOs, as well as to meet the goals of microloans in compliance with laws and regulations, and to protect the rights of financial users.

The microcredit sector in the FBiH has an obligation to apply prescribed standards and restrictions in performance of microcredit operations, starting from regulatory requirements and objectives of microloans, in the performance of microcredit, reporting and auditing activities. Related to the above, it is also necessary that the competent governance bodies of the MCOs ensure compliance of the business with the prescribed standards, especially in respect of:

- performance of micro loaning activities to improve the financial position of users, increase employment and support entrepreneurial development, starting from legally prescribed micro loaning goals with consistent application of legal provisions for the protection of financial users, including aligning interest rates policies on microloans with the prescribed micro loaning goals, contributing in that way to the stability and sustainability of the FBiH microcredit sector;

- maintaining and enhancing sound risk management practices for risks to which MCOs are or could be exposed, efficiency of internal control systems and independent internal audit functions;
- resource optimizing and applying the principles of responsible micro loaning, i.e. sound practices in business operations with MCF assets;
- harmonization, i.e. improvement of operational efficiency and operational sustainability indicators;
- regular, up-to-date and accurate submission of data to CBBiH for the CCR management purposes;
- improving business transparency, etc.

MCOs that are less capitalized and / or have a materially significant amount of written off microloans should establish and implement clear and consistent strategic commitments in respect of business sustainability, i.e. potential seeking of acceptable partners for consolidation, i.e. mergers with larger and more powerful MCFs in order to optimize resources, preserve donated funds, secure support from foreign creditors, and secure the future of employees in MCOs, which will be subject to supervisory attention with a view to preserving the stability of the microcredit sector and achieving legally mandated goals and activities of microloans in the FBiH.

2.2. LEASING SECTOR

2.2.1. LEASING SECTOR STRUCTURE IN FBiH

2.2.1.1. Number of Leasing Companies

Licenses of FBA for performing leasing operations are, as of June 30, 2019, in possession of six leasing companies in the FBiH. Compared to March 31, 2019, the number of leasing companies has declined, because of the operating license being dispossessed from one leasing company, under the Decision of the FBA number 04-1-3-985-1/19 dated April 15, 2019, which followed on the basis of the decision of the company's owner (nonresident legal person – a bank with headquarters in the EU) on initiating the process of liquidation over the leasing company. Also, in the reporting period a change in the name of one leasing company was affected.

Annex 14 provides basic information on leasing companies, which, as of June 30, 2019 represent the leasing sector in the FBiH.

2.2.1.2. Ownership Structure

The ownership structure of leasing companies in the FBiH, according to data as of June 30, 2019, is as follows: two leasing companies are in 100% ownership of nonresident legal persons, one leasing company is majority-owned by a nonresident legal person, one leasing company is in 100% ownership of a nonresident natural person, while two leasing companies are in 100% ownership of resident legal persons. In one legal company the ownership structure has changed, i.e. the majority owner changed, but within the same group of resident legal persons.

A detailed overview of ownership structure of leasing companies in the FBiH is provided in Annex 16.

2.2.1.3. Staff Structure

As at June 30, 2019, there was the total of 129 employees in the leasing sector in the FBiH, of which 126 are engaged based on a labor contract (reporting category of “permanent employees”), while there are three employees engaged through the student service and through organizations that intermediate in employment (reporting category of “temporary employees”). The number of permanent employees, compared to December 31, 2018, is higher by eight employees, i.e. 6.8%.

In the qualification structure of employees in the leasing sector of FBiH as at June 30, 2019 there were no major changes compared to preceding reporting periods. The highest share is the share of employees with a university degree (66.7%), followed by employees with secondary school qualifications (19.0%).

Efficiency of employees in the course of performance assessment of leasing companies is based on the ratio of assets and number of employees (assets per employee), and according to indicators as at June 30, 2019, at the level of the leasing sector in the FBiH, each employee corresponded to BAM 2.7 million in assets. Compared to the preceding reporting period, this indicator is higher by BAM 0.2 million, i.e. 6.2%. Analytical indicators for individual leasing companies in the FBiH range from BAM 0.3 million to BAM 5.4 million in assets per employee, while two leasing companies have a higher indicator of assets per employee compared to the average at the level of the FBiH leasing sector, and the other four leasing companies are below average.

2.2.2. FINANCIAL INDICATORS OF PERFORMANCE

2.2.2.1. Balance Sheet

Total assets of the FBiH leasing sector as at June 30, 2019 amount to BAM 336.9 million and are higher by BAM 39.8 million, i.e. 13.4% compared to December 31, 2018. Two leasing companies, viewed on the basis of asset size, are responsible for 74.5% of total assets the FBiH leasing sector.

Annex 17 provides the summary balance sheet for leasing companies in the FBiH, according to reporting data with the balance as of June 30, 2019.

Upon comparing the amount of assets of individual leasing companies as of June 30, 2019 with data as of December 31, 2018³⁰, it could be inferred that in four leasing companies an increase was reported of the on-balance sheet sum of BAM 54.1 million, while two leasing companies reported a decrease in on-balance sheet sums in the total amount of BAM 5.0 million, of which those leasing companies are responsible for the amount of BAM 4.5 million, i.e. 91.1% of the total amount of decrease in the on-balance sheet sum.

Annex 18 provides an overview of assets, receivables from financial leasing and net stock of funds provided in operating leasing and financial performance of leasing companies as of June 30, 2019, while Annex 19 provides an overview of core financial indicators at system level (six leasing companies and one bank that performs financial leasing operations).

In the structure of total assets of the FBiH leasing sector the most significant share is the share of net receivables under financial leasing, which amounts to BAM 238.1 million, i.e. 70.7% of the total assets. Compared to December 31, 2018, net receivables under financial leasing are higher by BAM 23.5 million, i.e. 10.9%, while gross receivables under financial leasing are higher by

³⁰ Includes assets of the leasing company with BAM 9.4 million, from which the license for performing leasing operations was taken in the second quarter of 2019

BAM 33.0 million, i.e. 14.1%. In the same period, reserves for losses for receivables under financial leasing increased by BAM 0.5 million, i.e. 49.7%.

Upon an insight into reports of the bank that is performing financial leasing operations, it was concluded that the reported net receivables under financial leasing contracts were BAM 70.7 million, so that the total net receivables at the level of the leasing system of FBiH amount to BAM 308.9 million and they are by BAM 12.3 million higher compared to the preceding reporting period.

In the structure receivables under financial leasing at the level of the leasing sector in the FBiH, contracts which are approved for financing of passenger vehicles and vehicles for performing business activities participate with 84.8%, contracts for equipment financing participate with 14.4%, while 1.0% relates to contracts under which real estate is financed.

The following tables provide the reported structure of receivables under financial leasing at the level of the FBiH leasing sector (receivables before reduction for loss provisions) as of June 30, 2019 and a comparison overview of the structure of receivables as of December 31, 2018 and June 30, 2019:

-in BAM '000s-

<i>Table 50: Structure of financial leasing type receivables - June 30, 2019</i>					
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	33,178	70,557	1,048	104,783	43.8%
Vehicles for performing business activity (field and passenger vehicles)	37,759	59,338	1,101	98,198	41.0%
Machines and equipment	11,350	22,865	317	34,532	14.4%
Real estate	327	1,597	45	1,969	0.8%
Other	0	0	0	0	0.0%
Total	82,614	154,357	2,511	239,482	100%
By lessee	Short-term receivables	Long-term receivables	Past-due receivables	Total receivables	Share in total receivables
1	2	3	4	5	6
Corporate	74,450	133,445	1,783	209,678	87.6%
Entrepreneurs	2,010	3,899	44	5,953	2.5%
Retail	4,374	14,326	677	19,377	8.1%
Other	1,780	2,687	7	4,474	1.9%
Total	82,614	154,357	2,511	239,482	100%

-in BAM '000s-

<i>Table 51: Structure of financial leasing type receivables - comparative overview</i>			
By leasing object	Receivables on December 31, 2018	Receivables as at June 30, 2019	Index
1	2	3	4=(3/2)
Passenger vehicles	86,363	104,783	121
Vehicles for performing business activity (field and passenger vehicles)	99,446	98,198	99
Machines and equipment	27,434	34,532	126
Real estate	2,324	1,969	85
Other	4	0	0
Total	215,571	239,482	111
By lessee	Receivables on December 31, 2018	Receivables as at June 30, 2019	Index
1	2	3	4=(3/2)
Corporate	191,495	209,678	109
Entrepreneurs	5,416	5,953	110

Natural persons	14,478	19,377	134
Other	4,182	4,474	107
Total	215,571	239,482	111

Net receivables under loans as of June 30, 2019 amount to BAM 5.8 million, i.e. 1.7% of the amount of the total assets of the FBiH leasing sector. Compared to December 31, 2018, net receivables under loans decreased by BAM 0.4 million, i.e. 6.7%. Receivables under loans in the composition of total assets of leasing companies decreased due to the continuous decrease in receivables under loans, as the provisions of the LoL prohibit the leasing companies to conclude new loan agreements, that would remain recorded in the balances of leasing companies in the FBiH until the contractual terms for which they were approved expire. The reported amount of net receivables on loans relates to receivables of one leasing company, which has in its portfolio significant amounts of receivables under loans of subsidiaries, through which real estate construction projects had been financed prior to entry into effect of the LoL.

The reported stock of on-balance sheet position of cash and cash equivalents as of June 30, 2019 amounted to BAM 4.6 million, which was by BAM 9.4 million, i.e. 67.3% lower compared to December 31, 2018. Share of the above position in total assets as at June 30, 2019 amounted to 1.4%, which was lower by 3.3 percentage points compared to December 31, 2018, when it amounted to 4.7%.

Placements of banks as of June 30, 2019 amounted to BAM 33.3 million, comprising 9.9% of the total assets the FBiH leasing sector, a which was by BAM 16.0 million, i.e. 93% higher compared to December 31, 2018. Of the total amount of those placements, the amount of BAM 31.7 million, i.e. 95.2% relate to the term assets of one leasing company in commercial banks.

Net value of core funds financed through operating leasing as of June 30, 2019 amounts to BAM 45.6 million BAM and has increased by BAM 10.2 million, i.e. 28.9% compared to December 31, 2018. Individually viewed, two leasing companies reported an increase of net value of core funds financed through operating leasing of BAM 10.5 million, while two leasing companies reported a decrease of BAM 0.3 million.

The structure of net balance sheet positions of assets of the leasing sector in the FBiH can be analyzed in the tabular overview below:

-in BAM '000s-

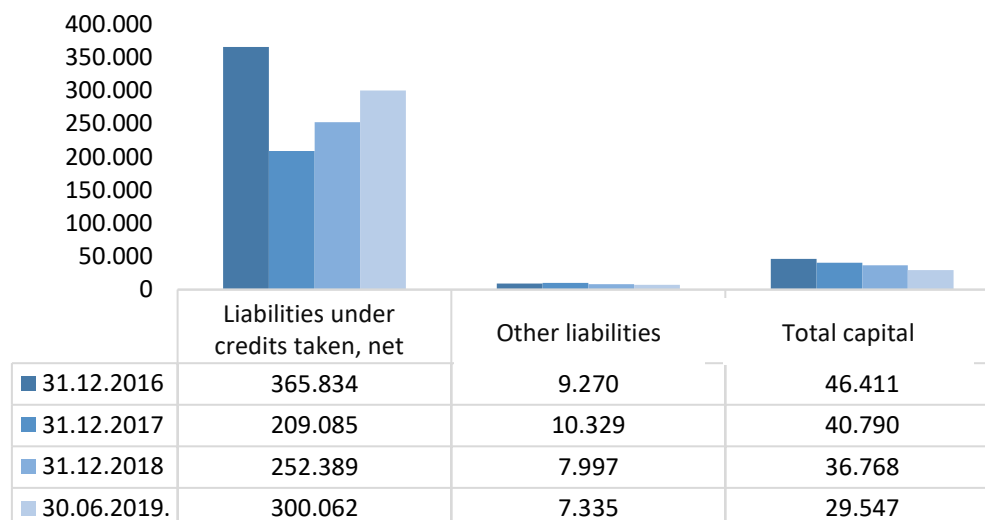
Description	December 31, 2018	Share in assets	June 30, 2019	Share in assets	Index
1	2	3	4	5	6=(4/2)
Financial leasing	214,674	72.3%	238,139	70.7%	111
Operating leasing	35,385	11.9%	45,621	13.5%	129
Loan	6,253	2.1%	5,837	1.7%	93
Other assets	40,842	13.7%	47,347	14.1%	116
Total	297,154	100%	336,944	100.0%	113

2.2.2.2. Capital and liabilities

Total liabilities of the leasing sector as of June 30, 2019 amount to BAM 307.4 million, comprising 91.2% of the total liabilities of leasing companies in the FBiH. Compared to the stock as of December 31, 2018, total liabilities at sector level increased by BAM 47.0 million, i.e. 18.1%.

Chart 9 shows the structure of liabilities of the FBiH leasing sector as of June 30, 2019:

Chart 9: Structure of liabilities



Liabilities of leasing companies in the FBiH on loans taken out as at June 30, 2019 still represent the dominant source in structure of total liabilities of the FBiH leasing sector, as they represent 89.1% of total liabilities. Compared to December 31, 2018, the position of liabilities on loans is higher by BAM 47.7 million, i.e. 18.9%. Of the aforementioned increase of credit borrowing at the level of the FBiH leasing sector, two leasing companies in the FBiH are responsible for the amount of BAM 39.7 million, i.e. 83.0%.

Borrowing in commercial foreign and domestic banks, which mostly belong to banking groups, to which leasing companies also belong, relates to 53.2% of total credit borrowing, 24.5% relate to direct borrowing from founders, and 22.3% relate to borrowing from EIB, EBRD, CEDB and DEG. Credit funds of those banks are, by their nature, earmarked and mostly relate to small and medium enterprise development, and are secured with banking guarantees issued by parent banks or their holding companies. The total amount of liabilities under loans taken out, from the point of contracted maturity, relates long-term liabilities on loans.

Total weighted NIR which the leasing companies paid on sources of funds in January 1 – June 30, 2019 amounted to 1.5% on annual level (interest rate calculated based on average stock of loans taken out and interest related expenditures in the reporting period) and they are at approximately the same level as well in January 1-December 31, 2018, when they amounted to 1.4%.

The total capital of the FBiH leasing sector as of June 30, 2019 amounted to BAM 29.5 million. Compared to December 31, 2018, the aforementioned position was reduced by BAM 7.2 million, i.e. 19.6%. From an analytical perspective, two leasing companies reported an increase in the total capital compared to December 31, 2018³¹ of BAM 3.7 million, while in four leasing companies there was a decrease in the total capital of BAM 1.8 million. The remaining amount of BAM 9.1 million which affected a decrease in the total capital relates to the amount of capital of the leasing company from which the license for performing leasing operations was taken in the second quarter of 2019.

As of June 30, 2019, one leasing company reported a total amount of capital lower than the amount prescribed under provisions of LoL. That was caused by administrative difficulties in the procedure of transferring the ownership shares from the existing to the new owner of the leasing

³¹ Includes the amount of capital of BAM 9.1 million of the leasing company from which the license for performing leasing operations was taken in the second quarter of 2019

company. The procedure of transferring the ownership shares, and the recapitalization of the company, have not been completed by June 30, 2019.

2.2.2.3. Assets and Asset Quality

According to reporting data at the level of the FBiH leasing sector, reported reserves for losses under financial leasing as of June 30, 2019 amount to BAM 1.3 million and are higher compared to December 31, 2018 by BAM 0.5 million, i.e. 49.7%. In the structure of receivables under financial leasing as of June 30, 2019, the total of BAM 2.5 million of overdue receivables is reported, which is by BAM 0.3 million, i.e. 12.3% higher compared to December 31, 2018.

Annex 20 provides a detailed overview of reserves for financial leasing.

The table below provides the structure of reserves created for losses in the leasing sector by categories of default:

-in BAM '000s-

Days of default	Total reserves as of December 31, 2018	Total reserves as of June 30, 2019	Index
1	2	3	4=(3/2)
0-60	325	853	262
60-90	19	123	647
90-180	120	124	103
more than 180	427	243	57
more than 360	6	0	0
Total	897	1,343	150

The increase in outstanding past due receivables and the increase in reserves for losses in the first semester of 2019 reflect changes in the quality of portfolio of receivables under financial leasing, which require an improvement in credit risk management, timely recognition of difficulties in collection of receivables under financial leasing and their efficient overcoming. The increase in created reserves relates to categories of default of up to 180 days, where the rate of increase of the amount of reserves is the highest in the category of default of 60-90 days, while in the category off default for more than 180 days there is a significantly reduced amount of created reserves.

Reserves for loans as of June 30, 2019 amounted to BAM 5.9 million and they were unchanged compared to the level as of December 31, 2018, where the entire amount of created reserves for loans related to one leasing company which in its portfolio has a significant amount of receivables under contracts for loans from subsidiary persons.

Annex 21 provides an overview of reserves for loans of leasing companies.

The total amount of written off receivables under financial leasing and loans as of June 30, 2019 amounts to BAM 31.7 million BAM and is significantly lower compared to December 31, 2018, by BAM 41.2 million, i.e. 56.5%, due to the license being dispossessed from one company for performing leasing activities, which reported on a total of BAM 40.7 million of written off receivables as of December 31, 2018.

The market value of seized subjects of leasing, due to termination of leasing contracts with leasing users as of June 30, 2019 at the level of the FBiH leasing sector amounts to BAM 1.0 million and is lower compared to December 31, 2018 by BAM 0.4 million, i.e. 26.0%, while the number of

seized items is higher by eight units. The structure of seized items at the leasing sector is shown in the following table:

-in BAM '000s -

Table 54: Seized items in leasing sector

Type of leasing object	December 31, 2018		June 30, 2019	
	Number of units	Estimated market value of leasing object	Number of unit:	Estimated market value of leasing object
1	2	3	4	5
Passenger vehicles	19	299	30	353
Vehicles for performing business activity (field and passenger vehicles)	2	16	4	75
Machines and equipment	3	96	1	5
Real estate	6	931	3	563
Other	0	0	0	0
Total:	30	1,342	38	996

Of the total reported amount of the estimated market value of seized items in the FBiH leasing sector as of June 30, 2019, 56.5% relate to real estate (three units / commercial facilities) for which the leasing companies assumed possession because of the reason of noncompliance with contractual liabilities on the part of the lessee. The total amount of the above position relates to two leasing companies. The number of seized units – subjects of leasing increased in the reporting period (by 8 units, i.e. 26.7%), while their market value decreased by the total amount BAM 0.3 million, i.e. 25.8% compared to December 31, 2018.

Viewed from the level of the FBiH leasing system as of June 30, 2019, the market value of seized items of leasing amounts to BAM 9.2 million and it decreased by BAM 0.5 million compared to December 31, 2018. Of the above amount of seized items of leasing, items seized by the bank that is performing leasing activities correspond to BAM 8.2 million, i.e. 85.3% of the total market value of seized items reported at the level of the leasing system.

The current market situation and inadequate criteria for approving financing from preceding years are causing difficulties in sale or new financing of seized real estate through financial or operational leasing, especially taking into account the fact that the seized real estate are, for the most part, commercial and manufacturing facilities.

2.2.2.4. Profitability

According to the reporting data of leasing companies, across the FBiH leasing sector and in the January 1 - June 30, 2019 period, the net profit of BAM 1.0 million was reported and, compared to the same period of 2018, it decreased by BAM 3.2 million, i.e. 76.8%. The reported decrease compared to the first semester of 2018 was affected by the decrease in the total expenditures by BAM 2.2 million, i.e. 17.3%, and the decrease in the total income of BAM 1.0 million, i.e. 6.2%. Viewed individually, three leasing companies reported positive financial performance of BAM 3.2 million, while three leasing companies reported a negative financial performance of BAM 2.2 million, of which one leasing company is responsible for BAM 1.1 million, i.e. 51.9% of the total reported negative financial performance.

The summary income statement for leasing companies in the FBiH as of June 30, 2019 is provided in Annex 22 to this Information.

The following table provides a comparative overview of the reported financial performance at the level of the FBiH leasing sector:

- in BAM '000s -

Table 55. Financial performance

Description	June 30, 2017		June 30, 2018		June 30, 2019	
	Amount	Number of leasing companies	Amount	Number of leasing companies	Amount	Number of leasing companies
1	2	3	4	5	6	7
Loss	-595	1	-392	2	-2,207	3
Profit	2,335	6	4,554	4	3,173	3
Total	1,740	7	4,162	6	966	6

In the reporting period, the number of leasing companies that operated with profits decreased, i.e. the number leasing companies with reported losses in business operations increased.

The total income of the FBiH leasing sector as of June 30, 2019 amounts to BAM 15.7 million, and the level and structure of total income with the comparative data for the same periods of preceding two financial years are shown in the following table:

-in BAM '000s-

Table 56: Structure of total income

Structure of total income	June 30, 2017		June 30, 2018		June 30, 2019		Index	
	Amount	% share	Amount	% share	Amount	% share		
1	2	3	4	5	6	7	8=(4/2)	9=(6/4)
I Interest income and similar income								
Interest under financial leasing	7,858	38.4	4,464	26.8	5,622	35.9	57	126
Interest on placements to banks	137	0.7	137	0.8	154	1.0	100	112
Other interest income	1,670	8.2	835	5.0	785	5.0	50	94
Total I	9,665	47.3	5,436	32.6	6,561	41.9	56	121
II Operating income								
Operating lease charges	6,060	29.6	6,093	36.5	6,867	43.8	101	113
Service fees	2	0.0	1	0.0	1	0.0	50	100
Other operating income	4,723	23.1	5,165	30.9	2,238	14.3	109	43
Total II	10,785	52.7	11,259	67.4	9,106	58.1	104	81
Income from release of reserves for losses	0	0.0	0	0.0	0	0.0	n/a	n/a
Total income (I+II)	20,450	100	16,695	100	15,667	100	82	94

The FBiH leasing sector's interest income in the January 1 - June 30, 2019 period amounted to BAM 6.6 million and it increased by BAM 1.1 million, i.e. 20.7%, compared to the same period of last year. The most significant position in interest income is interest income from financial leasing in the total amount of BAM 5.6 million and it is by BAM 1.2 million, i.e. 25.9%, higher compared to the same period of the preceding financial year.

The category of operating income amounted to BAM 9.1 million and compared to the same period of last year it is lower by BAM 2.1 million, i.e. 19.1%, due to decreased collection of written off receivables.

Total expenditures as of June 30, 2019 amount to BAM 14.7 million, and the level and structure of total expenditures with the comparative data compared to the same period of the preceding two financial years are shown in the following table:

-in BAM '000s-

Table 57: Structure of total expenditures

Structure of total expenditures	June 30, 2017		June 30, 2018		June 30, 2019		Index	
	Amount	% share	Amount	% share	Amount	% share		
1	2	3	4	5	6	7	8(4/2)	9(6/4)
I Interest expenditures and similar income								
Interest on borrowed funds	2,824	15.0	1,522	12.1	1,963	13.4	54	129
Fees for processing loans	57	0.3	46	0.4	50	0.3	81	109

Other interest expenditures	1	0.0	3	0.0	6	0.0	n/a	200
Total I	2,882	15.3	1,571	12.5	2,019	13.7	55	129
II Operating expenditures								
Salary and contribution costs	3,515	18.7	2,427	19.4	2,677	18.2	69	110
Business premises costs	5,437	28.9	4,743	37.8	4,653	31.7	87	98
Other costs	6,934	36.9	3,742	29.9	4,641	31.6	54	124
Total II	15,886	84.5	10,912	87.1	11,971	81.5	69	110
III Costs of reserves	-34	-0.2	50	0.4	711	4.8	n/a	n/a
Profit tax	57	0.3	0	0.0	0	0.0	0	n/a
Total expenditures (I+II+III)	18,791	100.0	12,533	100.0	14,701	100.0	67	117

Interest related expenses in the first semester of 2019 amounted to BAM 2.0 million and were higher compared to the same period of the preceding financial year by BAM 0.4 million, i.e. 28.5%. In the same period total operating expenditures increased by BAM 1.1 million, i.e. 9.7%, as well as individual categories of expenditures - salary and contribution costs by BAM 0.3 million, i.e. 10.3% and other costs by BAM 0.9 million, i.e. 24.0%, while the costs of business premises decreased by BAM 0.1 million, i.e. 1.9%.

The most significant change in the structure of total expenditures of the FBiH leasing sector as of June 30, 2019 compared to the same period of 2018 related to an increase in costs of reserves for losses of BAM 0.7 million, which were 14 times higher. The aforementioned increase is connected with asset quality indicators (increase in reserves for financial leasing losses and increase in overdue receivables).

In the reporting period there is a noticeable increase in net interest income by BAM 0.7 million, i.e. 17.5%, as well as their increase in the share of total income of the FBiH leasing sector, from 23.2% to 29.0%.

2.2.2.5. Structure of Placements According to Subject and Type of Leasing

The value of newly concluded contracts for financial and operating leasing executed at the level of the leasing system in January 1 – June 30, 2019, amounts to BAM 107.2 million and is higher by BAM 17.4 million, i.e. 19.4%, compared to the same period of the preceding financial year. The number of newly concluded leasing contracts in the same period amounts to 3,043, which was by 779 contracts or 34.4% higher compared to the same period of last year.

The average value of contracts at the level of the leasing system concluded in the first semester of 2019 amounts to BAM 35.2 thousand and it is lower compared to the same period of last year, when it amounted to BAM 39.7 thousand.

Of the total of executed value of newly concluded contracts in the first semester of 2019, the amount of BAM 88.4 million, i.e. 82.5% relate to contracts for financial leasing. Compared to the same period of the preceding financial year and preceding periods, there is an evident continuation of the trend of increase in the share of contracts for operating leasing in the total volume of newly concluded contracts.

The following tables show a comparison overview of the realized volume of newly concluded contracts in the first semester of 2019 and in the same period the preceding financial year, as well as the comparative overview of the number of concluded contracts in the same period.

-in BAM '000s-

Table 58: Structure of financing amount of leasing system

Description	June 30, 2018			June 30, 2019		
	Financial leasing	Operating leasing	Total	Financial leasing	Operating leasing	Total
1	2	3	4=(2+3)	5	6	7=(5+6)
Vehicles	69,601	13,115	82,716	73,346	18,779	92,125
Equipment	6,927	0	6,927	15,098	0	15,098
Real estate	188	0	188	0	0	0
Other	0	0	0	0	0	0
Total	76,716	13,115	89,831	88,444	18,779	107,223

-in BAM '000s-

Table 59: Structure of concluded contracts

Description	June 30, 2018			June 30, 2019		
	Financial leasing	Operating leasing	Total	Financial leasing	Operating leasing	Total
1	2	3	4=(2+3)	5	6	7=(5+6)
Vehicles	1,754	424	2,178	2,377	515	2,892
Equipment	85	0	85	151	0	151
Real estate	1	0	1	0	0	0
Other	0	0	0	0	0	0
Total	1,840	424	2,264	2,528	515	3,043

The total amount of new financing in the first semester of 2019 was executed by four leasing companies and one bank, which performs a significant volume of financial leasing activities (the legal successor of a leasing company that merged with that bank), while two leasing companies have suspended concluding new contracts, except in sporadic cases of financing of seized items of leasing.

The structure of new placements is, according to type of lessee, dominated by placements to legal persons, which represent 90.3% total amount of financing in the first six months of 2019. One of the significant reasons for that is the fact that financing through leasing for natural persons is less favorable compared to credit placements because of liability to pay VAT on interest, which is an additional cost for clients that are not VAT taxpayers.

2.2.3. COMPLIANCE OF BUSINESS OPERATIONS OF LEASING SECTOR WITH AML/CFT STANDARDS

Upon an insight into the Reports on Cash Transactions of BAM 30,000 or More, Related and Suspicious Transactions (AML/CFT Template, tables A and B), which leasing companies in the FBiH submitted to the FBA in January 1 - June 30, 2019, it was determined that leasing companies in the FBiH did not report in the aforementioned reporting period to the FID on the legally prescribed transactions and clients.

In the first semester of 2019 two compliance inspections of business operations of leasing companies in the FBiH were performed in regard to AML/CFT standards, which determined certain incompliances, for which orders for their removal were issued, on the basis of which it was assessed that upon control of the determined incompliances they did not represent a reason for supervisory concerns, and that the ML/FT risk quantity was moderate.

Based on the above, and on the basis of an analysis of the reports provided by leasing companies to the FBA, taking into account also the assessment of the compliance of the FBiH leasing sector for 2018, it could be inferred that the quantity of ML / FT risk is moderate, the quality of managing this risk is satisfactory, and there are no reasons for supervisory concern and that the leasing sector is largely aligned with the AML / CFT standards.

2.2.4. LEASING SECTOR RECOMMENDATIONS

The FBA will, within its prescribed competencies for the supervision of business operations of leasing companies in the FBiH, continue with planned activities whose primary objective is to achieve financial stability of leasing companies in the FBiH and leasing activities at the system level in the FBiH, which will in future focus on the following aspects:

- ongoing steady supervision of business operations of the leasing sector, i.e. system, in the FBiH, through reports and onsite inspections;
- preservation of capital adequacy of the leasing system in the FBiH and strengthening of internal processes for defining the parameters of capital preservation and capital adequacy in the entities of the leasing system in the FBiH;
- monitoring and evaluating the efficiency of the established risk management systems in the leasing sector, i.e. system, in the FBiH and quality of overall governance;
- improvement of cooperation with BiHALC, in terms of providing professional assistance in the application of legislation and regulations for leasing companies, as well as cooperation with other supervisory and controlling institutions, and with the CBBiH in respect of data structures and quality related to exposures under financial leasing and CCR;
- support to improvement of the business environment for business operations of the FBiH leasing sector etc.

Within its competence for supervision of business operations of leasing companies, the FBA expects of leasing entities in the FBiH to enhance activities and measures with the primary objective of lawful, stable, efficient and transparent provision of financing services through leasing, and which are focused on:

- compliance of business operations with the prescribed regulatory requirements;
- promoting safe, stable and sustainable leasing business;
- capital strengthening and defining the parameters of capital protection and capital adequacy, strengthening the internal control system and internal audit function;
- improving the risk management system arising from the leasing business and the environment, identifying risks in a timely manner and taking measures to control and mitigate those risks;
- ensuring reliability and integrity of data and information provided to the FBA, the CBBiH and other supervisory institutions and bodies, ensuring the accuracy, validity and comprehensiveness of accounting and non-accounting records, compliance with business policies, work program plans, legal and other regulations and enactments, as well as protection of property of companies and preventive action and prevention of fraud and error;
- transparent, comprehensible and complete informing of users about financial and operational leasing services they provide etc.

2.3. FACTORING SECTOR

2.3.1. Factoring Sector Characteristics in FBiH

Pursuant to provisions of the LoF, factoring operations in the FBiH may be conducted by an economic company organized as a joint stock company or a limited liability company with headquarters in the FBiH, which must have an approval of the FBA, and a bank whose operations are governed by the regulations governing banks' operations in the FBiH, to which the relevant chapters of the LoF apply.

The FBA, in accordance with its competencies for supervision prescribed in provisions of the LoA, performs supervision of business operations of companies for factoring, with the aim of verifying the legality, security and stability of business operations of companies for factoring in accordance with the provisions of the LoF, to protect the interests of clients and the public interests, contribute

to stability of the financial system, and establish and maintain confidence in the factoring market in the FBiH. In accordance with the prescribed competencies for the supervision of business operations of BSEs in the FBiH, the FBA also performs the supervision over performance of factoring operations in the FBiH banks. If, in the course of performing its supervision, it determines illegalities and irregularities in factoring operations, the FBA shall impose implementation of appropriate measures and activities on their removal.

The factoring system, as of June 30, 2019, represents one registered factoring company with the FBA's license for performance of factoring operations, which started operating in the first quarter of 2018 (factoring sector) and four commercial banks, of which three are members of international banking groups with headquarters in EU member states and one in majority domestic ownership. The factoring company reported, as of June 30, 2019, the level of capital of BAM 0.6 million, which was below the level prescribed under Article 27 of the LoF. In view of the inability to ensure sources of financing, the assembly of the company decided as of the end of June 2019 to delete the activity of performance of factoring business. As of the beginning of July 2019 the company submitted an application to the FBA for phasing out the approval for performance of factoring operations. The resolution of the company's application is in process in compliance with laws and regulations and bylaws of the FBA.

Annex 23 provides basic information on the company and an overview of ownership structure with the balance as of June 30, 2019.

According to reporting data as of June 30, 2019, the total on-balance sheet sum of the Company amounts to BAM 0.7 million, where the biggest item represents short-term receivables for factoring operations of BAM 0.3 million, i.e. 42.5%, while cash and cash equivalents represent BAM 0.3 million, i.e. 40.3%, of the total assets of the Company. Total liabilities of the Company amount to BAM 0.1 million and almost fully relate to other short-term and long-term liabilities and delayed payments of costs. The remaining amount of liabilities (BAM 30 thousand) are liabilities for outstanding claims held until collection (Factoring guarantee fund). Total items of off-balance sheet records amount to BAM 0.6 million and relate to contingent liabilities under concluded but unexecuted contracts. The company reported losses of BAM 0.2 million in the first semester of 2019.

Across the FBiH factoring system, the total volume of redeemed monetary claims in the first semester of 2019 amounts to BAM 88.5 million, of which the amount of BAM 87.8 million, i.e. 99.3% relate to banks. Factoring service providers performed neither the activities of redeeming monetary claims in foreign factoring, nor activities similar to factoring, in the reporting period.

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

The total number of concluded contracts on factoring on factoring system level in the first semester of 2019 amounted to 127, which related to domestic factoring exclusively, of which 121 contracts, i.e. 95.3% were concluded with the right to recourse, i.e. the right of the factor to, in case of inability to collect claims from the buyer, demand upon maturity of the claims settlement from the seller of the claims, and in that manner be compensated for the advance paid, the interest on advance, as well as the charge of the factor, while the six contracts concluded, i.e. 4.7% relate to factoring without the right to recourse. Upon comparing reporting data with the same period of last year, it is evident that there is a reduced number of contracts concluded on factoring, by 34 contracts, i.e. 21.1%.

The total number of active contracts on factoring as of June 30, 2019 is 99, which in comparison with the same period of 2018 represents an increase by 25 contracts, i.e. 33.8%, where the number of active contracts on factoring with the right of recourse is higher by 19, and the number of active contracts on factoring without the right to recourse is higher by five active contracts, while one active contract relates to reversed (supplier) factoring.

The total redeemed nominal amount of monetary claims at the level of the factoring system of FBiH in January 1 - June 30, 2019 is BAM 88.5 million, which compared to the same period of 2018 represents an increase by BAM 31.4 million, i.e. 55.1%.

The structure of redeemed nominal amount of monetary claims at the level of the factoring system of FBiH by type of factoring and domicile, with comparative data and trends in reporting periods, is shown in the following table:

-in BAM '000s-

Table 60: Nominal amount of redeemed monetary claims across FBiH factoring system, by type of factoring and domicile

Type of factoring/ domicile	Volume of redeemed monetary claims												Index (12:10) x 100
	Factoring companies				Banks				Total				
	January 1 - June 30, 2018		January 1 - June 30, 2019		January 1 - June 30, 2018		January 1 - June 30, 2019		January 1 - June 30, 2018		January 1 - June 30, 2019		
	Amount	Share (in %)	Amount	Share (in %)	Amount	Share (in %)	Amount	Share (in %)	Amount	Share (in %)	Amount	Share (in %)	
1	2	3	4	5	6	7	8	9	10	11	12	13	14
Factoring with right to recourse	0	0%	0	0.0%	25,594	44.8%	40,520	46.1%	25,594	44.8%	40,520	45.8%	158
Factoring without right to recourse	0	0%	659	100%	31,510	55.2%	45,871	52.2%	31,510	55.2%	46,530	52.5%	148
Reversed (supplier) factoring	0	0%	0	0%	0	0%	1,498	1.7%	0	0%	1,498	1.7%	0
T o t a l	0	0%	659	100%	57,104	100%	87,889	100%	57,104	100%	88,548	100%	155
Domestic factoring	0	0%	659	100%	57,104	100%	87,889	100%	57,104	100%	88,548	100%	155
Foreign factoring	0	0%	0	0%	0	0%	0	0.0%	0	0%	0	0.0%	0.0
T o t a l	0	0%	659	100%	57,104	100%	87,889	100%	57,104	100%	88,548	100%	155

The change in the structure of redeemed monetary claims in the reporting period related to the share of reversed (supplier) factoring, which had not been present in the past, along with a decrease in the share of factoring without the right to recourse and an increase in share factoring with the right to recourse. The structure by domicile is unchanged.

According to contracted maturity, the highest share in total volume (amount) of redeemed monetary claims in the first semester of 2019 of 62.6% corresponds to redeemed monetary receivables with contracted maturity of 91 to 180 days, followed by the share of 23.5% with contracted maturity of up to 60 days, 12.5% for contracted maturity of 61 to 90 days and the remaining 1.4% for contracted maturity exceeding 180 days. There were no significant changes in the maturity structure compared to the first semester of 2018.

By the sector structure of the buyer of the recourse right, the highest share is the share of private enterprises and companies, in view of the value (volume) of redeemed claims, which, in the first semester of 2019, amounted to BAM 50.0 million, comprising 56.5% of the total value of (volume) at the level of the factoring system of FBiH. It is followed by the share of public enterprises, which amounts to BAM 36.0 million, i.e. 40.7%, of the total value (volume) at the level of the factoring

system of FBiH, and share of governmental institutions of BAM 1.0 million, comprising 1.1% of the total value (volume) at the level of the factoring system of FBiH.

The remaining amount of value (volume) at the level of the factoring system of FBiH, according to the sector structure of suppliers in reverse (supplier) factoring, relates to private enterprises and companies, taking into account that the value (volume) of the buyers' debt paid to suppliers, in the first semester of 2019, amounts to BAM 1.5 million, comprising 1.7% of the total value of (volume) at the level of the factoring system of FBiH. The aforementioned amount relates to the service of reversed (supplier) factoring which was, in the first semester of 2019, provided by one bank, and on that basis the payment was performed of the buyer's liabilities to suppliers. By domicile, the aforementioned amount fully related to domestic factoring, with contracted maturity of up to 60 days.

Total advances paid to suppliers in the segment of private enterprises and companies (sellers of claims) amount to BAM 84.7 million, of which the amount of BAM 46.4 million, i.e. 54.8% relate to factoring without right to recourse, while the amount of BAM 38.3 million, i.e. 45.2% relate to factoring with right to recourse.

On the basis of redeemed monetary claims as of June 30, 2019, banks and the Company claimed the total of BAM 36.2 million, fully in domestic factoring, of which the amount of BAM 22.8 million, i.e. 63.0% relate to factoring with right to recourse, BAM 12.9 million, i.e. 35.6% relate to factoring without right to recourse and BAM 0.5 million, i.e. 1.4% relate to reversed (supplier) factoring. The structure of the aforementioned amount of redeemed claims by contracted maturities is the following: with contracted maturity of up to 60 days – 16.4%, of 61 to 90 days - 18.3%, of 91 to 180 days - 62.0%, and over 180 days - 3.3%.

The total income of the factoring service providers in the FBiH for January 1 - June 30, 2019 amounts to BAM 1.0 million, of which the realized income of banks represents 97.8% of the total reported income in the FBiH factoring system. In the structure of the reported total income, 46.2% relate to factoring with right to recourse, taking into account interest income, charges for factoring and administrative fees, 52.7% relate to contracted factoring without right to recourse, taking into account interest income, charges for factoring and administrative fees, while 1.1% of interest income, charges for factoring and administrative fees relate to reversed (supplier) factoring.

2.3.3. FACTORING SECTOR RECOMMENDATIONS

Factoring business in the first semester of 2019 was conducted exclusively through the performance of the function of financing. There was neither any recorded provision of services of securing collection and receivables management service, nor performance of activities related to factoring, which confirms that this activity is still at the beginning of development in the FBiH market within the legislative and institutional frameworks defined under the LoF and the FBA's by-laws governing factoring operations in more detail. The intentions of the Law on Financial Operations in respect of strengthening financial discipline and establishing clear rules in business have not yet given a stronger impetus for the use of factoring as an instrument of short-term financing and cash flow management, which is contributed by the underdevelopment and lack of education of the financial function in small and medium-sized enterprises. Considering that the need for short-term financing and management of cash receivables, as well as securing receivables, are all becoming increasingly significant in the real sector, it can be expected in the coming period that factoring, as one of the reliable tools for solving liquidity problems in the FBiH, will certainly be in use as an effective instrument for accelerating cash flows in a significantly larger volume than up to now.

In order to eliminate liquidity problems more efficiently, thereby raising the volume of short-term financing of current operations of small and medium-sized enterprises to a higher level, in the coming period more significant affirmation of factoring, as an instrument not only of financing, but also of cash flow management, will be necessary, both on the part of service providers and on the part of other participants in the FBiH financial market.

Within the FBA's mandated responsibilities, supervision over factoring operations is guided by the principles of transparency, confidence building of the factoring service providers, with the aim of conducting factoring operations at the FBiH level in compliance with the regulations and contributing to maintaining financial stability in BiH.

3. PROTECTION OF RIGHTS AND INTERESTS OF NATURAL PERSONS / USERS OF FINANCIAL SERVICES IN BSES IN FBiH

3.1. Activities on Protecting Rights and Interests of Natural Persons - Financial Users in BSEs in FBiH

Pursuant to the competencies and authorities prescribed by the LoA and the internal organization of the FBA, the performance of activities of promotion and protection of rights and interests of natural persons as financial users in the banking system are organized and carried out through the activities and actions of the Ombudsman.

Key activities in the work of the Ombudsman in the reporting period January 1 - June 30, 2019 are reflected in the review of customer complaints, responding, providing recommendations and opinions of BSEs in the FBiH to address individual complaints, as well as general recommendations for improving and upgrading business operations and applying good practices in business operations of BSEs in the FBiH in customer relations. In addition to individual protection of users' rights, the Ombudsman also promoted users' rights and interests through public outreach and education activities. Conduct upon users' complaints implies the manner of performing proceedings before the Ombudsman in compliance with the LoA and FBA's by-Laws, where users can contact the Ombudsman by telephone, directly or by complaint, i.e. request in writing.

Within the handling of customer complaints, in January 1 - June 30, 2019, the total of 179 complaints, requests and notifications were received, compared to the onset disputed relations related to the conduct and operation of BSEs in individual relationships and communication with users of financial services.

Of the total number of cases received, in the aforementioned period the procedure was completed in 110 cases, i.e. 61.5%, including 13 cases initiated in 2018 and completed in the first semester of 2019.

Nine actions were carried out on guarantors' applications to be released from the liabilities of the guarantee and the same number of recommendations were issued.

The structure of the concluded cases by the method of their resolution is provided in the following table overview:

Manner of resolution/period	January 1 - June 30, 2019	
	Share in %	
Well-founded complaints (positively resolved)	25 ³²	22.7
Competent conduct	25 ³³	22.7
Unfounded complaints	30	27.3
Complaints with instructions and detailed explanation in response	15	13.7
Giving up on complaint	3	2.7
Competence of other institutions, organizational units	3	2.7
Positively resolved upon recommendation of the Ombudsman	0	0.0
Recommendations upon application for release from liabilities stemming from guarantees	9	8.2
Not accepted complaints because of untimely or irregular nature	0	0.0
Total:	110	100

The biggest individual shares are the share of unfounded complaints - 27.3%, followed by the share of well-founded complaints, positively resolved for the benefit of the applicant - 22.7% and complaints sent to competent conduct - 22.7%, which in total represents 72.7% of the total of resolved complaints.

The structure of completed cases according to the type of financial service is provided in the table overview below:

Type of financial service	Number	Share in %
Loans	50	45.5
Deposits	4	3.6
Microloans	19	17.3
Charges	12	10.9
Payment system (accounts and cards)	10	9.1
Electronic payment instruments	5	4.5
Leasing	1	0.9
Other	9	8.2
Total	110	100

Of the total number of complaints, the highest share is the share of complaints related to bank loans - 45.5%, followed by micro loans - 17.3% and charges for financial services - 10.9%.

Within the framework of complaint handling, i.e. resolving user applications, the Ombudsman has taken a number of necessary actions under submissions, which include seeking clarifications and additional statements of BSEs, various written communications with users, urgencies, clarifications and amendments.

In addition to complaints and applications in writing, the Ombudsman was also addressed by users verbally, by telephone or directly, with inquiries and requests related to rights and obligations, new legislation and various financial products. 123 different inquiries, applications and requests were received in this reporting period, concerning which there was regular communication with reasoned responses, instructions and advice, and the Ombudsman's recommendations.

In addition to individual protection of the rights of financial users, the Ombudsman promotes the rights and interests of users through public information and education of citizens, conducts

³² The aforementioned number of well-founded complaints includes the positively resolved cases upon recommendation of the Ombudsman

³³ Of which, ten positively resolved in internal procedure with BSEs, and 15 repeatedly submitted to the Ombudsman because of dissatisfaction of the user with the response delivered

financial education of citizens - users and young people. Two educational workshops for students and teachers were organized in this segment, within which the work of the Ombudsman was presented in a creative and interesting way, and students were educated on the basic characteristics of BSEs and their products.

Educational leaflets / posters were issued for users – “How to exercise and protect your rights?” and “Financial products and services”. Through the website, users and guarantors can regularly monitor information on all matters within the scope of the Ombudsman’s work. The Q&A section of the FBA Web site with current questions is regularly updated to provide interested citizens with easy and straightforward answers to questions that are of potential interest to them. Through training, lectures, study visits, development and distribution of educational materials and other planned activities, the application of best practices and models is facilitated in the education of different categories of population and prevention of irresponsible financial behavior of users in the financial market.

3.2. OMBUDSMAN’S RECOMMENDATIONS FOR BSEs

In compliance with the statutory mandates and based on the knowledge gathered in the procedures he leads, the Ombudsman will continue to make recommendations and guidelines to the BSEs for the purpose of: compliance with laws and other regulations in the financial users protection segment, improving relations with financial service users, applying good business practices and fair treatment of users.

In the first semester of 2019, after conducting the examination procedure, violations of users’ rights (which were not eliminated during the procedure) were identified in three cases, and Ombudsman’s opinions were submitted, with recommendations for BSEs in the FBiH. In the reporting period 12 recommendations were issued to banks, of which one general, and two recommendations for MCOs, which related to their work and business operations in the following segments:

- information *and* conduct in accordance with the provisions of the FCPL, which defines the obligations of the BSEs to provide information to their clients on all services they offer in a pre-contractual, contractual relationship, as well as in the period of contract execution;
- calculation of penalty interest on arrears and outstanding receivables in compliance with regulations that determine the amount of penalty interest rate and in the manner prescribed under the Law on Obligations;
- contracting liabilities that are specified or determinable, in terms of the period of validity of the liabilities, and that the scope of the guarantor’s liability and the period over which the card can be re-issued need to be clearly specified in contracts on the use of the credit cards;
- conduct of internal procedure, in the part of regular and high-quality management of internal procedure on complaints of users and guarantors, which implies a statement on all facts and circumstances, assessment of the merits, i.e. whether the complaint has been decided on in accordance with the law or internal enactments, as well as indicating the legal remedy; and
- protection of guarantors, primarily in respect of determining the debtor’s assets when undertaking enforcement measures, informing guarantors of default and payment of the principal debtor’s obligations, and compliance with the sequence of payments as prescribed under the Law on Guarantor Protection in the Federation of BiH.

Information on the Ombudsman’s work in this and past reporting periods indicate that greater transparency is required in the BSEs’ business operations in all stages of communication and business relations with the client, until the execution of the concluded contracts. Considering the large number of products that BSEs have in offer, it cannot be considered to be sufficiently public to just be posting information in the institution’s premises and on its website. Therefore, with the

general statement that BSEs in the FBiH should pay more attention in their work to more efficient and economical treatment of client requirements, take all necessary measures and actions to eliminate obstacles and provide preconditions necessary for the lawful, timely, efficient and economical implementation of their own decisions, organize their work in such a way as to prevent the repetition of identical or similar problems, and remedy in a timely manner the deficiencies in their work leading to the denial of rights. Given the changes and developments within the market of products and services, the issue of timely information and education of citizens should be highlighted especially.

CONCLUSION

In order to preserve and strengthen the stability of the banking system and the protection of depositors, and the lawful, safe and high-quality operations of all BSEs in the FBiH for whose supervision it is competent, the FBA continuously supervises their operations, carrying out planned activities and taking measures in accordance with legislated authorities, and adopts general and individual enactments governing the work of the BSEs, in compliance with legal regulations, Basel principles and standards for effective supervision of banks and applicable EU directives based on those principles and standards. In view of the extensive processes related to the reform of the regulatory framework for business operations and supervision of banks and the establishment of a new framework for bank resolution, activities to strengthen supervisory capacity with a view to implementing a new regulatory framework in the FBiH banking sector have continued.

In the first semester of 2019, positive developments in the banking sector have continued, reflected in the increase in assets, loans, cash and deposits, as well as improvements in profitability of the entire banking sector compared to December 31, 2018. Also present is the continuation of increase in lending to private companies, public enterprises, households and non-banking financial institutions, while lending has decreased to government institutions, banking institutions and other sectors. Share of NPLs, as a key indicator of the quality of loans, still retains a downward trend. The increase in total deposits and savings deposits has continued, and they are the most significant and largest segment of deposit and financial potential of banks. Profitability indicators are most significantly influenced by asset quality indicators and efficiency in managing operating income and expenditures. Based on the reported core business indicators of the FBiH banking sector as of June 30, 2019, it could be inferred that it is stable, adequately capitalized, liquid and profitable.

Crucially important is the quality of the overall management system in banks and, within it, adequate and efficient functioning of the risk management system, adequate capital coverage of risk in business operations through meeting the prescribed requirements for calculating regulatory capital, as well as the requirements within ICAAP and ILAAP, and recovery plans. Banks are expected to exercise cautious planning and management of risks they are exposed to or could be exposed to in business operations. Related to existing and anticipated changes in the financial market, special attention should be paid to the risks associated with the level and trends of interest rates and the effects of possible changes in the future, business model risks, regulatory compliance risks, as well as to identification of emerging risks, with the aim of preventive action.

Analyzing the MCO reporting data in the FBiH as of June 30, 2019 and the comparative trends of business indicators, it can be concluded that the FBiH microcredit sector business operations are characterized by increase in total assets, microloan portfolio, number of employees, total capital, business operations with unchanged quality indicators of the microloan portfolio in the reporting period. Business operations have continued with a positive financial performance, which decreased at the sector level, while maintaining the prescribed indicators of operating efficiency of business operations and return on assets.

In the first semester of 2019 at the level of the leasing system in the FBiH an increase was reported in the volume of business compared to the same period of the preceding financial year, according to the number and value of newly concluded contracts, the increase in portfolio of receivables under financial leasing. Asset quality indicators are characterized by an increase in past due receivables under financial leasing and reserves for credit and other losses, as well as a decrease in capital and net profit in the first semester of 2019, which indicates the need to improve the risk

management system to ensure stable and sustainable business operations of the FBiH leasing sector.

Performance indicators of the FBiH factoring system in the first semester of 2019 indicate that this activity is still at the beginnings of development in the FBiH market within the legislative and institutional frameworks defined under the LoF and by-laws of the FBA that govern the factoring operations in more detail.

In the area of protection of rights of financial users', BSEs in the FBiH need to improve transparency in business operations in all stages of communication and business relations with the client until full execution of the concluded contracts, pay additional attention to more efficient and economical treatment of client's requirements, take all necessary measures and actions to eliminate obstacles and provide the preconditions necessary for the lawful, timely, efficient and cost-effective enforcement of their own decisions, and preventive action to prevent the recurrence of identical or similar problems and deficiencies that lead to the deprivation of rights of financial users, and their timely elimination. The development of financial markets, products and services renders current the issue of timely information and education of citizens - financial users.

Number: U.O.-36-3/19
Sarajevo, September 11th, 2019

BANKING SECTOR ANNEXES

Annex 1-Basic information on FBiH banks as at June 30th, 2019

No.	Bank	Web address	Number of employees	Management Chairperson
1.	ADDIKO BANK JSC - SARAJEVO	www.addiko.ba	406	Sanela Pasic
2.	ASA BANKA JSC - SARAJEVO	www.asabanka.ba	220	Samir Mustafic
3.	BOSNA BANK INTERNATIONAL JSC - SARAJEVO	www.bbi.ba	447	Amer Bukvic
4.	INTESA SANPAOLO BANKA JSC BOSNIA AND HERZEGOVINA	www.intesasanpaolobanka.ba	565	Almir Krkalic
5.	KOMERCIJALNO-INVESTICIONA BANKA JSC V.KLADUSA	www.kib-banka.com.ba	76	Hasan Porcic
6.	NLB BANKA JSC - SARAJEVO	www.nlb.ba	446	Lidija Zigic
7.	PRIVREDNA BANKA SARAJEVO JSC – SARAJEVO	www.pbs.ba	161	Hamid Prses
8.	PROCREDIT BANK JSC – SARAJEVO	www.procreditbank.ba	136	Edin Hrnjica
9.	RAIFFEISEN BANK JSC BiH – SARAJEVO	www.raiffeisenbank.ba	1,401	Karlheinz Dobnigg
10.	SBERBANK BH JSC - SARAJEVO	www.sberbank.ba	441	Jasmin Spahic
11.	SPARKASSE BANK JSC BOSNIA AND HERZEGOVINA- SARAJEVO	www.sparkasse.ba	527	Sanel Kusturica
12.	UNICREDIT BANK JSC - MOSTAR	www.unicreditbank.ba	1,248	Dalibor Cubela
13.	UNION BANKA JSC - SARAJEVO	www.unionbank.ba	195	Vedran Hadziahmetovic
14.	VAKUFСКА BANKA JSC - SARAJEVO	www.vakuba.ba	172	Denis Civgin
15.	ZIRAATBANK BH JSC - SARAJEVO	www.ziraatbosnia.com	313	Yusuf Dilaver
TOTAL			6,754	

Annex 2- FBiH banks' balance sheet according to FBA scheme (active sub-balance sheet)

-in BAM '000s-

No.	Description	December 31 st , 2018		June 30 th , 2019		Index
1	2	3	4	5	6	7=5/3
	ASSETS	Amount	% in total assets	Amount	% in total assets	
1.	Cash and deposit accounts with deposit institutions	6,591,117	29.8%	6,956,446	30.1%	106
	1.a. Cash and non-interest bearing deposit accounts	2,975,624	13.4%	3,010,769	13.0%	101
	1.b. Interest-bearing deposit accounts	3,615,493	16.4%	3,945,677	17.1%	109
2.	Securities at fair value through profit or loss and at fair value in other comprehensive income	1,150,050	5.2%	1,192,918	5.2%	104
3.	Placements to other banks	270,604	1.2%	116,398	0.5%	43
4.	Loans, leasing type receivables and past-due receivables	14,325,634	64.8%	14,922,929	64.7%	104
	4.a. Loans	13,211,045	59.8%	13,824,062	59.9%	105
	4.b. Leasing type receivables	92,282	0.4%	74,843	0.3%	81
	4.c. Past-due receivables on loans and leasing type receivables	1,022,307	4.6%	1,024,024	4.5%	100
5.	Securities at amortized cost	154,576	0.7%	181,105	0.7%	117
6.	Business premises and other fixed assets	477,533	2.2%	546,123	2.4%	114
7.	Other real-estate	54,234	0.2%	56,436	0.2%	104
8.	Investments in subsidiaries and associates	12,065	0.1%	11,120	0.0%	92
9.	Other assets	328,491	1.5%	336,426	1.5%	102
10.	MINUS: Impairments	1,270,169	5.7%	1,237,630	5.3%	97
	10.a. Impairments of the items in position 4 of the assets	1,190,760	5.4%	1,161,095	5.0%	98
	10.b. Impairments of the assets items, except for position 4 of the assets	79,409	0.3%	76,535	0.3%	96
11.	TOTAL ASSETS	22,094,135	100%	23,082,271	100%	104
	LIABILITIES					
12.	Deposits	17,604,487	79.7%	18,306,386	79.3%	104
	12.a. Interest-bearing deposits	12,429,484	56.3%	13,157,165	57.0%	106
	12.b. Non-interest-bearing deposits	5,175,003	23.4%	5,149,221	22.3%	100
13.	Borrowings – past-due liabilities	150	0.0%	150	0.0%	100
	13.a. Stock of past-due, unpaid liabilities	0	0.0%	0	0.0%	-
	13.b. Stock of not fulfilled-called for payment off-balance sheet liabilities	150	0.0%	150	0.0%	100
14.	Borrowings from other banks	0	0.0%	0	0.0%	-
15.	Liabilities to government	0	0.0%	0	0.0%	-
16.	Liabilities on loans and other borrowings	862,931	3.9%	803,906	3.5%	93
	16.a. with residual maturity period of up to one year	178,386	0.8%	186,704	0.8%	105
	16.b. with residual maturity period of over one year	684,545	3.1%	617,202	2.7%	90
17.	Subordinated debts and subordinated bonds	124,181	0.6%	197,856	0.9%	159
18.	Other liabilities	531,300	2.4%	694,196	3.0%	131
19.	TOTAL LIABILITIES	19,123,049	86.6%	20,002,494	86.7%	105
	CAPITAL					
20.	Permanent priority shares	8,828	0%	365	0.0%	4
21.	Common shares	1,290,872	5.8%	1,299,335	5.6%	101
22.	Surplus over par value	137,290	0.6%	137,290	0.6%	100
	22.a. of permanent priority shares	88	0%	88	0.0%	100
	22.b. of common shares	137,202	0.6%	137,202	0.6%	100
23.	Undistributed profit and capital reserves	1,096,380	5.0%	1,318,942	5.7%	120
24.	Exchange rate differences	0	0.0%	0	0.0%	-
25.	Other capital	256,236	1.2%	181,681	0.8%	71
26.	Loan loss reserves created from profits	181,480	0.8%	142,164	0.6%	78
27.	TOTAL CAPITAL: (20. to 25.)	2,971,086	13.4%	3,079,777	13.3%	104
28.	TOTAL LIABILITIES AND CAPITAL: (19. + 27.)	22,094,135	100%	23,082,271	100%	104
	PASSIVE AND NEUTRAL SUB-BALANCE SHEET	707,503		709,746		100
	TOTAL	22,801,638		23,792,017		104

Annex 3-Overview of assets, loans, deposits and financial performance of FBiH banks-June 30th, 2019

-in BAM '000s-

No.	Bank	Assets		Loans		Deposits		Financial performance
		Amount	%	Amount	%	Amount	%	Amount
1.	ADDIKO BANK JSC - SARAJEVO	951,877	4.1%	617,816	4.1%	709,094	3.9%	4,096
2.	ASA BANKA JSC - SARAJEVO	495,586	2.1%	357,751	2.4%	416,771	2.3%	2,245
3.	BOSNA BANK INTERNATIONAL JSC - SARAJEVO	1,152,600	5.0%	749,946	5.0%	875,216	4.8%	4,789
4.	INTESA SANPAOLO BANKA JSC BOSNIA AND HERZEGOVINA	2,214,250	9.6%	1,611,673	10.8%	1,683,994	9.2%	20,074
5.	KOMERCIJALNO-INVESTICIONA BANKA JSC V.KLADUSA	100,465	0.4%	55,431	0.4%	68,887	0.4%	385
6.	NLB BANKA JSC - SARAJEVO	1,196,123	5.2%	822,719	5.6%	967,200	5.3%	11,900
7.	PRIVREDNA BANKA SARAJEVO JSC - SARAJEVO	499,878	2.2%	299,872	2.0%	399,326	2.2%	1,007
8.	PROCREDIT BANK JSC - SARAJEVO	519,289	2.2%	393,376	2.6%	245,703	1.3%	-550
9.	RAIFFEISEN BANK JSC BiH - SARAJEVO	4,689,834	20.3%	2,710,341	18.2%	3,793,258	20.7%	54,153
10.	SBERBANK BH JSC - SARAJEVO	1,471,576	6.4%	1,049,340	7.0%	1,231,095	6.7%	6,024
11.	SPARKASSE BANK JSC BOSNIA AND HERZEGOVINA- SARAJEVO	1,560,462	6.8%	1,087,712	7.3%	1,260,326	6.9%	11,506
12.	UNICREDIT BANK JSC - MOSTAR	6,160,187	26.7%	3,968,703	26.6%	5,070,618	27.7%	63,343
13.	UNION BANKA JSC - SARAJEVO	775,022	3.4%	227,908	1.5%	684,427	3.7%	863
14.	VAKUFСКА BANKA JSC - SARAJEVO	305,138	1.3%	213,837	1.4%	262,721	1.4%	601
15.	ZIRAATBANK BH JSC - SARAJEVO	989,984	4.3%	756,504	5.1%	637,750	3.5%	1,245
	TOTAL	23,082,271	100%	14,922,929	100%	18,306,386	100%	181,681

Annex 4- FBiH banks' balance sheet asset classification-June 30th, 2019

– BALANCE SHEET ASSET ITEM CLASSIFICATION –

-in BAM '000s-

No.	Balance sheet asset items	Classification					Total
		A	B	C	D	E	
1.	Short-term loans	2,750,142	173,030	4,571	627	738	2,929,108
2.	Long-term loans	9,935,519	571,908	105,621	76,939	11,850	10,701,837
3.	Other facilities	431,866	564	45	122	2,295	434,892
4.	Accrued interest and fees	39,961	3,522	2,107	3,626	41,977	91,193
5.	Past-due receivables	40,848	19,687	9,746	242,556	680,326	993,163
6.	Receivables on paid guarantees	0	0	76	426	30,211	30,713
7.	Other on-balance sheet assets classified	879,650	4,338	696	652	45,266	930,602
8.	TOTAL ON-BALANCE SHEET ASSETS THAT ARE CLASSIFIED (sum of positions 1 through 7 – calculation basis for regulatory loan loss reserves)	14,077,986	773,049	122,862	324,948	812,663	16,111,508
9.	ACCRUED REGULATORY LOAN LOSS RESERVES ON ON-BALANCE SHEET ASSETS	277,388	66,813	37,238	190,531	812,659	1,384,629
10.	IMPAIRMENT OF ON-BALANCE SHEET ASSETS	211,616	69,781	66,895	180,984	702,715	1,231,991
11.	REQUIRED REGULATORY RESERVES FROM PROFIT FOR ESTIMATED LOSSES ON ON-BALANCE SHEET ASSETS	164,217	36,922	4,690	42,332	109,607	357,768
12.	CREATED REGULATORY RESERVES FROM PROFIT FOR ESTIMATED LOSSES ON ON-BALANCE SHEET ASSETS	63,566	21,952	2,521	5,380	18,430	111,849
13.	SHORTFALL IN REGULATORY RESERVES FROM PROFIT FOR ESTIMATED LOSSES ON ON-BALANCE SHEET ASSETS						249,432
14.	ON-BALANCE SHEET ASSETS THAT ARE NOT CLASSIFIED (gross carrying amount)						8,208,392
15.	TOTAL ON-BALANCE SHEET ASSETS (gross carrying amount)						24,319,900

OVERVIEW OF BALANCE SHEET ASSETS THAT ARE NOT CLASSIFIED AND AMOUNT OF FACILITIES SECURED WITH CASH DEPOSITS

14.a	Cash in hand and treasury and cash in account with BiH Central Bank, gold and other precious metals	4,928,311
14.b	Sight deposits and term deposits of up to one month in accounts with banks with established investment-grade ratings	1,874,454
14.c	Tangible and intangible assets	571,197
14.d	Foreclosed financial and tangible assets within one year of foreclosure	6,371
14.e	Own (treasury) shares	0
14.f	Receivables on overpaid tax liabilities	18,916
14.g	Held-for-trading securities	11,857
14.h	Receivables from BiH Government, BiH FEDERATION Government, and RS Government, securities issued by BiH Government, BiH Federation Government, and RS Government, and receivables secured with their unconditional guarantees payable on first demand	797,286
	TOTAL position 14	8,208,392
8a.	Amount of facilities secured with cash deposits	208,604

Annex 4a- FBiH banks' at-risk off-balance sheet item asset classification-June 30th, 2019

– OFF-BALANCE SHEET ITEM CLASSIFICATION –

-in BAM '000s-

No.	Off-balance sheet items	Classification					Total
		A	B	C	D	E	
1.	Payable guarantees	388,327	45,121	750	1,467	0	435,665
2.	Performance guarantees	717,663	69,662	1,060	7,205	96	795,686
3.	Uncovered letters of credit	48,336	1,917	85	0	0	50,338
4.	Irrevocably approved, but undrawn loans	1,892,703	82,566	280	64	140	1,975,753
5.	Banks' other contingent liabilities	15,221	373	406	0	79	16,079
6.	TOTAL OFF-BALANCE SHEET ASSETS THAT ARE CLASSIFIED (sum of positions 1 through 5 – calculation basis for regulatory loan loss reserves)	3,062,250	199,639	2,581	8,736	315	3,273,521
7.	ACCRUED REGULATORY LOAN LOSS RESERVES ON OFF-BALANCE SHEET ASSETS	60,322	12,883	610	5,239	314	79,368
8.	LOSS PROVISIONS FOR OFF-BALANCE SHEET ITEMS	30,838	2,926	1,382	6,926	229	42,301
9.	REQUIRED REGULATORY RESERVES FROM PROFIT FOR ESTIMATED LOSSES ON OFF-BALANCE SHEET ASSETS	40,432	11,349	57	677	86	52,601
10.	CREATED REGULATORY RESERVES FROM PROFIT FOR ESTIMATED LOSSES ON OFF-BALANCE SHEET ASSETS	21,334	8,969	6	4	2	30,315
11.	SHORTFALL IN REGULATORY RESERVES FROM PROFIT FOR ESTIMATED LOSSES ON OFF-BALANCE SHEET ASSETS						22,286
12.	OFF-BALANCE SHEET ASSETS THAT ARE NOT CLASSIFIED						574,442
13.	TOTAL OFF-BALANCE SHEET ASSETS						3,847,963
6a.	Amount of contingent liabilities secured with cash deposits						46,130
6b.	Amount of approved, but undrawn loans with clause on unconditional cancellation						662,162

Annex 5-FBiH banks' income statement according to FBA's scheme-June 30th, 2019

-in BAM '000s-

No.	Description	June 30 th , 2018	%	June 30 th , 2019	%	Index 7=5/3
1	2	3	4	5	6	7=5/3
1.	INTEREST INCOME AND EXPENDITURES	Amount	%	Amount	%	
a)	Interest income and similar income					
1)	Interest-bearing deposit accounts with deposit institutions	2,022	0.5	2,582	0.7	128
2)	Placements to other banks	832	0.3	2,090	0.6	251
3)	Loans and leasing operations	328,878	89.1	324,284	88.7	99
4)	Securities held to maturity	1,544	0.4	2,349	0.6	152
5)	Equity securities	0	0	0	0	0
6)	Receivables on paid off-balance sheet liabilities	1	0	1	0	100
7)	Other interest income and similar income	35,948	9.7	34,315	9.4	95
8)	TOTAL INTEREST INCOME AND SIMILAR INCOME	369,225	100	365,621	100	99
b)	Interest expenditures and similar expenditures					
1)	Deposits	54,238	81.6	47,091	75.3	87
2)	Borrowings from other banks	0	0	0	0	0
3)	Borrowings taken out – past-due liabilities	0	0	0	0	0
4)	Liabilities on loans and other borrowings taken out	4,535	6.8	4,544	7.3	100
5)	Subordinated debts and subordinated bonds	3,897	5.9	3,658	5.8	94
6)	Other interest expenditures and similar expenditures	3,805	5.7	7,276	11.6	191
7)	TOTAL INTEREST EXPENDITURES AND SIMILAR EXPENDITURES	66,475	100	62,569	100	94
c)	NET INTEREST AND SIMILAR INCOME	302,750	-	303,052	-	100
2.	OPERATING INCOME					
a)	Income from foreign exchange operations	28,001	12.9	28,732	12.9	103
b)	Loan fees	5,317	2.4	5,185	2.3	98
c)	Off-balance sheet operation fees	11,062	5.1	11,222	5.0	101
d)	Service fees	141,489	65.2	152,085	67.9	107
e)	Income from trading operations	289	0.1	1,205	0.5	417
f)	Other operating income	30,986	14.3	25,554	11.4	82
g)	TOTAL OPERATING INCOME a) through f)	217,144	100	223,983	100	103
3.	NON-INTEREST EXPENDITURES					
a)	Operating and direct expenditures					
1)	At-risk asset impairment costs, provisions for contingent liabilities and other value adjustments	32,297	9.4	22,432	6.5	69
2)	Other operating and direct costs	57,171	16.5	63,937	18.6	112
3)	TOTAL OPERATING AND DIRECT EXPENDITURES 1) + 2)	89,468	25.9	86,369	25.1	97
b)	Operating expenditures					
1)	Salary and contribution costs	126,993	36.8	129,746	37.7	102
2)	Business premises costs, other fixed assets and overheads	74,364	21.6	75,722	22.0	102
3)	Other operating costs	54,249	15.7	52,460	15.2	97
4)	TOTAL OPERATING EXPENDITURES 1) through 3)	255,606	74.1	257,928	74.9	101
c)	TOTAL NON-INTEREST EXPENDITURES	345,074	100	344,297	100	100
4.	PROFIT BEFORE TAXATION	174,820	-	183,288	-	105
5.	LOSS	0	0	550	-	-
6.	TAXES	0	0	1,040	-	-
7.	PROFIT ON INCREASE IN DEFERRED TAX ASSETS AND DECREASE IN DEFERRED TAX LIABILITIES	0	0	43	-	-
8.	LOSS ON DECREASE IN DEFERRED TAX ASSETS AND INCREASE IN DEFERRED TAX LIABILITES	0	0	60	-	-
9.	NET-PROFIT 4.-6.	174,820	-	182,231	-	104
10.	NET-LOSS 4.-6.	0	0	550	-	-
11.	FINANCIAL PERFORMANCE 9.-10.	174,820	-	181,681	-	104

Annex 6-Weighted average NIR and EIR on loans and deposits as of June 30th, 2019

Weighted average NIR and EIR on loans

-in %-

No.	Description	December 31 st , 2018		June 30 th , 2019	
		NIR	EIR	NIR	EIR
1	2	3	4	5	6
1.	Weighted interest rates on short-term loans	2.67	2.97	2.36	2.77
1.1.	Corporate	2.61	2.84	2.32	2.66
1.2.	Retail	7.53	14.66	7.21	13.60
2.	Weighted interest rates on long-term loans	4.66	5.62	4.63	5.57
2.1.	Corporate	3.61	3.91	3.46	3.73
2.2.	Retail	5.55	7.06	5.37	6.74
3.	Total weighted interest rates	3.56	4.15	3.34	3.98
3.1.	Corporate	2.88	3.13	2.58	2.90
3.2.	Retail	5.59	7.22	5.40	6.87

Weighted average NIR and EIR on deposits

-in %-

No.	Description	December 31 st , 2018		June 30 th , 2019	
		NIR	EIR	NIR	EIR
1	2	3	4	5	6
1.	Weighted interest rates on short-term deposits	0.38	0.36	0.33	0.32
1.1.	Up to three months	0.41	0.39	0.33	0.32
1.2.	Up to one year	0.31	0.31	0.33	0.33
2.	Weighted interest rates on long-term deposits	1.15	1.16	1.31	1.22
2.1.	Up to three years	0.99	1.01	1.21	1.08
2.2.	Over three years	1.44	1.45	1.59	1.60
3.	Total weighted interest rates on deposits	0.66	0.65	0.82	0.77

Annex 6a-Weighted average NIR and EIR on loans and deposits by periods

Weighted average NIR and EIR on loans by periods

-in %-

R. br.	Description	June 30 th , 2015		June 30 th , 2016		June 30 th , 2017		June 30 th , 2018		June 30 th , 2019	
		NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	2	3	4	5	6	7	8	9	10	11	12
1.	Weighted interest rates on short-term loans	5.23	5.62	4.30	4.78	3.30	3.57	2.76	3.05	2.36	2.77
1.1.	Corporate	5.20	5.53	4.23	4.64	3.24	3.45	2.70	2.93	2.32	2.66
1.2.	Retail	7.72	11.03	7.73	12.95	8.23	15.14	7.55	14.45	7.21	13.60
2.	Weighted interest rates on long-term loans	6.82	7.73	6.29	7.38	5.61	6.68	4.84	5.87	4.63	5.57
2.1.	Corporate	5.98	6.46	5.02	5.35	4.30	4.59	3.79	4.11	3.46	3.73
2.2.	Retail	7.41	8.63	7.29	8.98	6.50	8.08	5.66	7.26	5.37	6.74
3.	Total weighted interest rates	5.99	6.63	5.22	5.98	4.31	4.92	3.69	4.32	3.34	3.98
3.1.	Corporate	5.42	5.79	4.45	4.84	3.49	3.71	2.99	3.24	2.58	2.90
3.2.	Retail	7.42	8.71	7.30	9.11	6.53	8.22	5.70	7.41	5.40	6.87

Weighted average NIR and EIR on deposits by periods

-in %-

No.	Description	June 30 th , 2015		June 30 th , 2016		June 30 th , 2017		June 30 th , 2018		June 30 th , 2019	
		NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	2	3	4	5	6	7	8	9	10	11	12
1.	Weighted interest rates on short-term deposits	0.88	0.90	0.38	0.38	0.36	0.36	0.30	0.29	0.33	0.32
1.1.	Up to three months	0.47	0.48	0.27	0.27	0.34	0.34	0.31	0.29	0.33	0.32
1.2.	Up to one year	1.33	1.35	0.76	0.78	0.51	0.52	0.27	0.27	0.33	0.33
2.	Weighted interest rates on long-term deposits	2.48	2.51	1.84	1.86	1.42	1.45	1.05	1.06	1.31	1.22
2.1.	Up to three years	2.30	2.33	1.67	1.70	1.32	1.34	0.91	0.92	1.21	1.08
2.2.	Over three years	2.95	2.96	2.35	2.35	1.81	1.86	1.26	1.27	1.59	1.60
3.	Total weighted interest rates on deposits	1.82	1.84	0.98	0.99	0.67	0.68	0.56	0.55	0.82	0.77

MICROCREDIT SECTOR ANNEXES

Annex 7-Basic information on FBiH MCOs as at June 30th, 2019

No.	MCO name	Director	License issuance date	Number of employees	Web address
1.	MCC "EKI" LLC Sarajevo	Almir Sultanovic	February 04 th , 2008	290	www.eki.ba
2.	MCF "EKI" Sarajevo	Esad Uzunic	August 20 th , 2007	205	www.eki.ba
3.	MCF "LIDER" Sarajevo	Dzavid Sejfovic	February 04 th , 2008	79	www.lider.ba
4.	"LOK MCF" Sarajevo	Elma Cardaklija - Basic	February 04 th , 2008	70	www.lok.ba
5.	MCF "MELAHA" Sarajevo	Jakob Finci	October 09 th , 2007	6	www.melaha.ba
6.	MCF "MI-BOSPO" Tuzla	Safet Husic	July 09 th , 2007	185	www.mi-bospo.org
7.	MCF "MIKRA" Sarajevo	Sanin Campara	March 19 th , 2008	136	www.mikra.ba
8.	MCF "MIKRO ALDI" Gorazde	Ferida Softic	August 20 th , 2007	32	www.mikroaldi.org
9.	"PARTNER MCF" Tuzla	Senad Sinanovic	August 20 th , 2007	298	www.partner.ba
10.	"PRVA ISLAMSKA MCF" Sarajevo	Edina Hadzimirtezić	December 10 th , 2007	8	www.mfi.ba
11.	MCF "SANI" Zenica	Sulejman Haracic	October 09 th , 2007	5	-
12.	MCF "SUNRISE" Sarajevo	Samir Bajrovic	August 20 th , 2007	176	www.microsunrise.ba
13.	MCC „IUTECREDIT BH“ LLC Sarajevo	Vilma Tunjic Juzbasic	February 28 th , 2019	16	www.iutecredit.ba
Total				1,506	

Annex 8-Overview of weighted NIR and EIR for MCOs established in FBiH for disbursed microloans for January 1 - June 30, 2019 period

No.	Description	Microloan disbursements in I semester of 2019 (in BAM '000s)	Weighted NIR (average)	Weighted EIR (average)
1.	Short-term microloans for:	34,580	21.26%	29.83%
1.1.	service activities	4,955	19.96%	27.14%
1.2.	trade	1,593	19.76%	27.54%
1.3.	agriculture	7,881	19.31%	26.33%
1.4.	manufacturing	655	19.33%	26.47%
1.5.	housing needs	7,686	18.75%	23.22%
1.6.	general-basic needs	1,177	19.37%	48.95%
1.7.	other	10,633	25.67%	36.90%
2.	Long-term microloans for:	202,385	19.29%	22.98%
2.1.	service activities	37,265	18.99%	22.58%
2.2.	trade	6,936	19.28%	23.12%
2.3.	agriculture	64,401	18.06%	21.36%
2.4.	manufacturing	4,478	18.88%	22.45%
2.5.	housing needs	44,836	18.71%	21.90%
2.6.	general-basic needs	7,148	19.11%	22.97%
2.7.	other	37,321	22.52%	27.49%
3.	Total microloans	236,965	19.58%	23.98%

Annex 8a-Overview of weighted NIR and EIR for MCOs from RS operating in FBiH for disbursed microloans for January 1 - June 30, 2019 period

No.	Description	Microloan disbursements in I semester of 2019 (in BAM '000s)	Weighted NIR (average)	Weighted EIR (average)
1.	Short-term microloans for:	12,336	16.28%	84.81%
1.1.	service activities	1,220	17.45%	20.93%
1.2.	trade	947	16.43%	18.85%
1.3.	agriculture	1,336	17.24%	20.18%
1.4.	manufacturing	285	16.17%	18.63%
1.5.	housing needs	231	17.50%	23.80%
1.6.	general-basic needs	7,029	18.76%	25.56%
1.7.	other	1,288	0.35%	609.84%
2.	Long-term microloans for:	32,224	17.66%	20.81%
2.1.	service activities	4,919	16.61%	18.60%
2.2.	trade	1,679	16.51%	18.45%
2.3.	agriculture	8,051	16.28%	18.13%
2.4.	manufacturing	822	16.10%	17.90%
2.5.	housing needs	7,391	18.21%	21.22%
2.6.	general-basic needs	9,185	19.24%	24.45%
2.7.	other	177	22.92%	33.38%
3.	Total microloans	44,560	17.28%	38.53%

Annex 8b - Comparative overview of average weighted EIR for MCOs established in FBiH for disbursed microloans

Average weighted NIR on:	January 1- June 30, 2015	January 1- June 30, 2016	January 1- June 30, 2017	January 1- June 30, 2018	January 1- June 30, 2019
Short-term microloans	18.50%	16.78%	18.83%	20.20%	21.26%
Long-term microloans	20.89%	20.64%	20.46%	19.66%	19.29%
Total microloans	20.35%	19.88%	20.20%	19.74%	19.58%
Average weighted EIR on:	January 1- June 30, 2015	January 1- June 30, 2016	January 1- June 30, 2017	January 1- June 30, 2018	January 1- June 30, 2019
Short-term microloans	26.06%	25.33%	28.08%	27.00%	29.83%
Long-term microloans	24.63%	24.49%	24.30%	23.34%	22.98%
Total microloans	24.95%	24.65%	24.92%	23.92%	23.99%

Annex 9-MCFs' aggregate balance sheet-June 30th, 2019

-in BAM '000s-

No.	Description	December 31 st , 2018	%	June 30 th , 2019	%	Index
1	2	3	4	5	6	7=5/3
ASSETS						
		Amount	%	Amount	%	
1.	Cash (1a+1b)	48,291	11.1	44,459	9.7	92
1a)	Cash and non-interest bearing deposit accounts	33,993	7.7	26,776	5.8	79
1b)	Interest-bearing deposit accounts	14,298	3.4	17,683	3.9	124
2.	Placements to banks	210	0.0	220	0.0	105
3.	Loans	322,370	74.4	344,714	75.0	107
3a)	Loan loss reserves	-2,232	-0.5	-2,608	-0.6	117
3b)	Net loans (3-3a)	320,137	73.9	341,714	74.4	107
4.	Business premises and other fixed assets	24,918	5.8	31,540	6.9	127
5.	Long-term investments	33,061	7.6	33,061	7.2	100
6.	Other assets	6,900	1.6	8,568	1.9	124
7.	Minus: reserves on other asset items, except for loans	-135	-0.0	-166	-0.1	123
8.	Total assets	433,382	100	459,396	100	106
LIABILITIES						
9.	Liabilities on short-term loans taken out	69,189	16.0	76,737	16.7	111
10.	Liabilities on long-term loans taken out	108,781	25.1	116,066	25.3	107
11.	Other liabilities	21,647	5.0	26,118	5.7	121
12.	Total liabilities	199,617	46.1	218,921	47.7	110
13.	Donated capital	48,076	11.1	48,076	10.5	100
14.	Tier 1 capital	3,820	0.9	3,820	0.8	100
15.	Surplus of income over expenditures	243,189	56.1	249,946	54.4	103
15a)	for previous years	230,646	53.2	243,153	52.9	105
15b)	for current year	12,543	2.9	6,793	1.5	54
16.	Shortfall of income over expenditures	62,021	14.3	62,060	13.5	100
16a)	for previous years	61,278	14.1	62,021	13.5	101
16b)	for current year	743	0.2	39	0.0	5
17.	Other reserves	701	0.1	693	0.1	99
18.	Total capital	233,765	53.9	240,475	52.3	103
19.	Total liabilities	433,382	100	459,396	100	106
Off-balance sheet records						
	- written off loans	105,151		102,420		97
	- commission operations	421		361		86

Annex 10-MCCs' average balance sheet-June 30th, 2019

-in BAM '000s-

No.	Description	December 31 st , 2018	%	June 30 th , 2019	%	Index
1	2	3	4	5	6	7=5/3
ASSETS		Amount	%	Amount	%	
1.	Cash (1a+1b)	9,107	6.2	6,404	4.2	70
1a)	Cash and non-interest bearing deposit accounts	9,107	6.2	5,904	3.9	65
1b)	Interest-bearing deposit accounts	0	0.0	500	0.3	n/a
2.	Placements to banks	0	0.0	0	0.0	0
3.	Loans	134,551	91.6	139,513	91.9	104
3a)	Loan loss reserves	-672	-0.5	-791	-0.5	118
3b)	Net loans (3-3a)	133,879	91.1	138,722	91.4	104
4.	Business premises and other fixed assets	1,751	1.2	4,545	3.0	260
5.	Long-term investments	0	0.0	0	0.0	0
6.	Other assets	2,270	1.5	2,237	1.4	99
7.	Minus: reserves on other asset items, except for loans	-36	0.0	-49	-0.0	136
8.	Total assets	146,971	100	151,859	100	103
LIABILITIES						
9.	Liabilities on short-term loans taken out	33,197	22.6	41,405	27.3	125
10.	Liabilities on long-term loans taken out	68,515	46.6	59,842	39.4	87
11.	Other liabilities	6,155	4.2	7,942	5.2	129
12.	Total liabilities	107,867	73.4	109,189	71.9	101
13.	Donated capital	0	0.0	0	0	0
14.	Tier 1 capital	30,600	20.8	31,100	20.5	102
15.	Surplus over par value	0	0.0	0	0.0	0
16.	Undistributed profit (16a+16b)	6,504	4.4	9,042	5.9	139
16a)	previous years	1,225	0.8	5,977	3.9	488
16b)	current year	5,279	3.6	3,065	2.0	58
17.	Statutory reserves	2,000	1.4	2,528	1.7	126
18.	Other reserves	0	0.0	0	0.0	0
19.	Total capital	39,104	26.6	42,670	28.1	109
20.	Total liabilities	146,971	100	151,859	100	103
Off-balance sheet records						
	- written off loans	1,506		2,068		137
	- commission operations	0		0		0

Annex 11-Overview of MCOs' core financial indicators - June 30th, 2019

-in BAM '000s-

No.	MCO name	Amount of assets	Amount of gross portfolio	Amount of capital	Surplus (shortfall) of income over expenditures/ net profit (loss)	Placements in January 1-June 30, 2019 period
1.	MCC "EKI" LLC Sarajevo	150,614	139,344	42,519	3,414	55,769
2.	MCC „IUTECREDIT BH“ LLC Sarajevo	1,245	169	151	-349	179
3.	MCF "EKI" Sarajevo	87,491	30,973	67,942	741	19,225
4.	MCF "LIDER" Sarajevo	23,150	22,007	11,382	61	11,956
5.	"LOK MCF" Sarajevo	9,933	5,554	3,192	337	2,764
6.	MCF "MELAHA" Sarajevo	1,272	856	528	7	437
7.	MCF "MI-BOSPO" Tuzla	70,549	64,083	25,065	1,156	35,033
8.	MCF "MIKRA" Sarajevo	42,364	32,641	9,318	566	17,645
9.	MCF "MIKRO ALDI" Gorazde	7,349	6,930	5,119	162	3,749
10.	"PARTNER MCF" Tuzla	154,034	134,878	88,286	3,200	59,538
11.	"PRVA ISLAMSKA MCF" Sarajevo	1,866	1,689	1,581	27	1,205
12.	MCF "SANI" Zenica	424	395	186	-39	258
13.	MCF "SUNRISE" Sarajevo	60,964	44,316	27,876	1,117	29,177
Total		611,255	483,835	283,145	10,400	236,965

Annex 12- MCFs' aggregate income statement-June 30th, 2019

-in BAM '000s-

No.	Description	For January 1 - June 30, 2018 period	%	For January 1 - June 30, 2019 period	%	Index
1	2	3	4	5	6	7=(5/3)
I	FINANCIAL INCOME AND EXPENDITURES	Amount	%	Amount	%	
1.	Interest income and similar income					
1.1.	Interest on interest-bearing deposit accounts with deposit institutions	4	0.0	5	0.0	125
1.2.	Interest on placements to banks	10	0.0	1	0.0	10
1.3.	Interest on loans	31,293	98.1	31,655	98.2	101
1.4.	Other financial income	595	1.9	579	1.8	97
1.5.	Total interest income and similar income (1.1. through 1.4.)	31,902	100	32,240	100	101
2.	Interest expenditures and similar expenditures					
2.1.	Interest on borrowed funds	3,858	92.9	3,661	90.3	95
2.2.	Other financial expenditures	297	7.1	394	9.7	133
2.3.	Total interest expenditures and similar expenditures (2.1. through 2.2.)	4,155	100	4,055	100	98
3.	Net financial income (1.5. - 2.3.)	27,747	-	28,185	-	102
II	OPERATING INCOME AND EXPENDITURES					
4.	Operating income					
4.1.	Service fees	3,361	92.5	3,192	94.9	95
4.2.	Other operating income	274	7.5	171	5.1	62
4.3.	Total operating income (4.1. through 4.2.)	3,635	100	3,363	100	93
5.	Operating expenditures					
5.1.	Salary and contribution costs	17,764	65.8	18,233	67.0	103
5.2.	Business premises costs, other fixed assets and overheads	5,309	19.7	5,098	18.7	96
5.3.	Other operating costs	3,944	14.5	3,893	14.3	99
5.4.	Total operating expenditures (5.1. through 5.3.)	27,017	100	27,224	100	101
6.	Costs of provisions for loan and other losses	1,687	-	1,950	-	116
7.	Surplus/shortfall of income over expenditures from ordinary business operations (3.+4.3.- 5.4.-6.)	2,678	-	2,374	-	89
8.	Extraordinary income	6,870	-	5,177	-	75
9.	Extraordinary expenditures	310	-	216	-	70
10.	Surplus/shortfall of income over expenditures (7.+8.-9.)	9,238	-	7,335	-	79

Annex 13- MCCs' aggregate income statement-June 30th, 2019

-in BAM '000s-

No.	Description	For January 1 - June 30, 2018 period	%	For January 1 - June 30, 2019 period	%	Index
1	2	3	4	5	6	7=(5/3)
I	FINANCIAL INCOME AND EXPENDITURES	Amount	%	Amount	%	
1.	Interest income and similar income					
1.1.	Interest on interest-bearing deposit accounts with deposit institutions	0	0.0	0	0.0	0
1.2.	Interest on placements to banks	0	0.0	0	0.0	0
1.3.	Interest on loans	8,578	99.9	11,893	99.9	139
1.4.	Other financial income	5	0.1	9	0.1	180
1.5.	Total interest income and similar income (1.1. through 1.4.)	8,583	100	11,902	100	139
2.	Interest expenditures and similar expenditures					
2.1.	Interest on borrowed funds	1,625	94.4	1,967	86.8	121
2.2.	Other financial expenditures	97	5.6	298	13.2	307
2.3.	Total interest expenditures and similar expenditures (2.1. through 2.2.)	1,722	100	2,265	100	132
3.	Net financial income (1.5. - 2.3.)	6,861	-	9,637	-	140
II	OPERATING INCOME AND EXPENDITURES					
4.	Operating income					
4.1.	Service fees	689	90.5	929	89.8	135
4.2.	Other operating income	72	9.5	105	10.2	146
4.3.	Total operating income (4.1. through 4.2.)	761	100	1,034	100	136
5.	Operating expenditures					
5.1.	Salary and contribution costs	3,081	71.2	4,483	68.2	146
5.2.	Business premises costs, other fixed assets and overheads	654	15.1	1,138	17.3	174
5.3.	Other operating costs	595	13.7	957	14.5	161
5.4.	Total operating expenditures (5.1. through 5.3.)	4,330	100	6,578	100	152
6.	Costs of provisions for loan and other losses	671	-	722	-	108
7.	PROFIT/LOSS FROM ORDINARY BUSINESS OPERATIONS (3.+4.3.-5.4.-6.)	2,621	-	3,371	-	129
8.	Extraordinary income	18	-	101	-	561
9.	Extraordinary expenditures	88	-	28	-	32
10.	PROFIT/LOSS BEFORE TAXATION	2,551	-	3,444	-	135
11.	TAX	255	-	379	-	149
12.	Net profit/loss	2,296	-	3,065	-	133

LEASING SECTOR ANNEXES

Annex 14-Basic information on leasing companies as at June 30th, 2019

No.	Leasing company name	Director	License issuance date	Number of employees	Web address
1.	ASA LEASING LLC Sarajevo	Mirza Muhovic	March 22 nd , 2010	6	www.asa-leasing.ba
2.	MOGO LLC Sarajevo	Kreics Maris	June 01 st , 2018	28	www.mogo.ba
3.	PORSCHE LEASING LLC	Dejan Stupar	May 28 th , 2015	19	www.porscheleasing.ba
4.	RAIFFEISEN LEASING LLC Sarajevo	Maja Jurcevic	January 19 th , 2010	37	www.rlbh.ba
5.	SPARKASSE LEASING LLC Sarajevo	Elma Hosu	February 11 th , 2010	25	www.s-leasing.ba
6.	Vantage LEASING LLC Sarajevo	Slobodan Vujic	January 12 th , 2010	11	www.vantageleasing.ba
Total				126	

Annex 15-Overview of weighted NIR and EIR for financial leasing contracts for January 01 - June 30, 2019 period

Average nominal and effective interest rates for financial leasing contracts concluded in January 1-June 30, 2019 period					
No.	Description	Number of contracts	Amount of financing	Weighted NIR	Weighted EIR
1	2	3	4	5	6
1.	Short-term leasing contract by leasing object:	34	526	8.9%	18.0%
a.	passenger vehicles	27	355	11.6%	23.5%
b.	vehicles for performing business activity (field and passenger vehicles)	7	171	3.4%	6.5%
c.	machines and equipment	0	0	0.0%	0.0%
d.	real estate	0	0	0.0%	0.0%
e.	other	0	0	0.0%	0.0%
1.1.	Short-term leasing contracts by lessee:	34	526	8.9%	18.0%
a.	corporate	16	424	3.1%	5.5%
b.	entrepreneurs	0	0	0.0%	0.0%
c.	retail	18	102	33.0%	69.7%
2.	Long-term leasing contracts by leasing object:	2,494	87,918	6.5%	10.0%
a.	passenger vehicles	1,807	46,826	8.7%	13.6%
b.	vehicles for performing business activity (field and passenger vehicles)	536	25,994	4.0%	6.1%
c.	machines and equipment	151	15,098	3.8%	5.4%
d.	real estate	0	0	0.0%	0.0%
e.	other	0	0	0.0%	0.0%
2.1.	Long-term leasing contracts by lessee:	2,494	87,918	6.5%	10.0%
a.	corporate	1,758	77,677	4.6%	6.8%
b.	entrepreneurs	54	1,857	4.9%	6.9%
c.	retail	682	8,384	23.6%	40.1%
	Total (1+2)	2,528	88,444	6.5%	10.0%

Annex 15a-Overview of weighted NIR and EIR for financial leasing contracts by periods

Weighted average NIR and EIR on financial leasing contracts										
Description	June 30 th , 2015		June 30 th , 2016		June 30 th , 2017		June 30 th , 2018		June 30 th , 2019	
	1	2	3	4	5	6	7	8	9	10
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
I Short-term leasing contracts										
1. By leasing object	5.1%	8.1%	3.4%	6.6%	3.4%	5.6%	4.6%	12.2%	8.9%	18.0%
a) Passenger vehicles	5.0%	7.9%	4.8%	10.7%	5.1%	7.9%	6.2%	12.7%	11.6%	23.5%
b) Vehicles for performing business activity	5.6%	9.5%	4.0%	5.5%	3.7%	5.9%	5.7%	10.6%	3.4%	6.5%
c) Machines and equipment	4.1%	5.6%	0.8%	2.2%	0.4%	1.7%	0.0%	0.0%	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 lessee	5.1%	8.1%	3.4%	6.6%	3.4%	5.6%	4.6%	12.2%	8.9%	18.0%
a) Corporate	5.0%	7.8%	3.2%	5.1%	3.4%	5.5%	4.5%	8.5%	3.1%	5.5%
b) Entrepreneurs	0.0%	0.0%	5.9%	11.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
c) Retail	7.3%	16.8%	6.0%	86.3%	5.0%	11.4%	5.8%	51.4%	33.0%	69.7%
II Long-term leasing contracts										
2. By leasing object	6.0%	8.1%	5.2%	8.3%	4.7%	7.3%	4.3%	6.8%	6.5%	10.0%
a) Passenger vehicles	6.1%	8.9%	5.4%	9.5%	5.1%	8.2%	4.7%	7.9%	8.7%	13.6%
b) Vehicles for performing business activity	5.7%	7.7%	4.8%	7.2%	4.4%	6.6%	4.1%	6.0%	4.0%	6.1%
c) Machines and equipment	6.3%	7.8%	4.8%	7.1%	4.6%	6.1%	3.5%	5.5%	3.8%	5.4%
d) Real estate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	3.9%	4.2%	0.0%	0.0%
e) Other	0.0%	0.0%	6.9%	22.0%	7.0%	36.5%	0.0%	0.0%	0.0%	0.0%
2.1. By lessee	6.0%	8.1%	5.2%	8.3%	4.7%	7.3%	4.3%	6.8%	6.5%	10.0%
a) Corporate	6.0%	8.0%	5.2%	7.4%	4.7%	6.7%	4.3%	6.1%	4.6%	6.8%
b) Entrepreneurs	7.0%	10.9%	6.5%	9.0%	5.8%	8.1%	5.2%	7.6%	4.9%	6.9%
c) Retail	5.5%	9.8%	5.0%	20.8%	4.9%	17.4%	5.0%	19.1%	23.6%	40.1%
Total	6.0%	8.1%	5.1%	8.3%	4.7%	7.2%	4.3%	6.9%	6.5%	10.0%

Annex 16-Overview of leasing companies' ownership structure-June 30th, 2019

No.	Leasing company	Owner's name	% share
1.	ASA LEASING LLC Sarajevo	ASA AUTO LLC Sarajevo	82.8
		ASA FINANCE JSC Sarajevo	17.2
2.	MOGO LLC Sarajevo	Pole Alberts, Riga, Latvia	100
3.	PORSCHE LEASING LLC	PORSCHE BANK Aktiengesellschaft Salzburg Austrija	100
4.	RAIFFEISEN LEASING LLC Sarajevo	RAIFFEISEN BANK JSC Sarajevo, BiH	100
5.	SPARKASSE LEASING LLC Sarajevo	STEIERMAERKISCHE BANK UND SPARKASSEN AG, Graz	51.0
		SPARKASSE BANK JSC Sarajevo	49.0
6.	VANTAGE LEASING LLC Sarajevo	VB LEASING INTERNATIONAL GmbH, Vienna	100

Annex 17-Leasing companies' aggregate balance sheet-June 30th, 2019

- in BAM '000s -

No.	Description	December 31 st , 2018		June 30 th , 2019		Index
		3.	4.	5.	6.	7=5/3
1.	2.	Amount	% in total assets	Amount	% in total assets	June 30 th , 2019/ December 31 st , 2018
	ASSETS					
1.	Cash and cash equivalents	13,969	4.7	4,563	1.4	33
2.	Placements to banks	17,235	5.8	33,256	9.9	193
3.	Financial leasing type receivables, net (3a-3b-3c-3d)	214,674	72.2	238,139	70.7	111
3a)	Financial leasing type receivables, gross	233,535	78.6	266,516	79.1	114
3b)	Loss reserves	897	0.3	1,343	0.4	150
3c)	Deferred interest income	17,794	6.0	26,832	8.0	151
3d)	Deferred fee income	170	0.1	202	0.1	119
4.	Receivables from subsidiary parties	2	0.0	2	0.0	100
5.	Tangible and intangible assets, net (5a+5b-5c-5d)	36,485	12.3	46,893	13.9	129
5a)	Tangible and intangible assets-own resources	4,848	1.6	4,970	1.5	103
5b)	Tangible and intangible assets - operating leasing	48,482	16.3	60,480	17.9	125
5c)	Impairment -own resources	3,748	1.3	3,698	1.1	99
5d)	Impairment-operating leasing	13,097	4.4	14,859	4.4	113
6.	Long-term investments	203	0.1	203	0.1	100
7.	Other assets (7a+7b)	14,586	4.9	13,888	4.1	95
7a)	Loans, net (7a1-7a2)	6,253	2.1	5,837	1.7	93
7a1)	Loans (past-due receivables+outstanding principal)	12,130	4.1	11,714	3.5	97
7a2)	Loan reserves	5,877	2.0	5,877	1.7	100
7b)	Inventory	1,339	0.5	996	0.3	74
7c)	Other assets	6,994	2.4	7,055	2.1	101
	TOTAL ASSETS	297,154	100	336,944	100	113
	LIABILITIES					
9.	Liabilities on loans, net	252,389	84.9	300,062	89.1	119
9a)	Liabilities on short-term loans	0	0.0	0	0.0	100
9b)	Liabilities on long-term loans	252,729	85.0	300,354	89.1	119
9c)	Advanced costs and fees	340	0.1	292	0.1	86
10.	Other liabilities	7,997	2.7	7,335	2.2	92
	TOTAL LIABILITIES	260,386	87.6	307,397	91.2	118
11.	Tier 1 capital	33,925	11.4	23,950	7.1	71
12.	Reserves	4,547	1.5	5,994	1.8	132
13.	Accumulated profit/loss	-1,704	-0.6	-397	-0.1	23
	TOTAL CAPITAL	36,768	12.4	29,547	8.8	80
	TOTAL LIABILITIES	297,154	100	336,944	100	113
	Written off receivables (opening balance)	84,175	29.2	32,251	9.6	38
	New write off (+)	896	0.3	339	0.1	38
	Recovery (-)	4,101	1.4	836	0.2	20
	Permanent write off (-)	8,033	2.8	46	0.0	1

	Written off receivables (closing balance)	72,937	25.3	31,708	9.4	43
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Annex 18-Overview of leasing companies' assets, financial leasing type receivables and net stock of assets leased under operating leasing, and financial performance as at June 30th, 2019

No.	Leasing company	On-balance sheet sum		Financial leasing type receivables		Net stock of assets leased under operating leasing		Financial performance
		Amount	%	Amount	%	Amount	%	Amount
1.	ASA Leasing LLC Sarajevo	1,962	0.6	2	0	0	0	-333
2.	Mogo LLC Sarajevo	8,878	2.6	6,009	2.5	0	0	-1,145
3.	Porsche Leasing LLC Sarajevo	108,849	32.3	73,918	31.0	30,983	68.0	1,232
4.	Raiffeisen Leasing LLC Sarajevo	142,259	42.2	90,439	38.0	11,267	25.0	1,496
5.	Sparkasse Leasing LLC Sarajevo	69,809	20.7	64,987	27.3	3,268	7.0	445
6.	Vantage Leasing LLC Sarajevo	5,187	1.5	2,784	1.2	103	0	-729
	Total	336,944	100	238,139	100	45,621	100	966

Annex 19-Overview of core financial indicators for leasing companies and banks performing financial leasing operations-June 30th, 2019

No.	Leasing company/bank performing leasing operations	Total capital (BAM '000s)	Ranking by total capital	Net profit/loss (BAM ' 000s)	Ranking by net profit/loss	Placements in first semester of 2019 (BAM ' 000s)	Ranking by placements in first semester of 2019	Number of contracts in first semester of 2019	Ranking by number of contracts in first semester of 2019
1.	Asa Aleasing LLC Sarajevo	1,868	5 th	-333	4 th	0	-	0	-
2.	Mogo LLC Sarajevo	0	6 th	-1,145	6 th	6,223	5 th	731	3 rd
3.	Porsche Leasing LLC Sarajevo	4,581	3 rd	1,232	2 nd	39,801	1 st	1,096	1 st
4.	Raiffeisen Leasing LLC Sarajevo	14,360	1 st	1,496	1 st	28,068	2 nd	653	2 nd
5.	Sparkasse Leasing LLC Sarajevo	6,775	2 nd	445	3 rd	21,246	3 rd	353	4 th
6.	VB Leasing LLC Sarajevo	1,963	4 th	-729	5 th	0	-	0	-
	Total (sector)	29,547		966		95,338		2,833	
	UniCredit Bank JSC Mostar	-	-	-	-	11,885	4 th	210	5 th
	Total (system)					107,223		3,043	

Annex 20-Overview of financial leasing reserves-June 30th, 2019

-in BAM '000s-

Number of overdue days	Reserve rate for financial leasing (movables)	Reserve rate for financial leasing (immovables)	Amount of receivables for movables	Amount of receivables for immovables	Base amount for movables	Base amount for immovables	Reserves			
							For movables	For immovables	Overstated accrued and allocated reserves	Total 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%	234,526	2,007	43,355	337	217	2	635	853
60-90	10%	10%	2,021	0	461	0	46	0	77	123
90-180	50%	50%	593	92	72	16	36	8	80	124
over 180	100%	75%	243	0	243	0	243	0	0	243
over 360	100%	100%	0	0	0	0	0	0	0	0
Total			237,383	2,099	44,131	353	542	10	792	1,343

Annex 21-Overview of loan reserves-June 30th, 2019

-in BAM '000s-

Number of overdue days	Provision rate	Amount of receivables	Reserves	Overstated accrued allocated reserves	Total reserves
1	2	3	4=3*2	5	6=4+5
0-60	0.05%	5,840	3	0	3
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%	5,874	5,874	0	5,874
Total	-	11,714	5,877	0	5,877

Annex 22-Leasing companies' aggregate income statement-June 30th, 2019

- in BAM '000s -

No.	Description	June 30 th , 2018		June 30 th , 2019		Index 7=5/3
		Amount	Share in total income /expenditures	Amount	Share in total income /expenditures	
1	Financial income and expenditures					
1.	Interest income	5,436	32.6%	6,561	41.9%	121
1a)	Interest on financial leasing	4,464	26.7%	5,622	35.9%	126
1b)	Interest on placements to banks	137	0.8%	154	1.0%	112
1c)	Fees (for leasing application processing, etc.)	303	1.8%	387	2.5%	128
1d)	Other interest income	532	3.2%	398	2.5%	75
2.	Interest expenditures	1,571	12.5%	2,019	13.7%	129
2a)	Interest on borrowed funds	1,522	12.1%	1,963	13.4%	129
2b)	Loan processing fees	46	0.4%	50	0.3%	109
2c)	Other interest expenditures	3	0.0%	6	0.0%	200
3.	Net interest income	3,865	23.2%	4,542	29.0%	118
	Operating income and expenditures					
4.	Operating income	11,259	67.4%	9,106	58.1%	81
4a)	Service fees	1	0.0%	1	0.0%	100
4b)	Operating lease fee	6,093	36.5%	6,867	43.8%	113
4c)	Income from sale of leasing object	165	1.0%	143	0.9%	87
4d)	Other operating income	5,000	29.9%	2,095	13.4%	42
4d)1	Income from recovered written off receivables	3,172	19.0%	667	4.3%	21
4d)2	Income from collection letters	103	0.6%	18	0.1%	17
4d)3	Other	1,725	10.3%	1,410	9.0%	82
5.	Operating expenditures	10,912	87.1%	11,971	81.4%	110
5a)	Salary and contribution costs	2,427	19.4%	2,677	18.2%	110
5b)	Business premises costs	4,743	37.8%	4,653	31.7%	98
5c)	Other costs	3,742	29.9%	4,641	31.6%	124
6.	Costs of loss reserves	50	0.4%	711	4.8%	1,422
7.	Profit before tax	4,162	33.2%	966	6.2%	23
8.	Corporate income tax	0	0.0%	0	0.0%	100
9.	Net profit	4,162	24.9%	966	6.2%	23

FACTORING SECTOR ANNEXES

Annex 23-Basic information on factoring company and ownership structure as at June 30th, 2019

No.	Company name	Director	License issuance date	Number of employees	Web address	Owner's name	Share
1.	Batagon factoring LLC Sarajevo	Djenan Bogdanic	December 28 th , 2017	4	www.batagon-factoring.ba	Batagon International AG, Zug, Switzerland	100%



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