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AGENCIJA ZA BANKARSTVO
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INFORMATION

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

PUBLISHER

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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
CLR	Central Loan 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
EFSE	European Fund for Southeast Europe
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
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
GCR	General credit risk
PLL	Potential loan losses
LLR	Loan loss reserves
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
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

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¹ 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.

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 September 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 two 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, and FBA's recommendations for the FBiH banking sector. An overview of average weighted NIRs and EIRs on approved loans and received deposits is presented with a view to greater transparency and easier comparability for financial service users, thus forming an integral part of this Information.

Second section is on a detailed analysis of the non-deposit financial institutions sector, as well as compliance of their operations with the laws and regulations 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 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 (related process is nearing finalisation).

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 539 organizational units employing a total of 6.745 persons, operated in the FBiH as at September 30th, 2019.

The total net assets across the FBiH banking sector as of September 30th, 2019 were BAM 23.7 billion and were higher by BAM 1.7 billion or 7.5% compared to December 31st, 2018.

The loans, with a share of 62.8% in the composition of total assets, recorded an increase compared to the end of 2018 of BAM 580.9 million or 4.1%, amounting to BAM 14.9 billion as at September 30th, 2019. The increase in loans as of September 30th, 2019 compared to the end of 2018 was realized in the loans approved to households, private companies, non-bank financial institutions and other sectors, while lending to government, banking institutions and public enterprises decreased.

The corporate loans increased by BAM 111.2 million or 1.5%, amounting to BAM 7.6 billion as at September 30th, 2019, with a share of 50.9% in the total loans. The retail loans increased by BAM 469.7 million or 6.9% in the same period, with a share in the total loans of 49.1% and amounting to BAM 7.3 billion as at September 30th, 2019.

The share of NPLs decreased from 8.5% to 7.6%, as a result of credit growth and collection activities. The share of NPLs for corporates compared to the total corporate loans was 9.4%, which was lower by 1.2 percentage points compared to the end of 2018, while the share of NPLs for retail compared to the total retail loans was 5.8%, which was lower by 0.4 percentage points in the reporting period.

The cash amounted to BAM 7.6 billion or 32.0% of the total assets and was higher by BAM 1.0 billion or 15.3% compared to the end of 2018.

The investments in securities amounting to BAM 1.4 billion as of September 30th, 2019, with a share in the assets of 5.9%, increased by 6.8% compared to the end of 2018.

The deposits reached BAM 19.0 billion, with a realized increase of BAM 1.4 billion or 7.7%, remaining the most important funding source, with a share of 79.9% in the total liabilities. The savings deposits, as the most important and largest segment of banks' deposit and financial potential, increased by BAM 517.8 million or 9.3% and amounted to BAM 9.3 billion.

The loans taken amounted to BAM 797.2 million, with a share of 3.4% in the total liabilities and decrease of BAM 65.8 million or 7.6% compared to the end of 2018.

The FBiH banks' total capital amounted to BAM 3.2 billion as at September 30th, 2019, which was higher by BAM 188.0 million or 6.3% 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 201.5 million or 8.1% compared to the end of 2018. Tier 1 capital increased by BAM 199.0 million or 8.5%, while Tier 2 capital increased by BAM 2.5 million or 1.9%.

The FBiH banking sector's own funds ratio was 18.0% as at September 30th, 2019 and higher than the statutory minimum of 12%. It was higher by 0.5 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 10.3% (6% regulatory minimum) as at September 30th, 2019 and was higher by 0.2 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 September 30th, 2019.

Across the FBiH banking sector, according to banks' reporting data as of September 30th, 2019, positive financial performance - profit of BAM 250.9 million was reported, which was higher by BAM 4.3 million or 1.7% compared to the same period of 2018.

FBiH Microcredit Sector's Key Performance Indicators

In the FBiH, as of September 30th, 2019, 14 MCOs comprising the FBiH microcredit sector had a license issued by the FBA, of which 11 were MCFs (non-profit organizations) and three MCCs (for-profit organizations), of which one MCC received a license in the third quarter 2019, but has not yet started operating. In the first nine months of 2019, the number of organisational parts of MCOs seated in the FBiH rose by 12 or 3.3% compared to the end of 2018. MCOs seated in the RS had no changes regarding the number of their organisational parts in the reporting period. The FBiH microcredit sector employed 1.510 persons as of September 30th, 2019, which was higher by 47 or 3.2% compared to December 31st, 2018.

The FBiH microcredit sector's total assets were BAM 622.6 million as of September 30th, 2019 and were higher by BAM 42.3 million or 7.3% compared to the stock as at December 31st, 2018. In the reporting period, the total MCCs' assets increased by 5.7%, while the total MCFs' assets increased by 7.8%.

The total net microloans were BAM 493.4 million, comprising 79.3% of the FBiH microcredit sector's total assets and increasing by BAM 39.4 million or 8.7% compared to December 31st, 2018. The net MCCs' microloans increased by 5.7%, while the total increase reported at the MCFs' level was 11.0% compared to December 31st, 2018.

The FBiH microcredit sector's total liabilities under loans taken were BAM 299.2 million as of September 30th, 2019, with a share of 48.1% in the total liabilities and increasing by BAM 19.5 million or 7.0% compared to December 31st, 2018. In the reporting period, MCCs' credit obligations increased by 1.6%, while MCFs' credit obligations increased by 10.0%.

The total capital across the FBiH microcredit sector was BAM 289.1 million or 46.4% of the total liabilities as of September 30th, 2019 and was higher by BAM 16.2 million or 5.9% compared to the end of 2018, where 11.1% of the total increase in the microcredit sector's capital related to the increase in the total MCCs' capital, while 5.1% related to the total MCFs' capital in the reporting period.

Across the FBiH microcredit sector, at the end of the third quarter of 2019, positive financial performance of BAM 16.0 million was reported, which was slightly lower compared to the same period of 2018 when it was BAM 16.2 million. The MCCs reported net profit of BAM 3.8 million, which is a decrease by 7.7% compared to the same period of the preceding business

year. The MCFs reported a total surplus of revenues over expenses of BAM 12.2 million, which is an increase by 1.4% compared to the same period of 2018.

Operational efficiency of the FBiH microcredit sector was 18.3% as of September 30th, 2019, which was within the regulatory indicator of up to 45%, while reported return on assets, adjusted by the inflation rate, market price of capital and donations, was positive and amounted to 3.30%, which was in compliance with the regulatory limit.

FBiH microcredit sector's key performance indicators show an increase of total assets, microcredit portfolio, staffing level and total capital. The sector's operations with a positive financial performance continued, where it decreased slightly compared to September 30th, 2018. The micro credit portfolio quality indicators across the sector were within the regulatory limits and did not change significantly.

FBiH Leasing Sector's Key Performance Indicators

The FBiH leasing system comprised, as of September 30th, 2019, five leasing companies (leasing sector) and one commercial bank performing financial leasing operations. The FBiH leasing sector employed a total of 127 persons as of September 30th, 2019.

The FBiH leasing sector's total assets were BAM 334.2 million as at September 30th, 2019 and were higher by BAM 37.1 million or 12.5% compared to December 31st, 2018.

The net receivables under financial leasing, as the most significant item in the composition of total assets, were BAM 246.1 million or 73.6% of the total assets and were higher by BAM 31.5 million or 14.7% compared to December 31st, 2018. With respect to the FBiH leasing sector's asset quality in the first three quarters of 2019, an increase in financial leasing loss reserves of 141.6% compared to December 31st, 2018 was observed, as well as an increase in overdue receivables of 61.6% 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 41.7% and 10.6% respectively.

The largest item in the composition of the FBiH leasing sector's total liabilities constituted, as of September 30th, 2019, liabilities of BAM 298.3 million under loans taken, all of which were of a long-term character and accounted for 89.2% of the total liabilities. Compared to December 31st, 2018, these liabilities increased by BAM 45.9 million or 18.2%.

The FBiH leasing sector's total capital was BAM 27.9 million as at September 30th, 2019, comprising 8.4% of the FBiH leasing sector's total liabilities and decreasing by a total of BAM 8.8 million or 24.1% compared to December 31st, 2018.

Across the FBiH leasing sector, in the January 1 - September 30, 2019 period, a net profit of BAM 1.5 million was reported, which decreased by BAM 1.9 million or 56.1% compared to the same period of the preceding financial year, as a result of an increase of interest expenses due to higher loans of leasing companies and an increase of costs of loss reserves in the reporting period.

FBiH Factoring Sector's Key Indicators

The FBiH factoring system comprised, as of September 30th, 2019, one registered factoring company (factoring sector) and four commercial banks performing the factoring business, three of which are members of international banking groups established in the EU member states and

one in majority domestic ownership. In early July 2019, the factoring company filed a request to the FBA for revocation of its license to perform factoring operations and the matter is being resolved in line with applicable laws and FBA regulations.

Across the FBiH factoring system, the total volume (nominal amount) of purchased monetary claims in the January 1 - September 30, 2019 period was BAM 139.1 million, of which BAM 138.5 million or 99.5% of which related to banks. Compared to the same period of 2018, this amount increased by BAM 47.1 million or 51.2%. The total number of concluded factoring contracts in the same period increased by 21.1%.

The factoring service providers' total income across the FBiH factoring system for the January 1 - September 30, 2019 period was BAM 1.7 million, of which the banks' actual income accounted for 98.2% 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 42.7%.

1. BANKING SECTOR

1.1. FBiH BANKING SECTOR'S STRUCTURE

1.1.1. Status, Number and Business Network

As at September 30th, 2019, 15 commercial banks had banking license in the FBiH. Number of banks remained the same as on December 31st, 2018. All banks are members of the DIA.

A special law regulates the establishment and operations of the Development Bank of the Federation of BiH, which is a legal successor to the Investment Bank of the Federation of BiH dd Sarajevo since July 01st, 2008. Its supervision is being performed under the Decree on the FBiH Development Bank's Operations Supervision Criteria and Management Method. Hence, data on its operations are not included in this Information.

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

The FBiH banks had, as of September 30th, 2019, a total of 539 organizational units, which was fewer by ten organisational parts or 1.8% compared to December 31st, 2018.

In the territory of the FBiH there are 480 organizational units of banks. Six banks from the FBiH had 49 organizational units in the RS, while nine banks had ten 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 26, up by one compared to December 31st, 2018.

1.1.2. Ownership Structure and Market Share

Ownership structure of the FBiH banks² as at September 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-owned³ – 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.

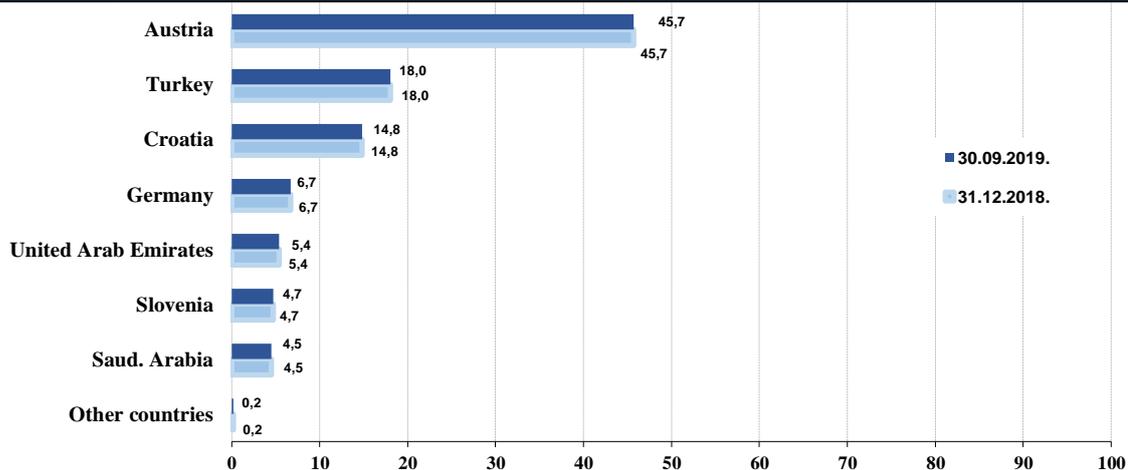
If only foreign capital is analyzed, according to the shareholder country of origin criterion, as at September 30th, 2019, the situation is unchanged compared to the end of 2018, since the highest share is still held by the shareholders from Austria, followed by the shareholders from Turkey and Croatia,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

The foreign capital structure by countries is provided in the following chart:

² The criterion for division of the banks is ownership of the banks' share capital

³ State-owned refers to the FBiH's state-owned capital

Chart 1: Foreign capital structure by countries, % share

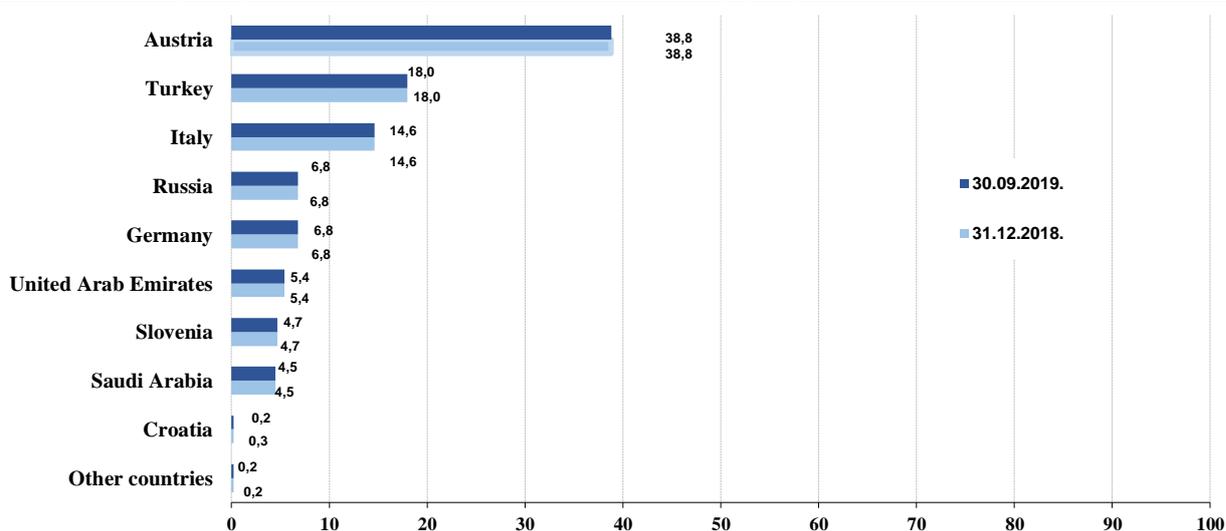


If the capital ties are considered, the foreign capital structure can also be viewed according to the criterion of the country of residence of the parent, i.e. the banking group that majority-owns (directly or indirectly through the members from the banking group) the the FBiH banks.

According to this criterion the situation as at September 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 is provided in the following chart:

Chart 2: Foreign capital structure by countries – residence of group⁴, % share



⁴ 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.

The ownership structure according to the value of the total capital is provided in the following table:

-in BAM 000-

Table 1: Ownership structure according to total capital

Banks	31.12.2017		31.12.2018		30.09.2019		Index	
	Amount	Share	Amount	Share	Amount	Share	8 (4/2)	9 (6/4)
1	2	3	4	5	6	7	8	9
State-owned banks	53,507	1.9%	61,488	2.1%	68,793	2.2%	115	112
Private banks	2,811,542	98.1%	2,909,598	97.9%	3,090,336	97.8%	103	106
Total	2,865,049	100%	2,971,086	100%	3,159,129	100%	104	106

The total capital of the FBiH banking sector with the balance as at September 30th, 2019 increased by 6.7% compared to the end of 2018, amounting to BAM 3.2 billion.

The increase in the total capital by BAM 188.0 million was realized as a net effect of: the increase on the basis of the current actual financial performance of BAM 250.9 million and increase in the value of the securities classified at fair value through other comprehensive income of BAM 21.3 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 3.0 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 000-

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

Share capital	31.12.2017		31.12.2018		30.09.2019		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%	139,691	10.7%	98	100
Foreign capital (non-residents)	1,052,061	85.8%	1,118,444	86.1%	1,118,390	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 September 30th, 2019, remained at the same level compared to the end of 2018.

1.1.3. Staff Structure

The number of employees across the banking sector as at September 30th, 2019 is 6,745, which is higher by 6 employees or 0.1% compared to the end of 2018. An increase in the number of employees is present in eight banks, while the number of employees decreased in seven banks.

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

Table 3: Qualification structure of employees in FBiH banks

Qualification level	Number of employees						Index	
	31.12.2017		31.12.2018		30.09.2019		(4/2)	(6/4)
1	2	3	4	5	6	7	8	9
University degree	3,970	59.7%	4,102	60.9%	4,169	61.8%	103	102
Two-year post secondary school degree	525	7.9%	520	7.7%	501	7.4%	99	96
Secondary school degree	2,149	32.3%	2,108	31.3%	2,069	30.7%	98	98
Other	11	0.2%	9	0.1%	6	0.1%	82	67
Total	6,655	100%	6,739	100%	6,745	100%	101	100

An increase in the number of employees in the FBiH banking sector as of September 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 000-

Table 4: Total assets per employee

31.12.2017			31.12.2018			30.09.2019		
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	6,745	23,741,900	3,520

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 capital⁵, 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 September 30th, 2019.

The following table provides an overview of the banking sector's balance sheetU sljedećoj tabeli daje se pregled bilansa stanja bankarskog sektora:

-BAM 000-

Table 5: Balance sheet

Description	31.12.2017		31.12.2018		30.09.2019		Index	
	Amount	% share	Amount	% share	Amount	% share	8=(4/2)	9=(6/4)
1	2	3	4	5	6	7	8	9
ASSETS:								
Cash	5,794,664	28.7	6,591,117	29.8	7,602,038	32.0	114	115
Securities	1,228,432	6.1	1,304,626	5.9	1,392,740	5.9	106	107
Placements to other banks	350,980	1.7	270,604	1.2	128,252	0.6	77	47
Loans	13,178,860	65.2	14,325,634	64.8	14,906,519	62.8	109	104
Impairments	1,166,804	5.8	1,190,760	5.4	1,152,636	4.9	102	97
Net loans (loans minus impairments)	12,012,056	59.4	13,134,874	59.5	13,753,883	57.9	109	105
Business premises and other fixed assets	529,941	2.6	531,767	2.4	593,998	2.5	100	112
Other assets	293,778	1.5	261,147	1.2	270,989	1.1	89	104
TOTAL ASSETS	20,209,851	100	22,094,135	100	23,741,900	100	109	107
LIABILITIES:								
Deposits	15,814,723	78.3	17,604,487	79.7	18,965,184	79.9	111	108
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	797,155	3.4	103	92

⁵ The majority state-owned banks report in the "total" balance sheet passive and neutral items of BAM 715.6 million, which are to be taken over by the government once the privatization program has been executed.

Other liabilities	694,412	3.4	655,631	3.0	820,432	3.4	94	125
CAPITAL								
Capital	2,865,049	14.2	2,971,086	13.4	3,159,129	13.3	104	106
TOTAL LIABILITIES (LIABILITIES AND CAPITAL)	20,209,851	100	22,094,135	100	23,741,900	100	109	107

The total net assets across the FBiH banking sector as of September 30th, 2019 are BAM 23.7 billion, which is by BAM 1.6 billion or 7,5% higher compared to the end of 2018. The banks' net loans have the highest share (57.9%) within the assets in the banks' balance sheet, followed by cash (32.0%), securities (5.9%), fixed assets (2.5%), other assets (1.1%), and placements to other banks (0.6%). The deposits (79.9%) have the highest share within the liabilities in the banks' balance sheet, followed by capital (13.3%), other liabilities and liabilities based on loans (3.4% respectively).

As of September 30th, 2019, compared to the end of 2018, cash in the assets in the banks' balance sheet increased by BAM 1.0 billion or 15.3%, securities by BAM 88.1 million or 6.8%, loans by BAM 580.9 million or 4.1%, business premises and other fixed assets by BAM 62.2 million or 11.7%, as well as other assets by BAM 9.8 million or 3.8%. The deposits in the liabilities in the banks' balance sheet increased by BAM 1.4 billion or 7.7% in the reporting period, other liabilities by BAM 164.8 million or 25.1%, as well as the total capital by BAM 188.0 million or 6.3%.

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

-BAM 000-

Table 6: Banks' assets according to ownership structure

Banks	31.12.2017			31.12.2018			30.09.2019			Index	
	Number of banks	Assets (BAM '000s)	% share	Number of banks	Assets (BAM '000s)	% share	Number of banks	Assets (BAM '000s)	% share		
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	843,852	3.6%	119	109
Private	14	19,555,478	96.8%	14	21,318,645	96.5%	14	22,898,048	96.4%	109	107
Total	15	20,209,851	100%	15	22,094,135	100%	15	23,741,900	100%	109	107

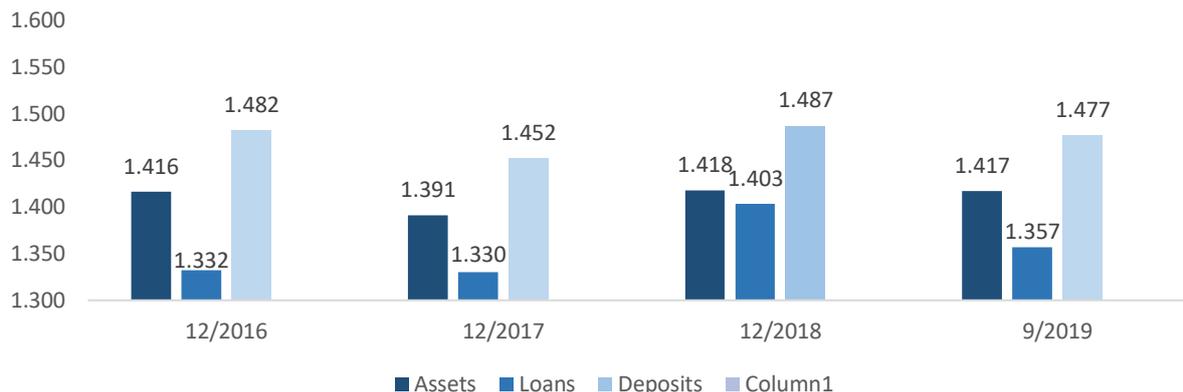
In the FBiH banking sector banks' assets according to the ownership structure as of September 30th, 2019, the share of the banks with state-owned capital increased by 0.1 percentage point, while the share of the banks with private capital increased by the same percentage point.

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 index⁶. Its overview by periods is provided in the following chart:

⁶ 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.

Chart 3: Herfindahl index of concentration in assets, loans, and deposits

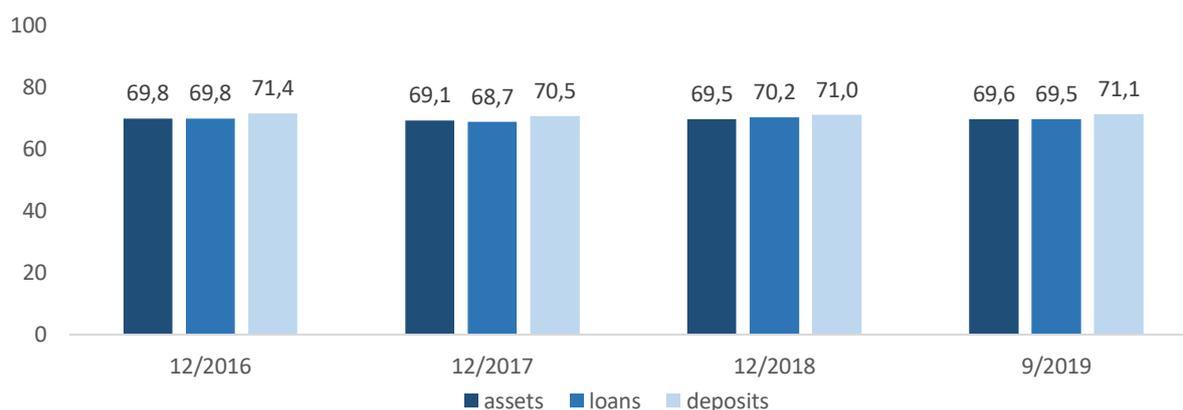


The Herfindahl index of concentration as of September 30th, 2019, compared to the end of 2018, dropped for the assets by one unit, while this index decreased by 46 units for the loans and by 10 units for the deposits. The Herfindahl index of concentration for the reporting period shows a moderate concentration⁷ 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 ratio⁸ (hereinafter: CR), showing a total share of the biggest banks in the sector in the selected relevant categories: assets, loans, and deposits. If a total share of the five biggest banks in the sector - CR5 as of September 30th, 2019 is viewed compared to the end of 2018, it slightly increased for the market share and deposit categories by 0.1 percentage points, while the share for loans decreased by 0.7 percentage points. The two biggest banks in the sector account for 46.5% of the market (assets 46.8%, loans 44.3%, and deposits 48.3%).

An overview of the concentration ratios for the five biggest banks in the sector is provided 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 assets⁹. As of September 30th, 2019 three banks in the FBiH

⁷ 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.

⁸ Concentration ratio (CR), designated according to the number of banks included in the calculation.

⁹ Banks are divided into five groups depending on the size of assets.

banking sector with a 56.4% 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 September 30th, 2019 compared to the end of 2018 occurred in group III of banks (a decrease in the share by 2.2 percentage points) due to one bank transitioning from group IV 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 000-

Table 7: Share of groups of banks in total assets through periods

Amount of assets	31.12.2017			31.12.2018			30.09.2019		
	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	13,382,990	56.4	3
II (BAM 1-2 billion)	6,626,507	32.8	5	6,075,157	27.5	5	6,601,723	27.8	5
III (BAM 0.5-1 billion)	2,465,564	12.2	3	2,168,293	9.8	3	2,842,280	12.0	4
IV (BAM 0.1-0.5 billion)	1,613,136	8	4	1,394,200	6.3	4	914,907	3.8	3
V (below BAM 0.1 billion)	99,839	0.5	1	0	0.0	0	0	0.0	0
Total	20,209,851	100	15	22,093,761	100	15	23,741,900	100	15

Cash across the FBiH banking sector as of September 30th, 2019 amounted to BAM 7.6 billion and its overview through the periods provides in the following table:

-in BAM 000-

Table 8: Banks' cash

Cash	31.12.2017		31.12.2018		30.09.2019		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	941,867	12.4	114	103
Reserve account with CBBiH	3,823,980	66.0	4,002,281	60.7	4,246,422	55.9	105	106
Accounts with deposit institutions in BiH	41,411	0.7	38,746	0.6	38,652	0.5	94	100
Accounts with deposit institutions abroad	1,127,877	19.5	1,639,544	24.9	2,374,992	31.2	145	145
Cash in process of collection	1,181	0.0	65	0.0	105	0.0	6	161
Total	5,794,664	100	6,591,117	100	7,602,038	100	114	115

As of September 30th, 2019, compared to the end of 2018, there was an increase of the banks' cash funds across all accounts, except for the accounts with deposit institutions in BiH (showing a decrease by BAM 94.0 thousand or 0.2%). The most significant increase of cash funds refers to banks' funds with deposit institutions abroad – up by BAM 735.4 million or 44.9%.

The currency structure of cash funds as of September 30th 2019 (compared to the end of 2018) the share of local currency dropped from 71.3% to 65.6%, along with a simultaneous increase of the share in foreign currency from 28.7% to 34.4%.

The portfolio of securities as at September 30th, 2019 amounted to BAM 1.4 billion, which was higher by 6.8% compared to the end of 2018, with a 5.9% share in the assets.

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

- BAM 000 -

Table 9: Investments in securities according to type of instrument

Investments in securities	31.12.2017		31.12.2018		30.09.2019		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	8,957	0.6	298	170
Debt securities:	1,226,659	99.9	1,299,345	99.6	1,383,783	99.4	106	106
- Securities of all levels of governments in BiH	751,163	61.2	619,536	47.5	696,021	50.0	82	112
- Government securities (other countries)	400,855	32.6	533,666	40.9	537,642	38.6	133	101
- Corporate bonds ¹⁰	74,641	6.1	146,143	11.2	150,120	10.8	196	103
Total	1,228,432	100	1,304,626	100	1,392,740	100	106	107

The most significant item within the investments in debt securities are the securities of the entity governments, namely the securities issued by the FBiH¹¹ of the total value of BAM 483.7 million, and the securities of the RS as the issuer of BAM 197.7 million. There was a trend of increase of the investments in the entity governments' bonds.

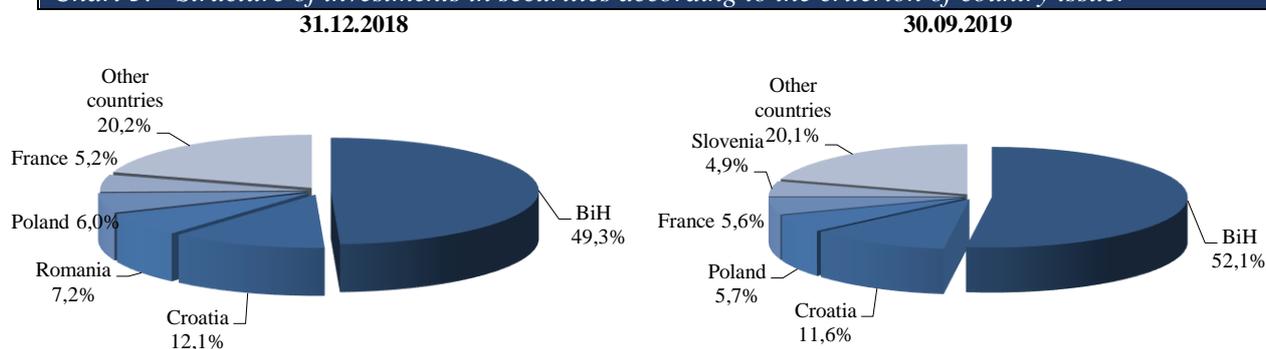
- BAM 000 -

Table 10: Securities of BiH entity governments

Investments in securities	31.12.2017		31.12.2018		30.09.2019		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	483,714	71.0	74	111
- Treasury bills	99,949	13.4	35,179	6.1	0	0.0	35	0
- Bonds	487,738	65.5	400,985	67.1	483,714	71.0	82	121
Debt securities emitenta RS:	157,353	21.1	175,395	26.8	197,744	29.0	111	113
- Treasury bills	65,848	8.8	0	0.0	3,000	0.4	0	n/a
- Bonds	91,505	12.3	175,395	26.8	197,744	29.0	192	113
Total	745,040	100	611,559	100	681,458	100	82	111

If total investments in securities are analyzed according to the exposures by countries, the highest share of 52.1% is to the issuers from BiH, followed by Croatia with a 11.6% share, Poland with a 5.7% share, France with a 5.6% share, Slovenia with a 4.9% share, etc.

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



¹⁰ The major proportion, of approximately 77%, relates to the EU and US banks' bonds, while the remainder relates to the EU and BiH companies' bonds

¹¹ All types of securities of the FBiH as the issuer.

1.2.2. Liabilities

As of September 30th, 2019, the share of deposits, as the most significant source of the banks' funding, increased to 79.9% (0.2 percentage points), as well as the share of loan obligations, amounting to 3.4% (0.5 percentage points).

The banks' loan obligations with the amount of BAM 797.2 million and share of 3.4%, have a downward trend of BAM 65.8 million or 7.6% compared to the end of 2018. If subordinated loans of BAM 203.7 million are also added to the loan obligations, total loans have a 434% share in the funding sources.

The banks had, as at September 30th, 2019, the biggest liabilities to the following creditors, accounting for 94.5% of the total loan obligations: EIB, TC Ziraat Bankasi a.s., Procredit Holding AG, European Fund for Southeastern Europe, Procredit Bank AG Frankfurt, EBRD and Nova Ljubljanska banka dd Ljubljana.

The deposits recorded an increase of BAM 1.4 billion or 7.7% compared to the end of 2018, amounting to BAM 19.0 billion as at September 30th, 2019. According to the data reported by the banks, out of the total amount of deposits at the end of the reporting period, 5.8% relate to deposits collected in the FBiH banks' organizational parts in the RS and BD.

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

-in BAM 000-

Table 11: Sector structure of deposits

Sectors	31.12.2017		31.12.2018		30.09.2019		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	2,179,096	11.5	120	122
Public enterprises	1,310,610	8.3	1,538,501	8.7	1,675,614	8.8	117	109
Private enterprises and companies	2,612,441	16.5	2,834,717	16.1	3,056,717	16.1	109	108
Banking institutions	847,965	5.4	1,215,334	6.9	1,241,175	6.6	143	102
Non-bank financial institutions	655,360	4.1	746,690	4.3	742,187	3.9	114	99
Retail	8,500,668	53.8	9,071,061	51.5	9,605,643	50.6	107	106
Other	404,971	2.6	419,349	2.4	464,752	2.5	104	111
Total	15,814,723	100	17,604,487	100	18,965,184	100	104	108

As of September 30th, 2019, changes were recorded in the sector structure of deposits. The highest share in the sector structure of deposits refers to retail deposits with 50.6% of the FBiH banking sector's total deposits, decreasing by 0.29 percentage points compared to the end of 2018. Retail deposits as at September 30th, 2019 were BAM 9.6 billion.

An increase in the deposits as of September 30th, 2019, compared to the end of 2018, was realized in relation to the government institutions' deposits by BAM 400.3 million or 22.5%, public enterprises' deposits by BAM 137.1 million or 8.9%, private enterprises' deposits by BAM 222.0 million or 7.8%, banking institutions' deposits by BAM 25.8 million or 2.1%, retail deposits by BAM 534.6 million or 5.9%, as well as other deposits by BAM 45.4 million or 10.8%.

A decrease of deposits as of September 30th, 2019, compared to the end of 2018, was recorded only in relation to non-bank financial institutions' deposits by BAM 4.5 million or 0.6%. The banking group's financial support is present in seven FBiH banks, so 90.4% of the total banking institutions' deposits relate to banking groups' financial support.

The currency structure of deposits as at September 30th, 2019 changed compared to the end of 2018. The deposits in BAM increased by BAM 1.1 billion or 10.9%, while deposits in foreign currencies increased by BAM 231.0 million or 3.2%. Compared to the end of 2018, the currency structure of deposits changed, i.e. the share of deposits in domestic currency increased to 60.5%, while the share of deposits in foreign currency decreased to 39.5%.

The structure of deposits according to the origin of depositors as of September 30th, 2019, compared to the end of 2018, has the following structure: residents' deposits of BAM 17.4 billion have a 91.8% share (+0.4 percentage points), while non-residents' deposits are BAM 1.6 billion, which was 8.2% of the total deposits (-0.4 percentage points). The changes in the structure are a result of an increase of residents' deposits (BAM 1.3 billion or 8.2%) and increase of non-residents' deposits (BAM 45.9 million or 3.0%).

The long-term upward trend in the savings deposits, as the most significant segment of the banks' deposit and financial potential, continued as at 30.09.2019 too, considering that it increased by BAM 517.8 million or 5.9%, amounting to BAM 9.3 billion as at September 30th, 2019.

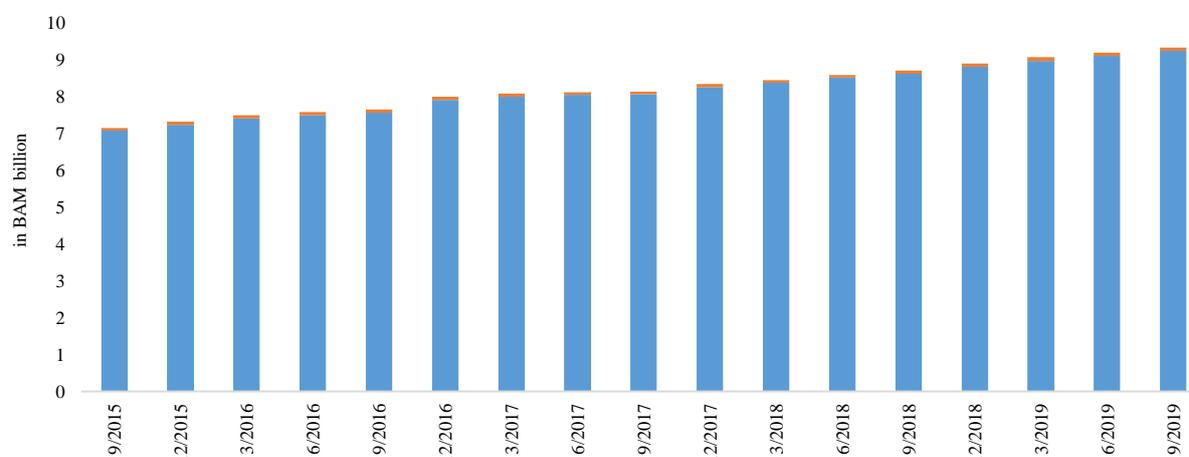
The retail savings trend is shown in the following table and chart:

-in BAM 000-

Table 12: Retail savings by periods

Banks	Amount			Index	
	31.12.2017	31.12.2018	30.09.2019	(3/2)	(4/3)
1	2	3	4	5	6
State-owned	83,530	91,645	91,876	110	100
Private	8,166,750	8,712,454	9,229,990	107	106
Total	8,250,280	8,804,099	9,321,866	107	106

Chart 6: Retail savings by periods



54.8% of 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, 47.1% relate to savings deposits in domestic currency, while 52.9% relate to savings deposits in foreign currency.

The maturity structure of savings deposits compared to the end of 2018 changed as a result of an increase of short-term deposits by BAM 433.6 million or 8.7%, as well as their share by 1.5 percentage points, which can be seen in the following table:

-in BAM 000-

	31.12.2017		31.12.2018		30.09.2019		Index	
	Amount	% share	Amount	% share	Amount	% share	(4/2)	(6/4)
1	2	3	4	5	6	7	8	9
Short-term savings deposits	4,460,734	54.1%	4,977,201	56.5%	5,410,829	58.0%	112	109
Long-term savings deposits	3,789,546	45.9%	3,826,898	43.5%	3,911,037	42.0%	101	102
Total	8,250,280	100%	8,804,099	100%	9,321,866	100%	107	106

1.2.3. Capital and Capital Adequacy

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

Under the new Decision on Capital Calculation in BaNKS, 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 September 30th, 2019, the total banks' capital was BAM 3.2 billion, increasing by BAM 188.0 million or at the increase rate of 6.3% 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 balance, i.e. the structure of the FBiH banks' own funds:

-in BAM 000-

No.	Description	31.12.2018	30.09.2019	Index
1.	Own funds	2,478,985	2,680,461	108
1.1.	Tier 1 capital	2,351,425	2,550,424	108
1.1.1.	Common Equity Tier 1	2,351,425	2,550,424	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	-35,390	102
1.1.1.6.	Accumulated other comprehensive income	10,296	31,664	308
1.1.1.7.	Other reserves	876,626	966,750	110
1.1.1.8.	(-) Other intangible assets	-56,116	-53,323	95
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	0	-
1.1.1.10.	(-) Deduction from Addition Tier 1 items exceeding Additional Tier 1	0	-3,368	-
1.1.1.11.	(-) Deferred tax assets that are deductible and rely on future profitability and arise from temporary differences	-1,625	-1,798	111

1.1.1.12.	(-) Financial sector entities' Common Equity Tier 1 instruments if bank has material investment	-12,118	-15,950	132
1.1.1.13.	Elements or deductions from Common Equity Tier 1 – other	-97,091	-65,707	68
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	-3,368	-
1.2.	Tier 2 capital	127,560	130,037	102
1.2.1.	Paid-up capital instruments and subordinated debts	105,592	170,840	162
1.2.2.	(-) Own Tier 2 instruments	-14	-14	100
1.2.3.	General impairments for credit risk under standardized approach	153,706	162,129	105
1.2.4.	Deduction from Tier 2 items exceeding Tier 2 capital (deducted from Additional Tier 1 capital)	0	3,368	-
1.2.5.	Elements or deductions from Tier 2 – other	-131,724	-206,286	157

The FBiH banks' own funds as of September 30th, 2019 were BAM 2.7 billion and compared to the end of 2018 increased by BAM 201.5 million or 8.1%. The banks' Tier 1 capital as at the reporting period is BAM 2.6 billion, with a realized increase of BAM 199.0 million or 8.5%, while Tier 2 capital is BAM 130.0 million, with a realized increase of 2.5 million BAM or 1.9% compared to the end of 2018.

The share of Tier 1 capital in the own funds structure is 95.1%, while the share of Tier 2 capital is 4.9% 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 27.0 million, increase in the value of securities classified at fair value through other comprehensive income of BAM 21.4 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 under the Decision on Capital Calculation in Banks is the sum of 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 September 30th, 2019 was BAM 14.9 billion, whose structure is provided in the following table:

-in BAM 000-

No.	Description	31.12.2018		30.09.2019		Index
		Amount	% share	Amount	% share	
1.	Risk weighted exposures for credit risk	12,296,292	86.7	12,970,355	87.1	105
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	204,530	1.4	91
4.	Risk exposures for operational risk	1,657,561	11.7	1,715,201	11.5	103
5.	Total risk exposure amount	14,177,630	100	14,890,086	100	105

The total risk exposure amount across the FBiH banking sector increased in the reporting period by BAM 712.5 million or 5.0% compared to the end of 2018. In the risk exposure structure as of September 30th, 2019, compared to the end of 2018, the biggest increase by BAM 674.1 million or 5.5% was realized within the risk weighted exposure for credit risk.

As of September 30th, 2019, banks were most exposed to the credit risk (87.1% 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 0.4 percentage points, while the shares of the market risk exposure and operational risk exposure decreased by 0.2 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 Capital Calculation in Banks 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 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 September 30th, 2019, are provided in the following table:

-in BAM 000-

Table 16: Capital adequacy indicators

No.	Description	% and amount of regulatory minimum surplus or deficit	
		31.12.2018	30.09.2019
1.	Common Equity Tier 1 capital ratio	16.6%	17.1%
2.	Surplus (+) / Deficit (-) of Common Equity Tier 1 capital	1,394,434	1,545,343
3.	Tier 1 capital ratio	16.6%	17.1%
4.	Surplus (+) / Deficit (-) of Tier 1 capital	1,075,438	1,210,317
5.	Own funds ratio	17.5%	18.0%
6.	Surplus (+) / Deficit (-) of own funds	777,668	893,652

The own funds rate as at September 30th, 2019 is 18.0% and it is considerably higher compared to the statutory minimum of 12%. Compared to the end of 2018, the own funds ratio as of September 30th, 2019 increased by 0.5 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 Capital Calculation in Banks also provides for a new calculation methodology and regulatory framework for monitoring of financial leverage levels. Banks are required to ensure and maintain the financial leverage ratio, as Tier 1 capital to total exposure measure ratio of minimum 6%. The following overview provides the FBiH banking sector's financial leverage ratio with the balance as at September 30th, 2019:

-in BAM 000-

Table 17: Financial leverage ratio

No.	Exposure values	31.12.2018	30.09.2019
1.	Leverage ratio exposures - under Article 37(4) of Decision on Capital Calculation in Banks	23,162,644	24.660,410
2.	Tier 1 capital - under Article 37(3) of Decision on Capital Calculation in Banks	2,351,425	2.550,424
3.	Leverage ratio - under Article 37(2) of Decision on Capital Calculation in Banks	10.1%	10.3%

The leverage ratio across the banking sector as at September 30th, 2019 is 10.3% and is higher by 0.2 percentage points compared to the end of 2018. As of September 30th, 2019, six banks have their leverage ratios above the FBiH banking sector average, eight banks have their leverage

ratios below the FBiH banking sector average and one bank has this ratio equal to the sector's average.

1.2.4. Assets and Asset Quality

The Decision on 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, banks are required to account for LLR in accordance with the criteria from the above Decision, while having regard for already created impairments of 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 000-

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

Description	31.12.2017	31.12.2018	30.09.2019	Index	
1	2	3	4	5=(3/2)	6=(4/3)
1. Risk assets ¹²	17,224,329	18,468,934	19,348,405	107	105
2. Accrued regulatory LLR	1,492,475	1,479,654	1,431,012	99	97
3. Impairment and reserves for off-balance sheet items	1,262,277	1,311,031	1,270,850	104	97
4. Required regulatory reserves from profits for estimated losses	402,640	404,539	401,968	100	99
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	271,995	115	119
7. Non-risk items	7,699,195	8,874,457	9,718,751	115	109
8. Total assets (1+7)	24,923,524	27,343,391	29,067,156	110	106

The FBiH banks' total assets with the off-balance sheet items (assets)¹³ as at September 30th, 2019 are BAM 29.1 billion and are higher by BAM 1.7 billion or 6.3% compared to the end of 2018. Risk assets are BAM 19.3 billion and are higher by BAM 879.5 million or 4.8%, while non-risk items with the off-balance sheet are BAM 9.7 billion and are higher by BAM 844.3 million or 9.5% compared to the end of 2018. The following table provides an overview of the total assets, gross balance sheet assets, risk and non-risk asset items across the banking sector:

-in BAM 000-

Table 19: Total assets, gross balance sheet risk and non-risk assets

Description	31.12.2017		31.12.2018		30.09.2019		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)
Loans	11,910,826	83.5	12,762,366	83.8	13,557,028	84.7	107	106
Interest	66,894	0.5	91,669	0.6	92,511	0.6	137	101
Past-due receivables	1,036,949	7.3	992,177	6.5	968,892	6.0	96	98
Receivables on paid guarantees	31,080	0.2	30,127	0.2	28,913	0.2	97	96
Other placements	400,584	2.8	511,914	3.4	424,683	2.7	128	83
Other assets	814,496	5.7	835,125	5.5	931,731	5.8	103	112
1. Balance sheet risk assets	14,260,829	100	15,223,378	100	16,003,758	100	107	105
2. Non-risk balance sheet assets	7,172,606		8,140,926		8,966,496		113	110
3. Gross balance sheet assets (1+2)	21,433,435		23,364,304		24,970,254		109	107
4. Off-balance sheet at risk	2,963,500		3,245,556		3,344,647		110	103
5. Non-risk off-balance sheet	526,589		733,531		752,255		139	103

¹² Excluding the amount of placements and contingent liabilities of BAM 248.9 million secured by cash deposits

¹³ Assets defined by Article 2 of the Decision on 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)

6. Total off-balance sheet items (4+5)	3,490,089	3,979,087	4,096,902	114	103
7. Risk assets with off-balance sheet (1+4)	17,224,329	18,468,934	19,348,405	107	105
8. Non-risk items (2+5)	7,699,195	8,874,457	9,718,751	115	109
9. Assets with off-balance sheet (3+6)	24,923,524	27,343,391	29,067,156	110	106

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

The gross balance sheet assets ¹⁴ are BAM 25.0 billion and are higher by BAM 1.6 billion million or 6.9% compared to the end of 2018, of which balance sheet risk assets are BAM 16.0 billion, which is 64.1% of gross balance sheet assets, with a realized increase of BAM 780.4 million or 5.1%, while non-risk balance sheet assets are BAM 9.0 billion and are higher by BAM 825.6 million or 10.1%.

As of September 30th, 2019, off-balance sheet risk items are BAM 3.3 billion and increased by BAM 99.1 million or 3.1%, while non-risk off-balance sheet items are BAM 752.3 million, with a realized increase of BAM 18.7 million or 2.6% compared to the end of 2018.

As at September 30th, 2019, loans are BAM 14.9 billion and an increase of BAM 580.9 million or 4.1% 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 loans are provided in the following table:

-in BAM 000-

Sectors	31.12.2017		31.12.2018		30.09.2019		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	183,356	1.2	88	85
Public enterprises	210,461	1.6	321,493	2.3	308,120	2.1	153	96
Private enterprises and companies	6,295,558	47.8	6,625,641	46.3	6,816,284	45.7	105	103
Banking institutions	12	0.0	217,706	1.5	176,586	1.2	1814217	81
Non-bank financial institutions	58,992	0.4	75,804	0.5	83,643	0.6	128	110
Retail	6,358,707	48.2	6,853,979	47.8	7,323,651	49.1	108	107
Other	10,028	0.1	14,415	0.1	14,879	0.1	144	103
Total	13,178,860	100	14,325,634	100	14,906,519	100	109	104

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

As of September 30th 2019, compared to the end of 2018, an increase of BAM 469.7 million or 6.9% was realised with retails loans, with an increase of BAM 190.6 million or 2.9% with private corporate loans, as well as an increase of BAM 7.8 million or 10.3% with loans approved to non-bank financial institutions and an increase of BAM 0.5 million or 3.2% with loans approved to other sectors.

As of September 30th 2019, compared to the end of 2018, a decrease in loans was recorded in three sectors, i.e. a decrease of BAM 41.1. million or 18.9% in loans approved to banking institutions, decrease of BAM 33.2 million or 15.3% in loans to government institutions and decrease of BAM 13.4 million or 4.2% in loans to public enterprises.

The table below provides a maturity structure of loans by sectors with the balance as of September 30th 2019:

¹⁴ Excluding the amount of loans of BAM 204.3 million covered by cash deposit (included in non-risk balance sheet assets)

-in BAM 000-

Table 21: Maturity structure of loans

Sectors	31.12.2018		30.09.2019		Index	
	Short-term loans (up to 1 Y)	Long-term loans (over 1Y)	Short-term loans (up to 1 Y)	Long-term loans (over 1Y)	6=(4/2)	7=(5/3)
	2	3	4	5		
Government institutions	2,769	213,827	1,589	181,767	57	85
Public enterprises	64,533	256,960	55,427	252,693	86	98
Private enterprises and companies	2,802,794	3,822,847	2,974,231	3,842,053	106	100
Banking institutions	217,706	0	176,586	0	81	-
Non-bank financial institutions	25,669	50,135	28,409	55,234	111	110
Retail	751,199	6,102,780	765,712	6,557,939	102	107
Other	8,342	6,073	9,543	5,336	113	88
Total	3,873,012	10,452,622	4,011,497	10,895,022	104	104

September 30th 2019, compared to the end of 2018, short term loans in the FBiH banking sector have risen by BAM 138.5 million or 3.6% and long term loans by BAM 442.4 million or 4.2%.

The loans approved in domestic currency have the highest share of 50.2% or BAM 7.5 billion in the loans' currency structure, followed by loans approved with a currency clause with a share of 48.1% or BAM 7.2 billion (EUR: BAM 7.2 billion or 99.7%, CHF: BAM 20.0 million or 0.3%), while the loans approved in a foreign currency have the lowest share of 1.7% or BAM 258.7 million (of which BAM 257.6 million or 99.6% relate to EUR).

The total amount of loans with CHF currency clause of BAM 20.0 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 assets and off-balance sheet risk items, GCR and PLL by classification categories are provided in the following table:

-in BAM 000-

Table 22: Asset classification, GCR and PLL

Classification category	31.12.2017			31.12.2018			30.09.2019			Index	
	Classified assets	% share	GCR PLL	Classified assets	% share	GCR PLL	Classified assets	% share	GCR PLL	11=(5/2)	12=(8/5)
	2	3	4	5	6	7	8	9	10		
A	14,834,609	86.1	296,693	16,225,548	87.9	324,512	17,162,998	88.7	343,261	109	106
B	1,032,373	6.0	82,700	919,119	4.9	72,972	941,291	4.9	77,430	89	102
C	166,456	1.0	45,486	140,776	0.8	40,189	136,720	0.7	39,321	85	97
D	301,598	1.8	178,304	345,526	1.9	204,017	328,510	1.7	192,114	115	95
E	889,293	5.2	889,292	837,965	4.5	837,964	778,886	4.0	778,886	94	93
Risk assets (A-E)	17,224,329	100	1,492,475	18,468,934	100	1,479,654	19,348,405	100	1,431,012	107	105
Classified (B-E)	2,389,720	13.9	1,195,782	2,243,386	12.1	1,155,142	2,185,407	11.3	1,087,751	94	97
Non-performing (C-E)	1,357,347	7.9	1,113,082	1,324,267	7.2	1,082,170	1,244,116	6.4	1,010,321	98	94
Non-risk assets ¹⁵	7,699,195			8,874,457			9,718,751			115	109
Total (risk and non-risk)	24,923,524			27,343,391			29,067,156			110	106

As at September 30th, 2019, past-due receivables are BAM 1.0 billion and are lower by BAM 24.5 million or 2.4% compared to the end of 2018, while their share decreased from 7.1% to 6.7% compared to the FBiH banking sector's total loans.

Classified assets (categories from B to E) as at September 30th, 2019 are BAM 2.2 billion, while non-performing assets (categories from C to E) are BAM 1.2 billion. As of September 30th, 2019, compared to the end of 2018, classified assets decreased by BAM 5.8 million or 2.6%. Non-performing assets decreased in the reporting period by BAM 80.1 million or 6.1%, as a result of a decrease of non-performing assets with most of banks and as a result of permanent write-off of assets.

¹⁵ 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.

The total level of accrued LLR as of September 30th, 2019 is BAM 1.4 billion and a decrease of BAM 48.6 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 5.8% and for B category by 6.1%, while a 2.2% decrease in LLR was reported for C category, as well as a 5.8% decrease for D category, and a 7.1% decrease for E category.

One of the most important asset quality indicators, the ratio of PLL and risk assets to off-balance sheet is 5.6% and is lower by 0.6 percentage points compared to the end of 2018. As at September 30th, 2019, banks had on average, approximately the same level as at the end of 2018, the accrued reserves at a 8% rate for B category, at a 29% rate for C category, as well as at a 58% rate for D category, and at a 100% rate for E category.¹⁶

As of September 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 risk assets ratio amounting to 6.4% (decrease of 0.8 percentage points) and share of classified assets in the risk assets amounting to 11.3% (decrease of 0.8 percentage points).

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

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

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

-in BAM 000-

Table 23: Classification of retail and corporate loans

Classification category	31.12.2018						30.09.2019						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	6,731,626	91.9	6,302,643	83.1	13,034,269	87.4	105
B	151,062	2.2	573,795	7.7	724,857	5.1	164,009	2.2	568,462	7.5	732,471	4.9	101
C	60,150	0.9	73,815	1.0	133,965	0.9	68,092	0.9	63,042	0.8	131,134	0.9	98
D	46,055	0.7	288,575	3.9	334,630	2.3	47,502	0.6	271,135	3.6	318,637	2.1	95
E	321,401	4.7	427,873	5.7	749,274	5.3	312,422	4.4	377,586	5.0	690,008	4.6	92
Total	6,853,979	100	7,471,655	100	14,325,634	100	7,323,651	100	7,582,868	100	14,906,519	100	104
B-E loan classification	578,668	8.4	1,364,058	18.2	1,942,726	13.6	592,025	8.1	1,280,225	16.9	1,872,250	12.6	96
C-E non-performing loans	427,606	6.2	790,263	10.6	1,217,869	8.5	428,016	5.8	711,763	9.4	1,139,779	7.6	94
		47.8		52.2		100		49.1		50.9		100	
Share by sectors in classified loans, non-performing loans, and B category :													
B-E classification		29.8		70.2		100		31.6		68.4		100	
C-E non-performing		35.1		64.9		100		37.6		62.4		100	
B category		20.8		79.2		100		22.4		77.6		100	

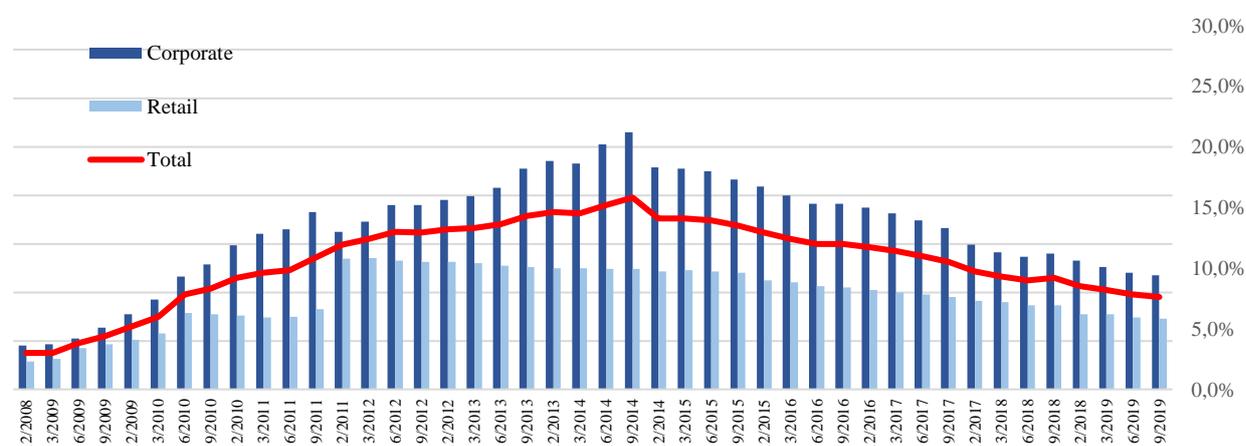
As of September 30th, 2019, the share of classified loans decreased by 1.0 percentage points and was 12.6%. Classified retail loans increased by BAM 13.4 million or 2.3%, while classified corporate loans decreased by BAM 83.8 million or 6.1%. As of September 30th, 2019, non-performing loans decreased by BAM 78.1 million or 6.4%. Decreases were recorded in all categories within non-performing loans: a BAM 2.8 million decrease in C category, BAM 16.0 million decrease in D category, and BAM 59.3 million decrease in E category.

¹⁶ 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%.

The share of NPLs decreased from 8.5% to 7.6%, dominantly as a result of the credit growth and collection activities. Out of total corporate loans, NPLs account for BAM 711.8 million or 9.4%, which is lower by 1.2 percentage point than at the end of 2018. NPLs in retail sector are BAM 428.0 million or 5.8%, which is lower by 0.4 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 NPLs is based on data on industry concentration of loans within the corporate sector (by sectors) and retail sector (by purpose) and is provided in the following table:

-in BAM 000-

Description	31.12.2018				30.09.2019				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	158,810	1.1	25,625	16.1	85	71
Industrial sector (IND)	2,130,781	14.9	269,505	12.6	2,150,392	14.4	250,840	11.7	101	93
Construction (CON)	441,833	3.1	74,092	16.8	477,455	3.2	74,710	15.6	108	101
Trade (TRD)	2,642,599	18.4	274,333	10.4	2,827,281	19.0	246,938	8.7	107	90
Hotels and restaurants (HTR)	268,239	1.9	16,074	6.0	243,712	1.6	12,289	5.0	91	76
Other ¹⁷	1,800,925	12.6	119,948	6.6	1,725,218	11.6	101,361	5.9	96	84
Total 1	7,471,655	52.2	790,263	10.6	7,582,868	50.9	711,763	9.4	102	90
2. Retail loans for:										
General consumption	5,574,057	38.9	326,714	5.9	5,957,168	40.0	356,455	6.0	107	109
Housing	1,178,483	8.2	87,273	7.4	1,260,979	8.4	59,470	4.7	107	68
Pursuit of business (craftspeople)	101,439	0.7	13,619	13.4	105,504	0.7	12,091	11.5	104	89
Total 2	6,853,979	47.8	427,606	6.2	7,323,651	49.1	428,016	5.8	107	100
Total (1 + 2)	14,325,634	100	1,217,869	8.5	14,906,519	100	1,139,779	7.6	104	94

The trade sector (19.0%) and production sector (14.4%) have the highest share in corporate loans compared to total loans.

BAM 2.1 billion loans placed to the production sector increased as of September 30th, 2019 compared to the end of 2018 by BAM 19.6 million or 0.9%, while NPLs in these loans are BAM

¹⁷ 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.

250.8 million and decreased by BAM 18.7 million or 6.9%. Notwithstanding the decrease of 0.9 percentage points compared to the end of 2018, their share is still high at 11.7%.

Loans approved to the trade sector as of September 30th, 2019 are BAM 2.9 billion and increased by BAM 184.7 million or 7.0% compared to the end of 2018, while NPLs are BAM 246.9 million and decreased by BAM 27.4 million or 10.0%, while their share also decreased by 1.7 percentage point, i.e. to 8.7%.

In corporate loans as of September 30th, 2019, the highest NPLs shares are present in loans approved to agriculture (16.1%, 3.3 percentage point decrease compared to the end of 2018) and in loans approved to the construction sector (15.6%, 1.2 percentage point decrease compared to the end of 2018).

General consumption loans (40.0%) and housing loans (8.4%) have the highest shares in retail loans compared to total loans. As of September 30th, 2019, compared to the end of 2018, the general consumption loans increased by BAM 383.1 million or 6.9%, while NPLs share rose by 0.1 percentage points to 6.0%. Housing loans had an increase of BAM 82.5 million or 7.0% and decrease of 2.7 percentage points in the NPLs share compared to the end of 2018, which are 4.7% 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 September 30th, 2019.

1.2.5. Profitability

Bank profitability is affected the most by asset quality, structure, diversification and funding costs, cost efficiency, FBiH banking, i.e. financial sector specific external factors (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 availability of funding and bank funding price trends, as well as on the side of ability to realize an adequate level of net interest margin.

From a supervisory perspective, 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, a 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. 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 banks according to the balance as at September 30th, 2019, which are analyzed in the context of the applicable elements for the assessment of 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 250.9 million across the FBiH banking sector was reported for the January 1 - September 30, 2019 period, which was higher by BAM 4.3 million or 1.7% compared to the same period of 2018. The total net profit reported for the first nine months of 2019 across the FBiH banking sector was BAM 251.6 million (14 banks), with a BAM 0.7 million net loss reported by one bank, which reported minimum net profit in the same period of 2018, i.e. a BAM 3.2 million loss in the same period of 2017. The three biggest banks, which account for 56.4% of the total balance sheet assets across the FBiH banking sector according to the assets level as of September 30th, 2019, reported the net profit of BAM 181.7 million, accounting for 72.2% of the total financial performance. Out of the three biggest banks, the reported net profit of the bank which accounts for 27.0% of the FBiH banking sector's total assets according to the assets level accounts for 37.7% of the sector's total net profit.

It is noted through an analysis of the structure of income and expenses across the FBiH banking sector for the January 1 - September 30, 2019 period compared to the same period of 2018 that the reported increase of net profit is a result of the effects of the following changes:

- an increase in the total operating income by BAM 20.1 million or 6.1%, where in its structure an increase is evident in the income from trading operations, service fees, from foreign exchange operations and fees from off-balance sheet operations, while other operating income and income under fees on loans decreased;
- a slight increase in the total non-interest expenses by BAM 11.3 million or 2.1%, where the total operating and direct expenses increased by BAM 6.8 million or 4.4%, while the total operating expenses increased by BAM 4.5 million or 1.2%; and
- a slight decrease in the net interest and similar income by BAM 2.9 million or 0.6%, which is the effect of a decrease in the total interest and similar expenses by BAM 5.7 million or 1.0% and a decrease in total interest and similar income by BAM 2.8 million or 2.9%.

In the structure of total interest and similar income, whose share over the reporting period went down by 2.3 percentage points, there was an increase of income from placements to other banks by BAM 1.8 million or 129.2%, interest income from held-to-maturity securities posted at amortised cost by BAM 0.7 million or 28.8% and income from interest-bearing deposit accounts with deposit institutions by BAM 0.9 million or 28.0%. a decrease was evident with interest income from loans and financial leasing by BAM 6.8 million or 1.5% and other interest and similar income by BAM 2.4 million or 4.3%. Other categories of interest income (whose share is 0.4%) remained the same.

The reduction of interest income from loans and financial leasing over the reporting period is connected with a decrease of:

- average interest receivables from 2.98% to 2.71%, along with reduction of average interest payables from 0.79% to 0.69% and resultantly with a reduction of net interest margin (being the difference between average interest receivables and interest payables) from 2.19% to 2.03%,.
- Therein, the gross loan portfolio¹⁸ rose by BAM 626.4 million or 4.7%, and
- gross financial leasing receivables¹⁹ by BAM 21.0 million or 22.7%.

¹⁸ Receivables due are not included herein.

¹⁹ Receivables not yet due

In the reporting period, in the structure of total operating and direct costs across the FBiH banking sector, there was a decrease in the costs of impairments of risk assets, provisions for contingent liabilities and other value adjustments by BAM 5.2 million in total or 8.3% compared to the same period in 2018. At the same time, other operating and direct costs increased by BAM 12.0 million or 8.3%.

The reported increase of BAM 3.9 million or 2.0% in the total operating expenses is a result of an increase in the salary and contribution costs by BAM 3.9 million or 2.0% and in business premises, other fixed assets and overhead costs by BAM 1.9 million or 1.7%. In the reporting period, there was a slight increase in the number of employees in the FBiH banking sector (by 0.1%), while there was a decrease in the number of the FBiH banks' organizational units (by 2%). At the same time, a decrease of BAM 1.4 million or 1.7% in other operating costs was reported (compared to the same period in 2018).

Annex 5 shows the FBiH banks' income statement for the January 1 - September 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 000-

Table 25: Actual financial performance: profit/loss

Description	30.09.2017		30.09.2018		30.09.2019	
	Amount	Number of banks	Amount	Number of banks	Amount	Number of banks
1	2	3	4	5	6	7
Loss	-3,239	1	-13,256	1	-647	1
Profit	234,784	14	259,927	14	251,571	14
Total	231,545	15	246,671	15	250,924	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 three quarters of 2018 compared to the same period of 2017 (6.5%), while the increase rate was 1.7% in the same period in 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 September 30th, 2019, the total income across the FBiH banking sector is BAM 898.9 million and, compared to September 30th, 2018, it increased by BAM 14,4 million, which is an increase of 1.6%.

-BAM 000-

Table 26: Structure of total income

Structure of total income	30.09.2018		30.09.2019		Index
	Amount	%	Amount	%	
1	2	3	4	5	6=(4/2)
I Interest income and similar income					
Interest-bearing deposit accounts with deposit institutions	3,183	0.4	4,075	0.5	128
Loans and leasing operations	493,134	55.8	486,425	54.1	99
Other interest income	58,657	6.6	58,788	6.5	100
Total I	554,974	62.8	549,288	61.1	99
II Operating income					
Service fees	242,948	27.5	264,846	29.5	109
Income from FX operations	45,651	5.2	47,758	5.3	105

Other operating income	40,883	4.5	36,992	4.1	91
Total II	329,482	37.2	349,596	38.9	106
The total income (I+II)	884,456	100	898,884	100	102

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 total income decreased by 1.7 percentage points. At the same time, the share of loans and leasing type receivables in total assets slightly decreased from 64.8% to 62.8% (by two percentage points), while average interest receivables related to loans went down from 3.62% to 3.32% (by 0.3 percentage points). The highest increase was recorded in the income on interest-bearing deposit accounts with deposit institutions, which account for less than 1% of the total income. At the same time, the share of interest-bearing deposit accounts with deposit institutions in the FBiH banking sector's total assets increased from 16.4% to 18.7% in the reporting period (by 2.3 percentage points). The above increase in this category of interest income, i.e. the 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 0.6 million). Within the interest income, an increase of BAM 0.8 million or 28.8% 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, thus causing an increase of this income category of BAM 0.7 million.

The total operating income recorded an increase of BAM 20.1 million or 6.1% in the reporting period, where their share in total income increased by 1.7 percentage points. The largest item in the structure of total operating income is income from service fees with a 29.5% share, which recorded an increase of BAM 21.9 million or 9.0%. There was also an increase in the income from foreign exchange operations by BAM 2.1 million or 4.6%, while other operating income decreased by BAM 3.9 million or 9.5% compared to the same period in 2018.

1.2.5.3. FBiH Banking Sector's Total Expenses

According to the banks' reporting data as of September 30th, 2019, total expenses across the FBiH banking sector are BAM 646.2 million, which increased by BAM 8.5 million or 1.3% compared to September 30th, 2018.

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

-BAM 000-

Structure of total expenses	30.09.2018		30.09.2019		Index
	Amount	%	Amount	%	6=(4/2)
1	2	3	4	5	6=(4/2)
I Interest expenses and similar expenses					
Deposits	79,870	12.5	70,777	10.9	89
Liabilities on loans and other borrowings	6,835	1.1	6,878	1.1	101
Other interest expenses	12,033	1.9	18,267	2.8	152
Total I	98,738	15.5	95,922	14.8	97
II Total non-interest expenses					
Costs of impairments of assets at risk, provisions on contingent liabilities and other value adjustments	63,377	9.9	58,147	9.0	92
Salary and contribution costs	190,459	29.9	194,329	30.1	102
Business premises costs and depreciation	112,560	17.6	114,495	17.7	102
Other operating and direct costs	91,893	14.4	103,937	16.1	113
Other operating costs	80,758	12.7	79,412	12.3	98
Total II	539,047	84.5	550,320	85.2	102

Total expenses (I+II)	637,785	100	646,242	100	101
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In the reporting period, interest and similar expenses decreased by 2.9%, primarily as a result of a decrease in interest expenses on deposits, which are the FBiH banking sector's dominant funding source. This category of expenses went down by 11.4% compared to the same period in 2018. In the reporting period, the total deposit potential of the FBiH banking sector (constituting 79.9% of the balance sheet sum) has risen by BAM 1.4 billion or 7.7%, whereas their share in the total balance sheet sum increased slightly from 79.7% to 79.9%, i.e. by 0.2 percentage points. The increase of interest-bearing deposits (participating in the total deposit potential with 72.7% share) represents 99.6% of the total increase of deposits in the reporting period. During the reporting period, average interest payables on deposits was 0.54%, which compared to the same period in 2018 represents a decrease by 0.14 percentage points.

The share of interest expenses 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 65.8 million or 7.6% in the reporting period.

Other interest and similar expenses increased by BAM 6.2 million or 51.8%, as a result of introducing IFRS 16 - Incremental borrowing rate on financial liabilities (financing cost), negative interest rates on deposits in foreign banks and on new investments in securities, as well as negative fee on excess reserves at the CBBiH.

Across the FBiH banking sector, there was a slight increase by 2.1% or BAM 11.3 million in the total non-interest expenses in the reporting period, where the most significant structural changes relate to a 8.3% decrease in the costs of impairments of risk assets and provisions for contingent liabilities and other value adjustments. A increase in this category of costs is a net effect of the following: reduction of impairments with four banks, thus being a result of reduced amount of defaults, collection of non-performing loans, implementation of new parameters of risk related to impairment calculation, etc. and significant increase of the said category of expenses with four banks as a result of implementation of a different definition of default in the retail segment, credit risk increase and classification of expositures to non-performing assets.

Other operating and direct costs recorded the biggest increase of 13.1%, where the highest increase relates to the fees paid by two banks for international card settlement services, as well as in the volume of transactions related to 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 %-

Ratio	30.09.2017	30.09.2018	30.09.2019
Profit on average assets	1.2	1.2	1.1
Profit on average total capital	8.2	8.5	8.1
Profit on average shareholders' capital	19.0	19.9	19.3
Net interest income/ average assets	2.4	2.2	2.0
Operating income/ average assets	1.7	1.6	1.5
Total income/ average assets	4.0	3.8	3.5
Operating and direct expenses/average assets ²⁰	0.8	0.7	0.7
Operating expenses/average assets	2.0	1.8	1.7
Total non-interest expenses/average assets	2.8	2.6	2.4

When analyzing the presented FBiH banking sector indicators, one should take into account that the reporting period was marked by a continuous increase in total, i.e. average assets, and in

²⁰ Expenses include impairment costs

average total and shareholders' capital, which are the basis for calculating the above ratios. The increase in assets was more pronounced compared to the increase in total and shareholders' capital, and in total income, with slight changes (decrease) in the level of net interest income and similar income in the first three quarters of 2019 compared to the same period of 2018.

Return 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 September 30th, 2018. The indicators of the above income and expenditure categories are showing a slight downward 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 more pronounced in the observed reporting period in 2019 compared to the same period in 2018, since the assets growth rate was higher than the rate of increase in the number of employees in the FBiH banking sector over the reporting period.

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 seated in the FBiH, as well as the organizational parts of the banks seated 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 methodology.²¹

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

The total weighted average EIR on the loans in the FBiH banking sector as of September 30th, 2019 is 3.93% and is lower by 0.22 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 (0.26 percentage points, decrease from 2.97% to 2.71%) and in the long-term loans (0.03 percentage points, from 5.62% to 5.59%). Viewed in the aforementioned period according to the sector structure, EIR on the total corporate loans decreased by 0.28 percentage points (from 3.13% to 2.85%), while on the retail loans it decreased by 0.31 percentage points (from 7.22% to 6.91%).

The total weighted average EIR on deposits in the FBiH banking sector as of September 30th, 2019 is 0.76% and is higher by 0.11 percentage points compared to the end of 2018, when it was

²¹ 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

0.65%. Viewed according to the deposit maturity, the weighted average EIR on short-term deposits recorded a decrease of 0.04 percentage points (from 0.36% to 0.32%), while it increased by 0.04 percentage points (from 1.16% to 1.20%) on long-term deposits.

On the overall level in the reporting period, the decrease in EIR on loans (0.22 percentage points) was more pronounced compared to the increase in EIR on deposits (0.11 percentage points).

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 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. This entails securing soundly performing assets whose quality ensures repayment of bank loans, together with interest, in accordance with their maturity.

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 ensuring 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 000-

Description	31.12.2018	30.09.2019	Index
1	2	3	4 (3/2)
Liquidity buffer	4,325,281	4,492,911	104
Net liquidity outflows	1,392,629	1,505,666	108
LCR	311%	298%	96

As of September 30th, 2019, LCR across the FBiH banking sector is 298% and is lower by 13.0 percentage points compared to the end of 2018. All banks in the FBiH banking sector with the balance as at September 30th, 2019 meet the requirements in respect of LCR, while the majority of banks is significantly above the regulatory minimum.

In the banking sector's funding structure as at September 30th, 2019, deposits have the highest share of 79.9%, followed by the loans taken (including subordinated debts) with a 4.3% share. The loans taken are with longer maturity periods and are a high-quality source for long-term placements, improving the maturity matching of financial assets and financial liabilities, even though there has been a downward trend present in them already for a while now.

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

-in BAM 000 -

Deposits	31.12.2017		31.12.2018		30.09.2019		Index	
	Amount	% share	Amount	% share	Amount	% share	8=(4/2)	9=(6/4)
1	2	3	4	5	6	7		
Savings and sight deposits (up to 7 days)	9,227,317	58.4	10,562,758	60.0	11,580,403	61.1	114	110
7-90 days	988,235	6.2	1,058,414	6.0	957,082	5.0	107	90
91 days to one year	2,144,316	13.6	2,616,873	14.9	2,352,189	12.4	122	90
1. Total short-term	12,359,868	78.2	14,238,045	80.9	14,889,674	78.5	115	105
Up to 5 years	3,280,639	20.7	3,193,809	18.1	3,882,659	20.5	97	122
Over 5 years	174,216	1.1	172,783	1.0	193,001	1.0	99	112
2. Total long-term	3,454,855	21.8	3,366,592	19.1	4,075,660	21.5	97	121
Total (1 + 2)	15,814,723	100	17,604,637	100	18,965,334	100	111	108

As of September 30th, 2019, short-term deposits by residual maturity had a 78.5% share, while long-term ones had a 21.5% share, with the share of the short-term deposits decreasing, i.e. the share of the long-term ones increasing by 2.4 percentage points compared to the end of 2018. In the reporting period, an increase of BAM 651.6 million or 4.6% was recorded in relation to short-term deposits, with an increase of BAM 709.1 million or 21.1% recorded in relation to long-term deposits. An increase in long-term deposits was also realized in the deposits of up to 5 years (BAM 688.8 million or 21.6%) and in deposits of over 5 years (BAM 20.2 million or 11.7%). Looking into the structure of long term deposits with residual maturity, evidently they are dominated by deposits with residual maturity of up to 5 years (95.3% of long term deposits and 20.5% of total deposits).

An overview of the core liquidity indicators is shown in the following table:

-in %-

Ratios	31.12.2017	31.12.2018	30.09.2019
1	2	3	4
Liquid assets ²² / total assets	30.2	30.8	32.3
Liquid assets/ short-term financial liabilities	47.6	46.3	49.8
Short-term financial liabilities/ total financial liabilities	74.9	77.7	75.6
Loans/ deposits and loans taken ²³	79.2	77.6	75.4
Loans/ deposits, loans taken and subordinated debts ²⁴	78.5	77.1	74.7

The loans to deposits and loans taken ratio as at September 30th, 2019 was 75.4%, which was lower by 2.2 percentage points compared to the end of 2018. In four banks, this ratio is higher than 85.0%. The share of short-term financial liabilities in 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 matching of residual maturities of financial assets and financial liabilities against the timeline set by the minimum limits and created for a 180-day time horizon²⁵. For purpose of planning the required level of

²² 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.

²³ Empirical standards are: less than 70% - very solid, 71%-75% - satisfactory, 76%-80% - borderline satisfactory, 81%-85% - insufficient, over 85% - critical.

²⁴ Previous ratio is expanded, the funding also includes subordinated debts, which is a more realistic indicator.

²⁵ 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 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.

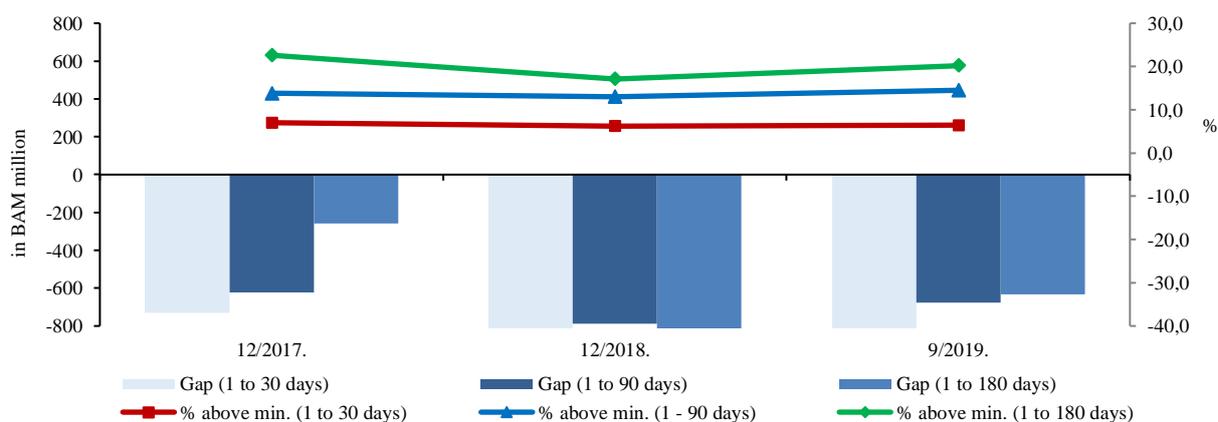
liquid resources, banks should plan the funding and structure of an adequate liquidity potential and also plan a credit policy accordingly. The maturity of placements, i.e. the loan portfolio is determined precisely by the maturity of funding. Given that the maturity transformation of funds in banks is inherently related to functional characteristics of banking operations, 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 maturity matching of financial assets and liabilities of up to 180 days:

-in BAM 000-

Description	31.12.2017	31.12.2018	30.09.2019	Index	
	Amount	Amount	Amount	5=(3/2)	6=(4/3)
1	2	3	4	5=(3/2)	6=(4/3)
I 1-30 days					
1. Amount of financial assets	8,462,124	9,513,412	10,414,116	112	109
2. Amount of financial liabilities	9,193,511	10,425,706	11,389,593	113	109
3. Balance (+ or -) = 1-2	-731,387	-912,294	-975,477	-	-
<i>Calculation of compliance with regulatory requirements in %</i>					
a) Actual %= no. 1 / no. 2	92.0%	91.2%	91.4%		
b) Regulatory minimum %	85.0%	85.0%	85.0%		
More (+) or less (-) = a - b	7.0%	6.2%	6.4%		
II 1-90 days					
1. Amount of financial assets	9,416,671	10,556,830	11,557,823	112	109
2. Amount of financial liabilities	10,041,101	11,345,741	12,236,100	113	108
3. Balance (+ or -) = 1-2	-624,430	-788,911	-678,277	-	-
<i>Calculation of compliance with regulatory requirements in %</i>					
a) Actual %= no. 1 / no. 2	93.8%	93.0%	94.5%		
b) Regulatory minimum %	80.0%	80.0%	80.0%		
More (+) or less (-) = a - b	13.8%	13.0%	14.5%		
III 1-180 days					
1. Amount of financial assets	10,476,675	11,640,075	12,668,125	111	109
2. Amount of financial liabilities	10,734,265	12,644,902	13,300,153	118	105
3. Balance (+ or -) = 1-2	-257,590	-1,004,827	-632,028	-	-
<i>Calculation of compliance with regulatory requirements in %</i>					
a) Actual %= no. 1 / no. 2	97.6%	92.1%	95.2%		
b) Regulatory minimum %	75.0%	75.0%	75.0%		
More (+) or less (-) = a - b	22.6%	17.1%	20.2%		

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



As at September 30th, 2019, financial assets in all three time buckets were lower than financial liabilities, due to higher increase in financial liabilities, primarily in relation to deposits, than the increase in financial assets. The actual percentages of maturity matching are higher in all time buckets: 1-30 days by 0.2 percentage points, 1-90 days by 1.5 percentage points and 1-180 days by 3.1 percentage points as at September 30th, 2019 compared to the end of 2018, with the

percentages being higher than the regulatory minimums, namely in the first time bucket by 6.4%, in the second one by 14.5%, and in the third time bucket by 20.2%.

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 September 30th, 2019 is satisfactory.

Since this business area and liquidity risk exposure level are in correlation with credit risk (lower inflows of liquid assets relate to difficulties in collection of loans), while having regard to other important factors (maturity structure of 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 maturity), it should be noted that liquidity risk management and monitoring should be in the focus of 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, thus taking into account changes in 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 related to 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 Banks²⁶, provides for how the foreign exchange position is calculated and maximum permitted FX risk exposure, i.e. the limits for open individual and total foreign exchange positions (long or short), calculated by reference to the bank's eligible capital²⁷. In order for the FBA to monitor banks' compliance with the regulatory limits and FX risk exposure level, banks are required to report to the FBA on a daily basis.

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

According to the balance as at September 30th, 2019, the items in foreign currencies amounted to BAM 3.7 billion, with a 15.6% 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 liabilities is materially different, because the share of liabilities in foreign currency is significantly higher and amounts to BAM 8.6 billion or 36.0% (BAM 8.3 billion, with 37.6% share at the end of 2018). The following table provides the structure of 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:

²⁶ FBiH Official Gazette No. 81/17

²⁷ Article 3 of the Decision on Foreign Exchange Risk Management in Banks provides for the limits: maximum of up to 30% for 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.

-in BAM million-

Description	31.12.2018				30.09.2019				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	2,149	21.9	2,610	24.9	150	139
2. Loans	264	2.9	265	2.7	232	2.4	233	2.2	88	88
3. Loans with currency clause	6,482	70.1	6,490	65.6	6,514	66.3	6,518	62.2	100	100
4. Other	843	9.1	1,029	10.4	670	6.8	871	8.3	79	85
5. Other financial assets with currency clause	225	2.4	225	2.3	253	2.6	253	2.4	112	112
Total I (1+2+3+4+5)	9,251	100	9,891	100	9,818	100	10,485	100	106	106
II Financial liabilities										
1. Deposits	6,614	74.8	7,284	76.5	6,838	74.3	7,506	76.0	103	103
2. Loans	855	9.7	855	9.0	790	8.6	790	8.0	92	92
3. Deposits and loans with currency clause	1,204	13.6	1,204	12.7	1,326	14.4	1,326	13.4	110	110
4. Other	166	1.9	172	1.8	250	2.7	260	2.6	151	151
Total II (1+2+3+4)	8,839	100	9,515	100	9,204	100	9,882	100	104	104
III Off-balance sheet										
1. Assets	80		131		70		96			
2. Liabilities	456		463		572		580			
IV Position										
Long (amount)	37		44		113		119			
%	1.5%		1.8%		4.2%		4.4%			
Short										
%										
Permitted	30.0%		30.0%		30.0%		30.0%			
Less than permitted	28.5%		28.2%		25.8%		25.6%			

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 September 30th, 2019 ranged within the regulatory limits. As of September 30th, 2019, ten banks had long foreign exchange positions, while five banks had short positions. A long foreign exchange position of 4.4% of the banks' total eligible capital was reported across the sector, which was lower by 25.6 percentage points than the permitted one. The individual foreign exchange position for EUR was 4.2%, which was lower by 25.8 percentage points than the permitted one, where the financial asset items were higher than the financial liabilities (net long position).

If the structure of foreign currencies in the financial assets is analyzed²⁹, the EUR's 82.2% share is dominant (80.1% as at December 31st, 2018), with an increase in the nominal amount of BAM 507.0 million or 19.9%. The EUR's share in financial liabilities is 92.1% and, compared to the end of 2018, it increased by BAM 243.0 million or 3.2%. The calculation basis for EUR's share in financial assets and financial liabilities does not include the items with a currency clause.

1.3. BANKING SECTOR RECOMMENDATIONS

The previous period in the banking supervision was marked by 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

²⁸ Source: Form 5 – Foreign Exchange Position

²⁹ 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.

capacities with a view to implementing a new regulatory framework in accordance with the BL, LoA, and set of the regulations issued based on them.

The FBA will, in accordance with its prescribed supervisory authorities for the FBiH banks' operations, continue to undertake 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, 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 banks, especially those with a major increase in assets, and banks wherein capital adequacy ratios are decreasing;
- monitoring of the IAS/IFRS implementation, with a view to adequately value financial assets and allocate reserves for expected credit losses for purpose 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 seated 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 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, 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-level 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 authorities, efficient implementation of economic reforms, in order to align the progress achieved in the monetary sphere and banking sector by improving legal regulations 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.

Performance of 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 for purpose 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 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 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 reform measures and measures to address the issues of overindebtedness of citizens, and in corporate financial consolidation, etc.

2. NON-DEPOSIT FINANCIAL INSTITUTIONS SECTOR

In accordance with the FBA's prescribed supervisory authorities for non-deposit 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-deposit financial institutions in the FBiH in the first three quarters of 2019.

In addition, with the objective of increasing transparency and facilitating comparability of the terms for using financial services and protection of clients – financial service users, through introduction of a transparent presentation of the cost of micro lending, 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 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 and also the Decision on Uniform Manner of Calculation and Disclosure of Effective Interest Rates for Financial Leasing Contracts. Mandatory monthly reporting to the FBA by MCOs and leasing companies is being performed in accordance with FBA regulations that prescribe in more details the manner and the methodology under which EIR is to be calculated and disclosed for microloans and financial leasing contracts, plus manner in which reports are submitted. Within its on-site and off-site supervision activities, the FBA is performing compliance check over MCOs and leasing companies relating to provisions prescribed on protection of financial service users and application of the single manner of calculation and disclosure of EIR.

For the needs of financial service 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 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.

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, required 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 of the last day of the reporting period. According to reporting data as of September 30, 2019, the highest interest rates on the advance paid on the factoring market in the FBiH, stood at 6.0% on the last day of the reporting period for the third quarter of 2019, while the discount interest rates amounted to 5.0% and both were accrued in domestic factoring.

This section of the Information elaborates on the weighted NIR and EIR for non-deposit financial institutions (microcredit and leasing sectors in the FBiH) for January 1 - September 30, 2019, with reference to the same period of 2018, the overview of which is given in the corresponding annexes, which form an integral part of the Information.

Weighted NIR and EIR on Microloans and Financial Leasing Agreements

At the total microcredit portfolio level, for the reporting period, the weighted NIR amounted to 19.56%, while EIR amounted to 24.27%, and for short-term microloans they amounted to 21.00%, i.e. 31.22%, while on long-term microloans 19.31%, i.e. 23.06%. The weighted average EIR on total microloans at the microcredit sector level for January 1 - September 30, 2019, compared to the same period of 2018, recorded a moderate increase, from 24.12% to 24.27% (by 0.15 percentage points), where average weighted EIR on short-term microloans recorded a more pronounced increase from 28.20% to 31.22% (by 3.02 percentage points), while weighted EIR on long-term microloans recorded a decrease from 23.39% to 23.06% (by 0.33 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 - September 30, 2019 in MCOs registered in the FBiH. The position of short term non-purpose loans – for other purposes shows a significant difference between NIR (15.70%) and EIR (48-73%) resulting from a microcredit product of one MCC where NIR is not been reflected in the agreement, but posted as a high amount of a one-off fee reflecting upon the EIR calculation.

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 - September 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 16.98%, and the EIRs amounted to 47.91% and they were higher compared to MCOs registered in the FBiH by 23.64 percentage points. The weighted average NIR on short-term microloans paid in MCOs operating in the FBiH, but seated in the RS, was 15.36%, while the EIR was 115.62%. The EIR level of these MCOs on short term microloans were affected by the enormously high weighted average EIR for microloans for other purposes (653.47%), which are primarily charged by one MCC established in the RS for the disbursed microloans for this purpose.

Weighted average NIR and EIR on long-term microloans that were disbursed in the reporting period by MCOs operating in the FBiH but seated in the RS stood at 17.63%, i.e. 20.86% respectively and are lower compared to those applying to MCOs with headquarters in the FBiH (by 1.68 percentage points, i.e. 2.2 percentage points respectively).

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

Total average NIR for financial leasing agreements concluded in the first three quarters of 2019 amounted to 6.8% for short-term agreements and to 5.9% for long-term agreements, while EIR

for short-term agreements amounted to 13.0%, and for long-term agreements to 9.2% in the same period. The total weighted NIR in the first three quarters of 2019 amounted to 5.9%, while EIR amounted to 9.2% in the aforementioned period.

Compared to the same period of 2018, when total weighted NIR of 4.2% and EIR of 6.6% 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 by 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 weighted EIR to lessees are caused by the fact that the method of calculation of EIR on agreements concluded with natural persons is not identical to the method used to calculate it in contracts concluded with legal persons, as they do not include Casco insurance premium, being a statutory obligation for agreements with natural persons.

Annex 15 provides a comparative overview of weighted average NIR and EIR by financial leasing agreements by periods.

Annex 15a provides a comparative overview of weighted NIR and EIR for financial leasing contracts by periods, by maturity, leasing object, i.e. lessee. A major difference between NIR and EIR is a result of VAT on interest, being a mandatory part of financial leasing agreements and payable in advance by lessees. The difference is also caused by the fact that financial leasing agreements include a surrender value and that additional costs of a leasing arrangement are being included in the EIR calculation.

2.1. MIKROCREDIT SECTOR

2.1.1. MICROCREDIT SECTOR STRUCTURE IN FBiH

2.1.1.1. Status, Number and Business Network

In the FBiH as of September 30, 2019, FBA's operating licenses were held by 14 MCOs that comprise the microcredit sector in the FBiH, of which 11 are MCF (non-profit organizations) and three are MCC (profit organizations). Compared to December 31, 2018, an operating license of the FBA was awarded to two MCCs in February and September 2019, of which one MCC started operating in the second quarter of 2019 and the other plans to launch operations in the fourth quarter of 2019.

The microcredit sector in the FBiH is, as of September 30, 2019, operates through the total of 374 registered organizational parts of MCOs seated in the FBiH, which, compared to data as of December 31, 2018 represents an increase by 12 organizational parts, i.e. 3.3%. As of September 30, 2019, four MCCs with headquarters in the RS operate in the FBiH through 46 organizational units, thus being at the same level as on December 31, 2018.

Annex 7 provides basic information on MCFs and MCCs which, as of September 30, 2019 held the FBA's license for performing the microlending activity.

2.1.1.2. Ownership Structure

MCO is a legal person that, in accordance with regulations, can be founded and do business as MCF or 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 founders without the right of ownership over capital. Out of three MCC, one MCC is in 100% ownership of a MCF. One MCC, which acquired the FBA's license in the first quarter of 2019, is in the ownership of three non-resident natural persons and the other MCC, being licenced by the FBA in the third quarter, is in 100% ownership of one resident legal entity.

2.1.1.3. Staff Structure

The microcredit sector in the FBiH, as of September 30, 2019, had a total of 1,510 employees, which is higher by 47 employees, i.e. 3.2%, compared to December 31, 2018.

More precisely, in seven MCOs there is an evident increase in the number of employees by 60 persons, in five MCOs there is a decrease in the number of employees by 13 persons, and in one MCO 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 that started operating in the second quarter of 2019 (26 newly employed, i.e. 43.3% of the total increase in the number of employees in the sector). Out of the total number of employees in the microcredit sector in the FBiH, MCFs employ 1,190, i.e. 78.8%, while MCCs employ 320, i.e. 21.2%.

As of September 30, 2019, in the structure of employees the highest share is the share of employees with university qualifications - 51.8%, followed by the share of employees with secondary school qualifications - 38.8%, and with two-year post secondary school qualifications - 8.6%. The remaining share - 0.8% relates to employees with lower qualifications, qualified and highly qualified workers. Upon analyzing data on staff efficiency across the FBiH microcredit sector as of September 30, 2019, one could conclude that of the total number of employees, there were 722 microloan officers, i.e. 47.8%, whereas the number of active microloans per loan officer was 225, (showing no major changes compared to 31.12.2018).

2.1.2. FINANCIAL INDICATORS OF PERFORMANCE

2.1.2.1. Balance Sheet

Total assets of the FBiH microcredit sector as of September 30, 2019 amount to BAM 622.6 million and are higher by BAM 42.3 million, i.e. 7.3% compared to December 31, 2018.

The increase in total assets of MCCs in the reporting period amounts to BAM 8.4 million, i.e. 19.9% of total increase in assets of the microcredit sector, where the amount of BAM 2.0 million, i.e. 4.8% 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. In the reporting period, the increase in total assets of 11 MCFs amounted to BAM 33.9 million, which represented 80.1% of the total increase in assets of the micro crediting sector. Therein two MCFs reported a decrease in the total assets in an amount that is not materially significant, while out of the nine MCFs with reported an increase in total assets the highest increase in assets was reported by three MCFs in the total amount of BAM 25.0 million, comprising 59.2% of the total 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 September 30, 2019.

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

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Table 34: Microcredit sector's balance sheet

No.	Description	31.12.2018			30.09.2019			%	Index
		Balance for MCFs	Balance for MCCs	Total	Balance for MCFs	Balance 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	38,068	10,208	48,276	7.8	84
2.	Placements to banks	210	0	210	2,150	0	2,150	0.3	1,024
3.	Microloans	322,369	134,551	456,920	357,896	138,990	496,886	79.8	109
4.	Loan loss provisions	-2,232	-672	-2,904	-2,545	-913	-3,458	-0.6	119
5.	Net microloans	320,137	133,879	454,016	355,351	138,077	493,428	79.2	109
6.	Premises and other fixed assets	24,918	1,751	26,669	30,077	4,549	34,626	5.6	130
7.	Long-term investments	33,061	0	33,061	33,061	0	33,061	5.3	100
8.	Other assets	6,900	2,270	9,170	8,693	2,592	11,285	1.8	123
9.	Reserves on other items in assets, apart from loans	-135	-36	-171	-162	-59	-221	-0.0	129
Total assets		433,382	146,971	580,353	467,238	155,367	622,605	100	107
LIABILITIES									
10.	Liabilities on loans	177,970	101,712	279,682	195,815	103,339	299,154	48.1	107
11.	Other liabilities	21,647	6,155	27,802	25,802	8,592	34,394	5.5	124
12.	Capital	233,765	39,104	272,869	245,621	43,436	289,057	46.4	106
Total liabilities		433,382	146,971	580,353	467,238	155,367	622,605	100	107
13.	Off-balance sheet records	105,572	1,506	107,078	101,056	2,309	103,365	-	97

In the structure of assets of the FBiH microcredit sector as of September 30, 2019, the level and the share of cash is reduced, while other balance sheet positions recorded an increase in the reporting period. The biggest increase rates are disclosed in relation to 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 is connected with the increase in other liabilities and other assets.

The rate of fixed assets compared to total assets (reduced by donated capital across the FBiH microcredit sector) as of September 30, 2019 amounts to 6.0%, which is within the prescribed limit (up to 10.0%). Therein, one MCF reported a rate (57.9%) significantly higher than the prescribed limit.

The net microloan portfolio, as a dominant assets item in the microcredit sector with a share of 79.2%, recorded an increase in absolute amount of BAM 39.4 million, i.e. 8.9%, of which BAM 35.2 million, i.e. 89.3% relate to an increase in net microloans in MCF, and BAM 4.2 million, i.e. 10.7% relate to MCCs, compared to December 31, 2018. The level of loan loss provisions (LLP) for the entire microcredit portfolio in the reporting period is higher by BAM 0.5 million, i.e. 19.1%, where BAM 0.3 million relates to an increase with MCFs, with the increase rate of 14.0%, while the amount of BAM 0.2 million BAM, with the increase rate of 35.9%, relates to MCCs.

Total off-balance sheet records as of September 30, 2019 amounted to BAM 103.4 million and compared to December 31, 2018 they are reduced by BAM 3.7 million, i.e. 3.5%, where in MCF they were reduced by BAM 4.5 million, i.e. 4.3%, while in MCC they increased by BAM 0.8 million, i.e. 53.3%. Of the total amount in off-balance sheet records as of September 30, 2019, the largest item relates to the written off principal under microloans of BAM 91.3 million, i.e. 88.4%, while the amount of BAM 9.9 million, i.e. 9.6% relates to written off interest. The total number of written off microcredit sub-accounts as of December 30, 2019 is 37,636, which, compared to December 31, 2018, represents a decrease by the total of 1,529 microcredit sub-

accounts, as a net effect of the number of new write offs, permanent write offs and fully recovered microcredit sub-accounts.

2.1.2.2. Capital and Liabilities

The biggest items in liabilities in the FBiH microcredit sector as of September 30, 2019 relate to liabilities on loans taken, which amount to BAM 299.1 million, i.e. 48.1% of the total liabilities and capital, amounting to BAM 289.1 million and representing 46.4% of total liabilities. The remaining amount of BAM 34.4 million, i.e. 5.5% relate to other liabilities (under profit tax, liabilities to employees, suppliers, etc.).

Compared to December 31, 2018, in the first three quarters of 2019 there is an evident increase in liabilities for loans take, by BAM 19.5 million, i.e. 7.0%. Maturity structure liabilities for loans taken is presented in the following table:

-BAM 000-

Table 35: Maturity structure of loans taken

No.	Description	31.12.2018				30.09.2019				Index
		MCF	MCC	Total	%	MCF	MCC	Total	%	
1	2	3	4	5=(3+4)	6	7	8	9=(7+8)	10	11=9/5
1.	Liabilities on short-term loans taken out	69,189	33,197	102,386	36.6	72,943	51,559	124,502	41.6	122
2.	Liabilities on long-term loans taken out	108,781	68,515	177,296	63.4	122,872	51,780	174,652	58.4	99
	Total	177,970	101,712	279,682	100	195,815	103,339	299,154	100	107

In the structure of total liabilities on loans taken as of September 30, 2019, loan obligations of MCFs represent 65.5%, while loan obligations of MCCs represent 34.5%. In respect of the maturity structure of loan obligations compared to December 31, 2018, there is an increased share of short term liabilities by 21.6% with a slight decrease of long term liabilities by 1.5%. The largest creditors of the FBiH microcredit sector, according to their share in total loan obligations of MCOs as of September 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 16.2 million, i.e. 5.9%, of which the amount of BAM of 4.3 million, i.e. 26.5% relates to the capital increase in MCCs, while the capital of all the MCFs in the reporting period increased by BAM 11.9 million, i.e. 73.5% of the total increase of capital of the microcredit sector in the first three quarters of 2019.

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

-BAM 000-

Table 36: Microcredit sector's capital structure

No.	Description	31.12.2018					30.09.2019					Index
		Balance for MCF	%	Balance for MCC	%	Total	Balance for MCF	%	Balance for MCC	%	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	19.6	0	0.0	48,076	100
2.	Tier 1 capital	3,820	1.6	30,600	78.3	34,420	3,870	1.6	31,100	71.6	34,970	102
3.	Surplus & deficit of revenue over expenses	181,168	77.5	0	0.0	181,168	192,985	78.6	0	0.0	192,985	107
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	9,808	22.6	9,808	151
6.	Regulatory reserves	0	0.0	2,000	5.1	2,000	0	0.0	2,528	5.8	2,528	126
7.	Other reserves	701	0.3	0	0.0	701	690	0.2	0	0.0	690	98
	Total capital	233,765	100	39,104	100	272,869	245,621	100	43,436	100	289,057	106

Of the total capital of the FBiH microcredit sector which, as of September 30, 2019 amounted to BAM 289.1 million, the total capital of MCFs amounted to BAM 245.6 million, i.e. 85.0%, and the biggest items are the surplus of revenues over expenses, amounting to BAM 193.0 million and representing 78.6% of total capital of MCFs, and donated capital, amounting for BAM 48.1 million, i.e. 19.6%. Out of the total amount of donated capital, donations for credit fund were reported by nine MCFs, where 64.5% relate to three MCFs, of which one MCF is responsible for 39.1% of the total donations for the credit fund. 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.

Total capital of MCCs amounts to BAM 43.4 million, comprising 15.0% of the total capital of microcredit sector. Its structure includes these key items: Tier 1 capital of BAM 31.1 million, i.e. 71.6%, and unallocated profit of BAM 9.8 million, i.e. 22.6%. The remaining BAM 2.5 million, i.e. 5.8% of MCC capital relate to statutory reserves.

Total capital of the FBiH microcredit sector, reduced by the total amount of donated capital, as of September 30, 2019, amounted to BAM 241.0 million, comprising 83.4% of total capital, 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 September 30, 2019 amounted to 38.7% at the level of the microcredit sector, one could conclude that it complies with the prescribed limit (exceeding 10%), whereas two MCFs and one MCC do not comply with this standard, as for them this indicator has a negative value.

Other liabilities across the FBiH microcredit sector as of September 30, 2019 amounted to BAM 34.4 million, i.e. 5.5% of total liabilities, and compared to December 31, 2018 they have increased by BAM 6.6 million, i.e. 23.7%, 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 balance sheet total of the FBiH microcredit sector as of September 30, 2019 amounted to BAM 496.9 million, i.e. 79.8% of total assets of the microcredit sector, i.e. with a reduction for the corresponding LLR in the total amount of BAM 3.5 million, i.e. 0.6%, the net microloan portfolio amounts to BAM 493.4 million, i.e. 79.2% of total assets the FBiH microcredit sector. Compared to December 31, 2018, the gross microloan portfolio increased by BAM 40.0 million, i.e. by 8.7%, while the net microloan portfolio increased by the amount of BAM 39.4 million, i.e. 8.7%. In the same period, the level of LLR increased by BAM 0.6 million, i.e. 19.1%. The LLR to total gross microloan portfolio ratio as of September 30, 2019 amounted 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 point.

In the structure of total net portfolio of the microcredit sector in the FBiH as of September 30, 2019, the net microloans of MCFs amount to BAM 355.4 million and represent 72.0% of the total net microloans across the sector, while the amount of BAM 138.1 million, i.e. 28.0% of the total net microloans across the sector relate to MCCs. Compared to December 31, 2018, net microloans of MCFs increased by BAM 35.2 million, i.e. 11.0%, while the net microloans of MCCs increased by BAM 4.2 million, i.e. 3.1%.

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

-BAM 000-

No.	Description	31.12.2018			30.09.2019			Index
		MCF	MCC	Total	MCF	MCC	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	357,896	138,990	496,886	109
2.	Loan loss provisions	-2,232	-672	-2,904	-2,545	-913	-3,458	119
3.	Net microloans (1.-2.)	320,137	133,879	454,016	355,351	138,077	493,428	109

In relative terms, the 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 September 30, 2019 are shown in the following table:

-BAM 000-

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	282	7,093	35	7,410	56.8
b.)	Trade	175	2,698	17	2,890	22.2
c.)	Agriculture	26	778	4	808	6.2
d.)	Manufacturing	77	1,770	8	1,855	14.2
e.)	Other	5	72	1	78	0.6
	Total 1:	565	12,411	65	13,041	100
2.	Retail					
a.)	Services	4,666	84,007	229	88,902	18.4
b.)	Trade	1,104	13,250	52	14,406	3.0
c.)	Agriculture	7,156	154,264	256	161,676	33.4
d.)	Manufacturing	529	8,535	22	9,086	1.9
e.)	Housing needs	3,069	107,535	190	110,794	22.9
f.)	Other	16,237	82,309	435	98,981	20.4
	Total 2:	32,761	449,900	1,184	483,845	100
	Total (1+2):	33,326	462,311	1,249	496,886	-

In the maturity structure of total microloan portfolio as of September 30, 2019, reported on gross basis, the highest share is the share of long-term microloans with 93.0%, while short-term microloans have a 6.7% share and past-due receivables on microloans have a 0.3% share.

Upon observing the sector structure, the dominant share is the share of retail microloans, with 97.4%, while the remaining 2.6% 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 33.4% and for housing needs, at 22.9%. By share levels, other sectors follow with 20.4% and services with 18.4%. The share of microloans for trade is 3.0% and for manufacturing 1.9%. In the structure of corporate microloans, the dominant share is the share of microloans for services – 56.8%.

As of September 30, 2019, the FBiH microcredit sector has 162,136 active microcredit sub-accounts, which is, by 5,433 sub-accounts, i.e. 3.5%, higher compared to the end of 2018. The average amount of microloans at sector level, as of September 30, 2019 is BAM 3,065, which is, compared to December 31, 2018, higher by 5.1%. From analytical perspective, the average amount of microloans in MCFs amounts to BAM 2,692 and has increased, by 5.4%, compared to December 31, 2018, while in MCCs it amounts to BAM 4,763, and in the reporting period it has increased by 7.7%.

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 and to allocate reserves for each group to cover loan losses against operating expenses, all according to established provisioning rates. In doing so, the basis for calculating the amount of reserves is the amount of non-repaid microloans, interest and fees due and all other items where MCO is exposed to the collection risk, i.e. business failure. Therefore, MCOs are required to implement a system that allows for the establishment and maintenance of loan loss reserves and to submit FBA reports on prescribed templates. According to the aforementioned reporting obligation, the following table provides an overview of receivables with related provisions by groups according to the number of days in default, as well as data on outstanding overdue receivables over 180 days (being removed from the balance sheet), as of September 30, 2019:

- BAM 000 -

Table 39: LLR with balance as at September 30, 2019

No.	Days in default	Rate of provisions	Amount of loans	Share (%)	Past-due interest		Amount of other asset items	By microcred it	Provisioning		Total provisions
					Rate of provisions	Amount of interest			By past -due interest	By 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%	487,309	98.1	0%	3	0	0	0	0	0
2.	1–15	2%	2,935	0.6	2%	44	0	59	1	0	59
3.	16–30	15%	2,810	0.5	100%	38	0	443	38	0	481
4.	31–60	50%	1,413	0.3	100%	45	0	707	45	0	752
5.	61–90	80%	847	0.2	100%	37	0	678	37	0	715
6.	91–180	100%	1,572	0.3	100%	101	0	1,572	101	0	1,673
Total			496,886	100		268	0	3,458	222	0	3,680
7.	over 180	Write-off	1,346	-	100%	120	0	0	0	0	0

In the total microloan portfolio at the sector level, 98.1% relate to microloans without defaults, while in the remaining 1.9% microloans there are defaults, of which defaults up to 30 days represent 1.1%, while 0.8% are defaults of 31 to 180 days. Receivables for microloans with defaults exceeding 180 days amount to BAM 1.3 million, which represents 0.3% of the total gross microloan portfolio.

Out of the total amount of past-due interest (BAM 0.3 million), defaults up to 30 days represent 31.7%, while defaults of 31 to 180 days represent 68.3%. For past-due interest that has not been collected within the deadline of up to 15 days, MCOs are required to form loan loss provisions in 100% amount of receivables. Written off interest as of September 30, 2019 amounted to BAM 0.1 million.

Out of the total amount of provisions under microloans, interest and other asset items as of September 30, 2019 (BAM 3.7 million), the largest item corresponds to provisions formed for microloans in default of 91 to 180 days, which amount to BAM 1.7 million and represent 45.5% of total amount of provisions. Total provisions for past-due interest in the balance sheet amount to BAM 0.2 million and represent 6.0% of total provisions.

Key Indicators of Microcredit Portfolio Quality

Compared to December 31, 2018, gross microloan portfolio as of September 30, 2019 recorded an increase in the absolute amount of BAM 40.0 million, i.e. 8.7%. In the same period, the coverage of gross microloans with loan loss reserves increased from 0.64% as of December 31, 2018 to 0.70%, which represents an increase by 0.06 percentage points.

The risk portfolio indicator for more than 30 days in default (PAR>30 days) as of September 30, 2019 amounts to 0.77% at the level the microcredit sector and it increased by 0.05 percentage

points compared to December 31, 2018. This risk indicator of the microloan portfolio at the sector level is within the prescribed standard (below 5%), whereas one MCF (14.71%) and one MCC (8.67%) failed to comply with the prescribed standard.

The risk portfolio indicator for more than one day of default (PAR>1 day) at the microcredit sector level as of September 30, 2019 amounted to 1.93% and, compared to December 31, 2018, it increased by 0.34 percentage points.

The NPL rate across the FBiH microcredit sector as of September 30, 2019 amounted to 17.4% and ever since December 31, 2014, when it amounted to 34.8%, it has been posting a decrease. Compared to December 31, 2018, the NPL rate decreased by 1.8 percentage points.

At the microcredit sector level, the rate of write off of microloans as of September 30, 2019 amounted to 0.9%, which is within FBA standards (below 3%). This indicator is recording a constant trend of decrease since the end of 2014, when it was above the aforementioned standard. Compared to 31.12.2018, this rate dropped by 0.08 percentage points. Therein, two MCFs failed to comply with that standard, as their indicator is above 3% (5.2% and 7.1% respectively). Thereof, one MCF does not even meet the standard in respect of risk portfolio for over 30 days of default and the other MCF is near the upper limit of this standard.

As of September 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 20.7%. Four MCFs are significantly above the indicator at the sector level, where in two MCFs the aforementioned indicator is extremely high (exceeding 100%).

2.1.2.4. Profitability

In accordance with laws and regulations, MCOs operate as a non-deposit financial organizations, whose core business is microlending, which they conduct with the aim of improving the financial position of microloan 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 Decision on Conditions and Other Standards of Business and Limits in Microcredit Organizations, prescribe the distribution of surplus income over expenses 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 expenses to founders, members of relevant 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 expenses.

Pursuant to other business standards for MCOs and restrictions prescribed by Articles 11 and 12 of the subject Decision, an MCF shall use profits from operations of a MCC exclusively to carry out the activities referred to in Article 15 of the Law on MCOs and the objectives set out in the Articles of Association of a MCF that are in accordance with relevant legal provisions.

MCOs are required to ensure that the return on assets, adjusted for inflation, market price of capital and donations, is positive and that operating efficiency must not exceed 45%.

Financial Performance of the FBiH Microcredit Sector

According to reporting data for MCOs, in the period from 01.01.2019 to 30.09.2019, total financial performance at the level of the FBiH microcredit sector was positive and amounted to BAM 16.0 million, which was nearly equivalent to the same period in 2018 (by BAM 0.2 million, i.e. 0.9% lower).

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

-BAM 000-

Table 40: Aggregate income statement of microcredit sector

No.	Description	For the period 01.01. - 30.09.2018				For the period 01.01. - 30.09.2019				Index
		MCF	MCC	Total	%	MCF	MCC	Total	%	
1	2	3	4	5=(3+4)	6	7	8	9=(7+8)	10	11=(9/5)
1.	Income									
1.1.	Interest income and similar income	47,719	13,929	61,648	90.5	49,527	17,955	67,482	91.1	109
1.2.	Operating income	5,240	1,228	6,468	9.5	5,100	1,521	6,621	8.9	102
2.	Total income (1.1.+1.2.)	52,959	15,157	68,116	100	54,627	19,476	74,103	100	109
3.	Expenses									
3.1.	Interest expenses and similar expenses	6,346	2,714	9,060	15.2	6,104	3,091	9,195	14.1	101
3.2.	Operating expenses	40,494	6,776	47,270	79.3	40,900	11,038	51,938	79.8	110
3.3.	Costs of provisions for loan and other losses	2,311	986	3,297	5.5	2,836	1,151	3,987	6.1	121
4.	Total expenses (3.1.+3.2.+3.3.)	49,151	10,476	59,627	100	49,840	15,280	65,120	100	109
5.	Extraordinary income	8,637	36	8,673	-	7,702	214	7,916	-	91
6.	Extraordinary expenses	433	102	535	-	307	45	352	-	66
7.	Total income-expenses (2+5-4-6)	12,012	4,615	16,627	-	12,182	4,365	16,547	-	100
8.	Surplus / deficit of income over expense	12,012	-	12,012	-	12,182	-	12,182	-	101
9.	Profit before taxation	-	4,615	4,615	-	-	4,365	4,365	-	95
10.	Taxes	-	462	462	-	-	533	533	-	115
11.	Net profit/loss	-	4,153	4,153	-	-	3,832	3,832	-	92
12.	Total financial performance	12,012	4,153	16,165	-	12,182	3,832	16,014	-	99

MCF reported surplus of revenues over expenses, which is by BAM 0.2 million, i.e. 1.4% higher compared to September 30, 2018. In the reporting period, total income of MCFs rose by BAM 1.7 million or 3.1, whereas interest and similar income went up by BAM 1.8 million or 3.8% and operating income went down by BAM 0.1 million or 2.7%. Extraordinary income at the level of MCFs decreased, by BAM 0.9 million or 10.8%, while extraordinary expenses decreased by BAM 0.1 million or 29.1%. The costs of reserves for loan and other losses in MCFs increased by BAM 0.5 million or 22.7%.

More precisely, as of 30.09.2019, one MCF posted a shortage of income over expenses, while other MCFs saw a surplus income over expenses. In regular operations, five MCFs posted shortage of income over expenses in total amount of BAM 1.6 million, whereas BAM 1.3 million or 84.5% refers to one MCF that, thanks to extraordinary income, still posted surplus income over expenses.

At the level of MCCs, total net profit was reported in an amount of BAM 3.8 million, which, compared to September 30, 2018 represents a decrease by BAM 0.3 million, i.e. 7.7%. Therein, during the reporting period, two newly established MCCs got licensed by the FBA, of which one has not yet initiated operations and the other MCC started operating in the second quarter of 2019, but posted a loss of BAM 1,0 million. As of September 30, 2019, net financial income of MCC licensed in 2008 was BAM 4.8 million, thus posting an increase by BAM 0.6 million or 15.4% compared to the same period in 2018. As of September 30, 2019, net financial income of MCCs (a difference between total interest income and total interest expenses) was BAM 14.9 million, up by BAM 3.6 million or 32.% compared to the same period in 2018. Total operating income of MCC are higher by KM 0.3 million or 23.9% and extraordinary income by BAM 0.2

million or 494.4%. An increase of extraordinary income mostly refers to an increase of other income based on tax treatment change regarding interest on foreign loans taken (BAM 0.1 million).

Total operating expenses of MCCA posted a major rise by BAM 4.3 million or 62.9%, of which BAM 0.9 million or 20.9% of total increase refers to the newly established company that started operations in the second quarter of 2019. The remaining amount of BAM 3.4 million or 79.1% refers to an increase of salary costs and other costs related to the newly founded MCC.

In the reporting period, extraordinary income of MCCs went down by 55.9%. cost of reserves for loan and other losses in MCC was BAM 1.1 million, up by BAM 0.2 million or 16.7% compared to 30.09.2018.

Annexes 12 and 13 provide an aggregate income statement for MCFs and MCCs respectively.

Efficiency and Sustainability Indicators for FBiH Microcredit Sector

Operational efficacy of business operations of the FBiH microcredit sector as of September 30, 2019 amounted to 18.3%, which is within the prescribed range for the indicator of up to 45%, thus representing the prescribed obligation of compliance of MCOs with Article 12(1)(b) of the Decision on Conditions and Other Standards for Business Operations and Limits in Microcredit Organizations. Three MCOs diverge from the prescribed indicator, taking into account that, according to reporting data, they posted this indicator as exceeding 45%, while one MCO³⁰ showed an extremely high breach of this indicator (266.9%) due to high initial costs (salary costs and advertising costs) compared to average assets – this is typical for newly established business.

According to reporting data at the FBiH microcredit sector as of 30.09.2019, the return on assets adjusted for inflation, market price of capital and donations (AROA) (representing a difference between total income and adjusted total expenses divided by average total assets) was positive at 3.3%. Therein, four MCOs showed negative value (three MCFs and the new MCC), which is not in line with the prescribed limits.

The indicator of operational sustainability of the FBiH microcredit sector (which is used as a general standard and which represents a ratio of total income from regular operations (without extraordinary income and total expenses) amounts to 113.2%. This points to operational sustainability of the sector (above 100%). Therein, seven MCOs are disclosing this indicator below 100%, including also the newly founded MCC (10.4%). Out of the other seven MCOs, thereof one MCC, are reported in the range from 103.4% to 135.9%.

2.1.3. 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 in respect of achievement of the prescribed objectives of micro lending in terms of improving the financial position of microloan users, contributing to increase of employment and supporting entrepreneurship development,
- implementation of the regulatory framework for business operations and supervision of MCOs in the FBiH, with the aim of fully and adequately enforcing applicable regulations and

³⁰ The newly founded MCC, which did not start its business activities until the second quarter.

increasing the transparency of business operations of the FBiH microcredit sector and undertaking appropriate supervisory measures;

- timely and adequate undertaking of activities in MCOs according to the corrective measures imposed to eliminate irregularities and weaknesses in business operations.

In exercising competencies for supervision and maintenance of stability in the FBiH microcredit sector, 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 service users.

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

- performance of micro lending activities to improve the financial position of users, increase employment and support entrepreneurial development, starting from legally prescribed micro lending goals with consistent application of legal provisions for the protection of financial service users, including aligning interest rates policies on microloans with the prescribed micro lending goals, thus contributing to stability and sustainability of the FBiH microcredit sector;
- maintaining and enhancing sound risk management practices for risks to which MCOs are or might be exposed, efficiency of internal control systems and independent internal audit functions;
- resource optimizing and applying the principles of responsible micro lending, 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 CLR management purposes;
- improving business transparency, etc.

MCOs that are less capitalized and/or have a materially significant amount of written off microloans need to 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 to larger and more powerful MCFs in order to optimize resources, preserve donated funds, ensure support from foreign creditors, and ensure perspectives for 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 microlending in the FBiH.

2.2. LEASING SECTOR

2.2.1. FBiH LEASING SECTOR STRUCTURE

2.2.1.1. Number of Leasing Companies

The FBA license for leasing operations was, as of September 30, 2019, held by five leasing companies in the FBiH. Compared to June 30, 2019, the number of leasing companies has declined, because the operating license was revoked from one leasing company, under the FBA

Decision No. 04-1-2220-1/19 od 03.09.2019, which followed after the decision on the company's business registration change.

Annex 14 provides basic information on leasing companies, which, as of September 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 September 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 one leasing company is in 100% ownership 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 September 30, 2019, there was the total of 127 employees in the leasing sector in the FBiH, of which 123 are engaged based on an employment contract (reporting category of "full-time employees"), while there are four employees engaged through the student employment services and through employment mediation organizations (reporting category of "temporary employees"). The number of full-time employees, compared to December 31, 2018, is higher by five employees, i.e. 4.2%.

In the qualification structure of employees in the leasing sector of FBiH as at September 30, 2019 there were no major changes compared to preceding reporting periods. The highest share refers to employees with university qualification (66.7%), followed by employees with secondary school qualifications (19.5%).

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). According to indicators as at September 30, 2019, at the level of the leasing sector in the FBiH, each employee corresponded to BAM 2.7 million in assets. This indicator is nearly the same as in the preceding reporting period. Analytical indicators for individual leasing companies in the FBiH range from BAM 0.3 million to BAM 5.3 million in assets per employee.

2.2.2. FINANCIAL INDICATORS OF PERFORMANCE

2.2.2.1. Balance Sheet

Total assets of the FBiH leasing sector as at September 30, 2019 amounted to BAM 334.2 million and are higher by BAM 37.1 million, i.e. 12.5% compared to December 31, 2018. Two leasing companies, viewed on the basis of asset size, are responsible for 73.9% of total assets of the FBiH leasing sector.

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

Upon comparing the amount of assets of individual leasing companies as of September 30, 2019 with data as of December 31, 2018³¹, it could be inferred that in four leasing companies an increase was reported of the balance sheet sum of BAM 53.7 million, while one leasing company reported a decrease in balance sheet sum in the total amount of BAM 4.9 million.

Annex 18 provides an overview of assets, financial lease receivables and net balance of funds provided in form of operational leasing facilities, as well as financial result of leasing companies as of September 30, 2019, while Annex 19 provides an overview of core financial indicators at the system level (five 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 246.1 million, i.e. 73.6% of total assets. Compared to December 31, 2018, net receivables under financial leasing are higher by BAM 31.5 million, i.e. 14.7%, while gross receivables under financial leasing are higher by BAM 41.5 million, i.e. 17.8%. In the same period, reserves for losses for receivables under financial leasing increased by BAM 1.2 million, i.e. 141.6%, whereas four leasing companies posted an increase of loss reserve of BAM 1.6 million, of which BAM 1.4 million refers to one company, while one leasing company posted a loss reserve decrease of BAM 0.4 million.

Having reviewed the reports of the bank that is performing financial leasing operations, it was concluded that the reported net receivables under financial leasing contracts were BAM 67.4 million as of 30.09.2019, thus representing a reduction of BAM 14.6 million or 17.8% compared to 31.12.2018.

Total net receivables at the FBiH leasing system level as of 30.09.2019 stood at BAM 313.5 million and are by BAM 16.9 million or 5.7% higher than the balance as of 31.12.2018.

In the structure of 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 84.1%, contracts for equipment financing participate with 15.2%, while 0.7% relates to contracts under which real estate is financed. If viewed by types of lessees, the most significant increase is with the retail segment – being 39.0% higher than as of 31.12.2018.

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

-in BAM 000-

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	34,623	74,036	2,257	110,916	44.7%
Vehicles for performing business activity (cargo and passenger vehicles)	37,314	59,490	1,066	97,870	39.4%
Machines and equipment	13,430	23,973	279	37,682	15.2%
Real estate	309	1,500	26	1,835	0.7%

³¹ 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

Other	0	0	0	0	0,0%
Total	85.676	158.999	3.628	248.303	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	77,177	138,473	1,874	217,524	87.6%
Entrepreneurs	2,086	3,745	105	5,936	2.4%
Retail	4,555	13,882	1,643	20,080	8.1%
Other	1,858	2,899	6	4,763	1.9%
Total	85,676	158,999	3,628	248,303	100%

-in BAM 000-

Table 42: Structure of financial leasing receivables – comparative overview

By leasing object	Receivables as of 31.12.2018	Receivables as of 30.09.2019	Index
1	2	3	4=(3/2)
Passenger vehicles	86,363	110,916	128
Vehicles for performing business activity (cargo and passenger vehicles)	99,446	97,870	98
Machines and equipment	27,434	37,682	137
Real estate	2,324	1,835	79
Other	4	0	0
Total	215,571	248,303	115
By lessee	Receivables as of 31.12.2018	Receivables as of 30.09.2019	Index
1	2	3	4=(3/2)
Corporate	191,495	217,524	114
Entrepreneurs	5,416	5,936	110
Natural persons	14,478	20,080	139
Other	4,182	4,763	114
Total	215,571	248,303	115

Net receivables under loans as of September 30, 2019 amount to BAM 5.5 million, i.e. 1.6% of total assets of the FBiH leasing sector. Compared to December 31, 2018, net receivables under loans decreased by BAM 0.8 million, i.e. 12.6%. 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 balance sheets of leasing companies in the FBiH until the contractual terms for which they were approved expire. The reported amount of net receivables under loans relates to receivables of one leasing company, holding 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 balance sheet position of cash and cash equivalents as of September 30, 2019 amounted to BAM 4.1 million, which was by BAM 9.9 million, i.e. 70.6% lower compared to December 31, 2018. Share of the above position in total assets as at September 30, 2019 amounted to 1.2%, which was lower by 3.5 percentage points compared to December 31, 2018, when it amounted to 4.7%.

Placements to banks as of September 30, 2019 amounted to BAM 21.6 million, comprising 6.5% of total assets the FBiH leasing sector, which was by BAM 4.4 million, i.e. 25.5% higher compared to December 31, 2018. Of the total amount of these placements, BAM 19.6 million, i.e. 90.7% relate to term deposits held by one leasing company with commercial banks.

Net value of fixed assets financed through operational leasing as of September 30, 2019 amounts to BAM 45.2 million and has increased by BAM 9.9 million, i.e. 27.9% compared to December

31, 2018³². Individually viewed, two leasing companies reported an increase of net value of fixed assets financed through operational leasing of BAM 10.4 million, while two leasing companies reported a decrease of BAM 0.6 million.

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

-in BAM 000-

Table 43: Structure of net balance sheet assets positions

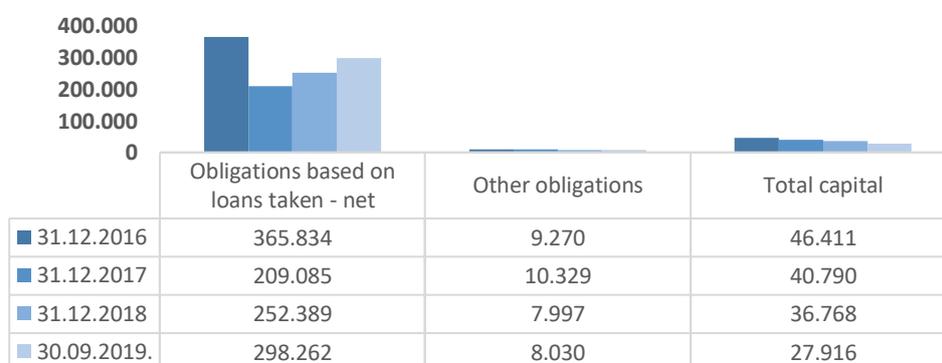
Description	31.12.2018	Share in assets	30.09.2019	Share in assets	Index
1	2	3	4	5	6=(4/2)
Financial leasing	214,674	72.3%	246,136	73.6%	115
Operational leasing	35,385	11.9%	45,243	13.5%	128
Loan	6,253	2.1%	5,463	1.6%	87
Other assets	40,842	13.7%	37,366	11.2%	91
Total	297,154	100%	334,208	100.0%	112

2.2.2.2. Capital and Liabilities

Total liabilities of the leasing sector as of September 30, 2019 amounted to BAM 306.3 million, comprising 91.6% of total liabilities of leasing companies in the FBiH. Compared to December 31, 2018, total liabilities at sector level increased by BAM 45.9 million, i.e. 17.6%.

Chart 9 shows the structure of liabilities of the FBiH leasing sector as of 30.09.2019:

Chart 9: Structure of liabilities



Liabilities of leasing companies in the FBiH on loans taken as at September 30, 2019 still represent the dominant source in structure of total liabilities of the FBiH leasing sector, as they represent 89.2% of total liabilities. Compared to December 31, 2018, the position of loan obligations is higher by BAM 45.9 million, i.e. 18.2%. Borrowings from commercial foreign and domestic banks, which mostly belong to banking groups, to which leasing companies also belong, represent 54.2% of total loan obligations, 25.2% relate to direct borrowings from founders, and 20.6% relate to borrowings from EIB, EBRD and CEDB. Loan funds of these banks are, by their nature, earmarked and mostly relate to small and medium-size enterprise development, and are secured by bank guarantees issued by parent banks or their holding companies.

The total amount of liabilities under loans taken, from the point of contractual maturity, relates to long-term loan obligations.

³² A comparison of balance sheet data of five leasing companies being operational as of 30.09.2019 with seven leasing companies being operational as of 31.12.2018.

Total weighted NIR which the leasing companies paid on sources of funds in January 1 – September 30, 2019 was 1.6% on an annual level (interest rate calculated based on average balance of loans taken and interest expenses in the reporting period) and they are by 0.2 percentage points higher than in the period from January 1 - December 31, 2018.

Total capital of the FBiH leasing sector as of September 30, 2019 amounted to BAM 27.9 million. Compared to December 31, 2018, the aforementioned position was reduced by BAM 8.8 million, i.e. 24.1%. The reduction of total capital was caused by the fact that, during 2019, FBA revoked licenses from two leasing companies whose balance sheet data were included in the reports as of 31.12.2018. Observed individually, three leasing companies saw an increase of total capital compared to 31.12.2018 of BAM 3,9 million, while two leasing companies had their total capital reduced by BAM 1.5 million. As of 30.09.2019, one leasing company posted total capital below the regulatory minimum defined in the LoL. This was caused by administrative difficulties related to the process of an ownership share transfer from the existing to the new owner of this leasing company. The capital increase process in this company is expected to be finalised by the end of 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 September 30, 2019 amount to BAM 2.2 million and are higher compared to December 31, 2018 by BAM 1.2 million, i.e. 141.6%. In the structure of receivables under financial leasing as of September 30, 2019, the total of BAM 3.6 million of overdue receivables was reported, which is by BAM 1.4 million, i.e. 61.6% higher compared to December 31, 2018. The presented data indicate to worsened asset quality of the leasing sector, as mostly caused by a major amount of loss reserves and an increase of overdue receivables with one leasing company. As of 30.09.2019, this leasing company posted loss reserves of BAM 1.4 million, thus representing 63.7% of the total allocated reserves of the leasing sector.

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 000-

Table 44: Reserves created in leasing sector for financial leasing by default categories

Days of default	Total reserves as of 31.12.2018	Total reserves as of 30.09.2019	Index
1	2	3	4=(3/2)
0-60	325	838	258
60-90	19	137	721
90-180	120	786	656
over 180	427	406	95
over 360	6	0	0
Total	897	2,167	242

Observed by default categories of overdue receivables and compared to 31.12.2018, there is a slight decrease of loss reserves in the default categories over 180 days, while there is a major increase across all default categories up to 180 days.

The increase in overdue receivables and the increase in reserves for losses in the first three quarters of 2019 reflect changes in the quality of portfolio of financial leasing receivables, which

require an improvement in credit risk management, timely recognition of difficulties in collection of financial leasing receivables and their efficient resolution.

Reserves for loans as of September 30, 2019 amounted to BAM 5.9 million and they were unchanged compared to December 31, 2018, whereas the entire amount of created reserves for loans refers to one leasing company whose portfolio includes significant amount of receivables under contracts for loans from subsidiaries.

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 September 30, 2019 amounted to BAM 18.0 million BAM and is significantly lower compared to December 31, 2018, by BAM 54.8 million, i.e. 75.2%, due to the license being revoked from two leasing companies, which reported a total of BAM 51.2 million of written off receivables as of December 31, 2018.

The market value of foreclosed leasing objects, due to termination of leasing contracts with lessees as of September 30, 2019 at the level of the FBiH leasing sector, amounted to BAM 1.0 million. The structure of foreclosed items at the FBiH leasing sector level is shown in the following table:

-in BAM 000 -

Table 45: Foreclosed items in the leasing sector

Type of leasing object	31.12.2018		30.09.2019	
	Number of units	Estimated market value of leasing object	Number of units	Estimated market value of leasing object
1	2	3	4	5
Passenger vehicles	19	299	35	380
Vehicles for performing business activity (cargo and passenger vehicles)	2	16	1	25
Machines and equipment	3	96	1	5
Real estate	6	931	3	563
Other	0	0	0	0
Total:	30	1,342	40	973

Of the total reported amount of appraised market value of foreclosed items in the FBiH leasing sector as of September 30, 2019, 57.8% relate to real estate (commercial facilities) for which leasing companies assumed possession for reasons of non-compliance with contractual liabilities on the part of lessees. The total amount of the above position relates to two leasing companies. The number of foreclosed items –leasing objects increased in the reporting period (by 10 items, i.e. 33.3%), while their market value decreased by the total amount of BAM 0.4 million, i.e. 27.5% compared to December 31, 2018.

Viewed from the level of the FBiH leasing system as of September 30, 2019, the market value of foreclosed leasing items amounted to BAM 8.8 million and it decreased by BAM 0.9 million or 9.4% compared to December 31, 2018. Out of the above amount of foreclosed leasing items, items foreclosed by the bank that is performing leasing activities correspond to BAM 7.9 million, i.e. 89.0% of the total market value of foreclosed items reported at the level of the leasing system.

Current market situation and inadequate criteria for approving financing from preceding years are causing difficulties regarding sale or new financing of foreclosed real estate through financial or operational leasing, especially taking into account the fact that the foreclosed 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 in the period from January 1 - September 30, 2019, net profit of BAM 150 million was reported and, compared to the same period of 2018, it decreased by BAM 1.9 million, i.e. 56.1%. The reported decrease of net profit compared to the same period in 2018 was mainly affected by the increase in total expenses by BAM 2.3 million, i.e. 11.1%, and the increase in total income of BAM 0.4 million, i.e. 1.7%. Viewed individually, three leasing companies reported positive financial performance of BAM 4.7 million, while two leasing companies reported negative financial performance of BAM 3.2 million, of which one leasing company is responsible for BAM 2.2 million, i.e. 68.8% of the total reported negative financial performance. This major decrease of the leasing sector's financial performance was caused by increased interest expenses due to higher number of loan obligations of leasing companies, as well as by higher amount of loss reserves posted at the leasing sector level.

The aggregate income statement for leasing companies in the FBiH as of September 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 000 -

Description	30.09.2017		30.09.2018		30.09.2019	
	Amount	Number of leasing companies	Amount	Number of leasing companies	Amount	Number of leasing companies
1	2	3	4	5	6	7
Loss	-863	3	-1,901	3	-3,224	2
Profit	3,922	3	5,223	4	4,684	3
Total	3,059	6	3,322	7	1,460	5

Total income of the FBiH leasing sector as of September 30, 2019 amounted to BAM 24.2 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 000-

Structure of total income	30.09.2017		30.09.2018		30.09.2019		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	7,509	31.4	6,799	28.6	8,740	36.1	91	129
Interest on placements to banks	167	0.7	189	0.8	299	1.2	113	158
Other interest income	2,111	8.8	1,201	5.0	1,184	4.9	57	99
Total I	9,787	41.0	8,189	34.4	10,223	42.2	84	125
II Operating income								
Operating lease charges	7,917	33.1	9,474	39.8	9,898	40.9	120	104
Service fees	4	0.0	1	0.0	969	4.0	25	n.a.
Other operating income	5,495	23.0	6,148	25.8	3,126	12.9	112	51
Total II	13,416	56.1	15,623	65.6	13,993	57.8	116	90
Income from release of reserves for losses	694	0.0	0	0.0	0	0.0	n.a.	n.a.
Total income (I+II)	23,897	97.1	23,812	100.0	24,216	100.0	100	102

The FBiH leasing sector's interest income in the January 1 - September 30, 2019 period amounted to BAM 10.2 million and it increased by BAM 2.0 million, i.e. 24.8%, compared to

the same period last year. The most significant position in interest income is interest income from financial leasing in the total amount of BAM 8.7 million and it is by BAM 1.9 million, i.e. 28.6%, higher compared to the same period of the preceding financial year.

Operating income amounted to BAM 14.0 million and compared to the same period last year it is lower by BAM 1.6 million, i.e. 10.4%, due to decreased collection of written off receivables and lower income from sale of leasing items. There was an increase of operational leasing fee income by 14.7%.

Total expenses as of September 30, 2019 amounted to BAM 22.7 million, and the level and structure of total expenses compared to the same period of the preceding two financial years are shown in the following table:

-in BAM 000-

Structure of total expenses	30.09.2017		30.09.2018		30.09.2019		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)
I Interest expenses and similar income								
Interest on borrowed funds	2,489	11.9	2,325	11.3	3,162	13.9	93	136
Fees for processing loans	68	0.3	68	0.3	75	0.3	100	110
Other interest expenses	3	0.0	3	0.0	9	0.0	n.a.	300
Total I	2,560	12.3	2,396	11.7	3,246	14.3	94	135
II Operating expenses								
Salary and contribution costs	3,814	18.3	4,891	23.9	3,955	17.4	128	81
Business premises costs	6,541	31.4	7,412	36.2	7,217	31.7	113	97
Other costs	7,923	38.0	5,587	27.3	6,697	29.4	71	120
Total II	18,278	87.7	17,890	87.3	17,869	78.5	98	100
III Costs of reserves	0	0.0	204	1.0	1,641	7.2	n.a.	n.a.
Profit tax	0	0.0	0	0.0	0	0.0	0	0
Total expenses (I+II+III)	20,838	100.0	20,490	100.0	22,756	100.0	98	111

Interest related expenses in the first three quarters of 2019 amounted to BAM 3.2 million and were higher compared to the same period of the preceding financial year by BAM 0.9 million, i.e. 35.5%. Interest expenses under loans taken saw an increase by BAM 0.8 million or 36.0%.

In the reporting period, operating expenses remained nearly the same, whereas their structure shows a decrease of costs of salaries and contributions (which refers to reduced number of employees in the leasing sector) and a decrease of costs of business premises (which refers to the reduced number of leasing companies). Therein, other expenses posted a rise by 19.9%.

The most significant change in the structure of total expenses of the FBiH leasing sector in the reporting period referred to an increase in costs of reserves for losses of BAM 1.4 million, which is 8 times higher than in the same period last year. The mentioned 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 1.2 million, i.e. 20.4%.

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

The value of newly concluded contracts for financial and operational leasing executed at the level of the leasing system in January 1 – September 30, 2019, amounts to BAM 154.8 million and is higher by BAM 14.8 million, i.e. 10.6%, compared to the same period of the preceding financial year.

The number of newly concluded leasing contracts in the same period was 4,544, which was by 1,337 contracts or 41.7% higher compared to the same period last year.

The average value of contracts at the level of the leasing system concluded in the first three quarters of 2019 amounted to BAM 34.1 thousand and it is lower compared to the same period last year, when it amounted to BAM 43.7 thousand.

Out of the total generated value of newly concluded contracts in the first three quarters of 2019, the amount of BAM 132.5 million, i.e. 85.5% relate to financial leasing contracts. 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 operational leasing contracts in the total volume of newly concluded contracts.

The following tables show a comparative overview of the realized volume of newly concluded contracts in the first three quarters 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 000-

Table 49: Structure of financing amount of the leasing system

Description	30.09.2018			30.09.2019		
	Financial leasing	Operational leasing	Total	Financial leasing	Operational leasing	Total
1	2	3	4=(2+3)	5	6	7=(5+6)
Vehicles	106,805	16,373	123,178	108,434	22,468	130,902
Equipment	16,792	0	16,792	24,050	0	24,050
Real estate	188	0	188	0	0	0
Other	0	0	0	0	0	0
Total	123,785	16,373	140,158	132,384	22,468	154,852

Table 50: Structure of concluded contracts

Description	30.09.2018			30.09.2019.		
	Financial leasing	Operational leasing	Total	Financial leasing	Operational leasing	Total
1	2	3	4=(2+3)	5	6	7=(5+6)
Vehicles	2,569	502	3,071	3,362	942	4,304
Equipment	135	0	135	240	0	240
Real estate	1	0	1	0	0	0
Other	0	0	0	0	0	0
Total	2,705	502	3,207	3,602	942	4,544

The total amount of new financing in the first three quarters of 2019 was achieved 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 one leasing company has suspended concluding new contracts, except in sporadic cases of financing of foreclosed leasing items.

The structure of new placements is, according to type of lessee, dominated by placements to legal persons, which represent 89.9% of the total amount of financing in the first three quarters of 2019. One of key reasons for this rests with the fact that financing through leasing for natural persons is less favorable compared to loans because of liability to pay VAT on interest, which is an additional cost for clients that are not VAT taxpayers.

2.2.3. 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 focusing on the following aspects:

- ongoing steady supervision of business operations of the leasing sector, i.e. system, in the FBiH, through reports and onsite examinations;
- preservation of capital adequacy of the FBiH leasing system and strengthening of internal processes for defining the parameters of capital protection in the entities of the FBiH leasing system;
- monitoring and evaluating 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 laws 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 CLR;
- support to improvement of the business environment for 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 lease financing services, 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 accuracy, validity and comprehensiveness of accounting and non-accounting records, compliance with business policies, activity programs and plans, laws and other regulations and documents, as well as protection of property of companies and preventive action and prevention of fraud and errors;
- transparent, comprehensible and complete notification of clients about financial and operational leasing services they provide, etc.

2.3. FACTORING SECTOR

2.3.1. FBiH Factoring Sector Characteristics

Pursuant to provisions of the LoF, factoring operations in the FBiH may be conducted by a commercial enterprise organized as a joint stock company or a limited liability company seated in the FBiH and being licensed by the FBA, and by a bank whose operations are subject to regulations governing banks' operations in the FBiH and to which the relevant chapters of the LoF apply.

FBA, in accordance with its competencies for supervision prescribed in the LoA, performs supervision of business operations of factoring companies with the aim of verifying lawfulness, security and stability of business operations of such companies in accordance with LoF,

protecting interests of clients and the public interests, contributing to stability of the financial system, and establishing and maintaining confidence in the factoring market in the FBiH. In accordance with prescribed competencies for the supervision of business operations of BSEs in the FBiH, FBA also performs supervision over performance of factoring operations in the FBiH banks. If, in the course of performing supervision, it determines unlawfulness and irregularities in factoring operations, FBA shall impose appropriate corrective measures and activities.

The factoring system, as of September 30, 2019, consists of one factoring company licensed by the FBA 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 countries and one in majority domestic ownership.

The general meeting of shareholders of this factoring company enacted a decision at the end of June 2019 on deletion of the factoring business. Early in July 2019, the company submitted an application to the FBA for revocation of the factoring license. The resolution of the company's application is in process in line with laws and regulations of the FBA.

Annex 23 provides basic information on the company and an overview of ownership structure as of September 30, 2019. According to reporting data as of September 30, 2019, total balance sheet sum of the Company amounted to BAM 0.6 million, where the biggest item represents cash and cash equivalents of BAM 0.4 million, i.e. 65.5% 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 company reported a loss of BAM 0.3 million in the period 01.01.-30.09.2019.

Across the FBiH factoring system, the total volume of redeemed monetary claims in the period 01.01. to 30.09.2019 amounted to BAM 139.1 million, of which BAM 138.5 million, i.e. 99.5% relate to banks and BAM 0.7 million or 0.5% to the company. 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 the FBiH

The total number of concluded factoring contracts at the factoring system level in the period 01.01. to 30.09.2019 was 244, thus referring to domestic factoring exclusively. Thereof, 237 contracts, i.e. 97.1% were concluded with the right of 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. There were also seven concluded contracts or 2.9% that relate to factoring without the right of recourse. Having compared reporting data with the same period last year, it is evident that the number of concluded factoring contracts is higher by 34 contracts or 6.6%.

The total redeemed nominal amount of monetary claims at the level of the FBiH factoring system in the period January 1 - September 30, 2019 is BAM 139.1 million, which compared to the same period of 2018, represents an increase by BAM 47.1 million, i.e. 51.2%. The structure of redeemed nominal amount of monetary claims at the level of the FBiH factoring system by type of factoring and domicile status, with comparative data and trends in reporting periods, is shown in the following table:

Table 51: Nominal amount of redeemed monetary claims across the FBiH factoring system - by type of factoring and domicile status

Type of factoring/ domicile status	Volume of redeemed monetary claims												Index (12:10)x 100
	Factoring companies				Banks				Total				
	01.01. - 30.09.2018		01.01. - 30.09.2019		01.01. - 30.09.2018		01.01. - 30.09.2019		01.01. - 30.09.2018		01.01. - 30.09.2019		
	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	42,281	45.9	63,383	45,8	42,281	45.9	63,383	45.5	150
Factoring without right to recourse	0	0	659	100	49,745	54.1	73,039	52,7	49,745	54.1	73,698	53.0	158
Reversed (supplier) factoring	0	0	0	0	0	0	2,057	1,5	0	0	2,057	1.5	0
Total	0	0	659	100	92,026	100	138,479	100	92,026	100	139,138	100	151
Domestic factoring	0	0	659	100	92,026	100	138,479	100	92,026	100	139,138	100	151
Foreign factoring	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	0	0	659	100	92,026	100	138,479	100	92,026	100	139,138	100	151

The change in the structure of redeemed monetary claims in the reporting period relates 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 the share of factoring with the right to recourse. The structure by domicile status is unchanged.

According to contractual maturity, the highest share in the total volume (amount) of redeemed monetary claims in the third quarter of 2019 of 61.8% corresponds to redeemed monetary receivables with contractual maturity of 91 to 180 days, followed by the share of 23.4% with contractual maturity of up to 60 days, 13.6% for contractual maturity of 61 to 90 days and the remaining 1.2% for contractual maturity exceeding 180 days. There were no significant changes in the maturity structure compared to the same period in 2018.

By the sector structure of buyers of the recourse right, the highest share is with private enterprises and companies, in view of the value (volume) of redeemed claims, which, in the period from 01.01.-30.09.2019, amounted to BAM 79.4 million, comprising 57.0% of the total value (volume) at the level of the factoring system of FBiH. It is followed by the share of public enterprises, which amounts to BAM 55.9 million, i.e. 40.2%, of the total value (volume) at the level of the factoring system of FBiH, and share of governmental institutions of BAM 1.8 million, comprising 1.3% 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 three quarters of 2019, amounts to BAM 2.0 million, comprising 1.5% of the total value (volume) at the level of the factoring system of FBiH. The mentioned amount relates to the service of reversed (supplier) factoring which was, in the first three quarters of 2019, provided by one bank, and on that basis the payment was performed of the buyer's liabilities to suppliers. By domicile status, the mentioned amount fully relates to domestic factoring, with contractual 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 133.6 million, of which the amount of BAM 73.6 million, i.e. 55.1% relate to factoring without right to recourse, while the amount of BAM 60.0 million, i.e. 44.9% relate to factoring with right to recourse.

On the basis of redeemed monetary claims as of September 30, 2019, banks claimed the total of BAM 36.9 million, fully in domestic factoring, of which BAM 19.8 million, i.e. 53.9% relate to factoring with right to recourse, BAM 16.6 million, i.e. 45.0% relate to factoring without right to recourse and BAM 0.4 million, i.e. 1.1% relate to reversed (supplier) factoring. The structure of the mentioned amount of redeemed claims by contractual maturities is the following: with contractual maturity of up to 60 days – 10.6%, of 61 to 90 days – 18.5%, of 91 to 180 days – 66.4%, and over 180 days – 4.6%.

Total income of the factoring service providers in the FBiH for January 1 - September 30, 2019 amounted to BAM 1.7 million, of which the realized income of banks represents 98.2% of the total reported income in the FBiH factoring system. In the structure of the reported total income, 44.1% relate to factoring with right to recourse (taking into account interest income, charges for factoring and administrative fees), 55.1% relate to contracted factoring without right to recourse and 0.8% relate to reversed (supplier) factoring.

2.3.3. FACTORING SECTOR RECOMMENDATIONS

Factoring business in the third quarter of 2019 was conducted exclusively through 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 beginning to develop in the FBiH market within the legislative and institutional frameworks defined under the LoF and the FBA regulations governing factoring operations in more detail.

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 much larger volume than insofar.

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 relevant regulations and contributing to preservation of financial stability in BiH.

CONCLUSION

In order to preserve and strengthen stability of the banking system, protect depositors, and ensure lawful, safe and quality operations of all BSEs in the FBiH falling within its area of supervision competency, FBA continuously supervises their operations, carrying out planned activities and taking measures in accordance with its legal authorities, and adopts general and individual regulations governing the work of the BSEs, all in compliance with laws, Basel principles and standards for effective supervision of banks and applicable EU directives based on those principles and standards.

As of September 30, 2019, positive developments in the banking sector have continued, reflecting in the increase of assets, loans, cash and deposits, as well as improvements in profitability of the entire banking sector compared to the same period in 2018. Also present is continued increase in lending to private companies, public enterprises, households, non-banking financial institutions, and other sectors while lending has decreased to government institutions, banking institutions and public sector enterprises. The 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 expenses. Based on the reported key business indicators of the FBiH banking sector as of September 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, 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 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, all with the aim of preventive action.

Analyzing the MCO reporting data in the FBiH as of September 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, and total capital. Business operations have continued with a positive financial performance, while maintaining the prescribed limitations in business operations

As of September 30, 2019, at the level of the leasing system in the FBiH, an increase was reported in the volume of business compared to 31.12.2018, according to the number and value of newly concluded contracts and the increase in portfolio of net financial leasing receivables. Asset quality, capitalisation and profitability indicators show a need for improvement of the risk management system in order to ensure stable and sustainable business operations of the FBiH leasing sector.

Performance indicators of the FBiH factoring system in as od September 30, 2019 show 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 regulations of the FBA that govern the factoring operations in more detail.

No.: U.O.-38-02/19

Sarajevo, 27.12.2019

ANNEXES - BANKING SECTOR

Annex 1- Basic information on FBiH banks as at 30.09.2019

No.	Bank	Web address	Number of employees	Management Chairperson
1.	ADDIKO BANK dd - SARAJEVO	www.addiko.ba	398	Sanela Pašić
2.	ASA BANKA dd - SARAJEVO	www.asabanka.ba	224	Samir Mustafić
3.	BOSNA BANK INTERNATIONAL dd - SARAJEVO	www.bbi.ba	460	Amer Bukvić
4.	INTESA SANPAOLO BANKA dd BOSNA I HERCEGOVINA	www.intesasanpaolobanka.ba	563	Almir Krkalić
5.	KOMERCIJALNO-INVESTICIONA BANKA dd V.KLADUŠA	www.kib-banka.com.ba	78	Hasan Porčić
6.	NLB BANKA dd - SARAJEVO	www.nlb.ba	449	Lidija Žigić
7.	PRIVREDNA BANKA SARAJEVO dd – SARAJEVO	www.pbs.ba	165	Hamid Pršeš
8.*	PROCREDIT BANK dd – SARAJEVO	www.procreditbank.ba	139	Edin Hrnjica
9.	RAIFFEISEN BANK dd BiH – SARAJEVO	www.raiffeisenbank.ba	1,382	Karlheinz Dobnigg
10.	SBERBANK BH dd - SARAJEVO	www.sberbank.ba	444	Jasmin Spahić
11.	SPARKASSE BANK dd BOSNA I HERCEGOVINA- SARAJEVO	www.sparkasse.ba	526	Sanel Kusturica
12.	UNICREDIT BANK dd - MOSTAR	www.unicreditbank.ba	1,245	Dalibor Ćubela
13.	UNION BANKA dd - SARAJEVO	www.unionbank.ba	194	Vedran Hadžiahmetović
14.	VAKUFСКА BANKA dd - SARAJEVO	www.vakuba.ba	170	Denis Čivgin
15.	ZIRAATBANK BH dd - SARAJEVO	www.ziraatbosnia.com	308	Yusuf Dilaver
TOTAL			6,745	

*On 08.11.2019, FBA has issued an approval for the new chairperson of the Management Board – Mr. Amir Salkanović.

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

-in BAM 000-

No.	Description	31.12.2018		30.09.2019		Index
1	2	3	4	5	6	7=5/3
	ASSETS	Amount	% of total assets	Amount	% of total assets	
1.	Cash and deposit accounts with deposit institutions	6,591,117	29.8%	7,602,038	32.0%	115
	l.a. Cash and non-interest bearing deposit accounts	2,975,624	13.4%	3,165,779	13.3%	106
	l.b. Interest bearing deposit accounts	3,615,493	16.4%	4,436,259	18.7%	123
2.	Securities at fair value through profit or loss and at fair value in other comprehensive income	1,150,050	5.2%	1,233,841	5.2%	107
3.	Placements to other banks	270,604	1.2%	128,252	0.5%	48
4.	Loans, leasing type receivables and past-due receivables	14,325,634	64.8%	14,906,519	62.8%	104
	4.a. Loans	13,211,045	59.8%	13,837,397	58.3%	105
	4.b. Leasing type receivables	92,282	0.4%	71,315	0.3%	77
	4.c. Past-due receivables on loans and leasing type receivables	1,022,307	4.6%	997,807	4.2%	98
5.	Securities at amortized cost	154,576	0.7%	158,899	0.7%	103
6.	Business premises and other fixed assets	477,533	2.2%	537,934	2.3%	113
7.	Other real-estate	54,234	0.2%	56,064	0.2%	103
8.	Investments in subsidiaries and affiliates	12,065	0.1%	15,944	0.1%	132
9.	Other assets	328,491	1.5%	330,762	1.4%	101
10.	MINUS: Impairments	1,270,169	5.7%	1,228,353	5.2%	97
	10.a. Impairments of items in position 4 of Assets	1,190,760	5.4%	1,152,636	4.9%	97
	10.b. Impairments of assets items, except for position 4 of Assets	79,409	0.3%	75,717	0.3%	95
11.	TOTAL ASSETS	22,094,135	100%	23,741,900	100%	107
	LIABILITIES					
12.	Deposits	17,604,487	79.7%	18,965,184	79.9%	108
	12.a. Interest-bearing deposits	12,429,484	56.3%	13,784,243	58.1%	111
	12.b. Non interest-bearing deposits	5,175,003	23.4%	5,180,941	21.8%	100
13.	Borrowings – past-due liabilities	150	0.0%	150	0.0%	100
	13.a. Balance of overdue liabilities	0	0.0%	0	0.0%	-
	13.b. Balance of not settled, 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%	797,155	3.4%	92
	16.a. with residual maturity up to one year	178,386	0.8%	188,511	0.8%	106
	16.b. with residual maturity over one year	684,545	3.1%	608,644	2.6%	89
17.	Subordinated debts and subordinated bonds	124,181	0.6%	203,723	0.9%	164
18.	Other liabilities	531,300	2.4%	616,559	2.5%	116
19.	TOTAL LIABILITIES	19,123,049	86.6%	20,582,771	86.7%	108
	CAPITAL					
20.	Permanent priority shares	8,828	0.0%	365	0.0%	4
21.	Common shares	1,290,872	5.8%	1,299,335	5.5%	101
22.	Issue premiums	137,290	0.6%	137,290	0.6%	100
	22.a. on permanent priority shares	88	0.0%	88	0.0%	100
	22.b. on common shares	137,202	0.6%	137,202	0.6%	100
23.	Undistributed profit and capital reserves	1,096,380	5.0%	1,329,051	5.6%	121
24.	Exchange rate differences	0	0.0%	0	0.0%	-
25.	Other capital	256,236	1.2%	250,924	1.0%	98
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%	3,159,129	13.3%	106
28.	TOTAL LIABILITIES AND CAPITAL: (19. + 27.)	22,094,135	100%	23,741,900	100%	107
	PASSIVE AND NEUTRAL SUB-BALANCE SHEET	707,503		715,642		101
	TOTAL	22,801,638		24,457,542		107

Annex 3- Overview of assets, loans, deposits and financial performance of FBiH banks-
30.09.2019

-in BAM 000-

No.	Bank	Assets		Loans		Deposits		Financial performance
		Amount	%	Amount	%	Iznos	%	Amount
1.	ADDIKO BANK d.d. - SARAJEVO	947,945	4.0%	614,829	4.1%	702,107	3.7%	7,321
2.	ASA BANKA d.d. - SARAJEVO	522,293	2.2%	358,706	2.4%	441,849	2.3%	4,011
3.	BOSNA BANK INTERNATIONAL d.d. - SARAJEVO	1,199,483	5.1%	784,159	5.3%	922,143	4.9%	7,819
4.	INTESA SANPAOLO BANKA d.d. BOSNA I HERCEGOVINA	2,270,283	9.6%	1,621,631	10.9%	1,748,494	9.2%	30,460
5.	KOMERCIJALNO-INVESTICIONA BANKA d.d. V.KLADUŠA	102,114	0.4%	54,420	0.4%	70,101	0.4%	942
6.	NLB BANKA d.d. - SARAJEVO	1,252,763	5.3%	834,005	5.6%	1,017,442	5.4%	17,682
7.	PRIVREDNA BANKA SARAJEVO d.d. - SARAJEVO	496,916	2.1%	298,628	2.0%	395,323	2.1%	2,052
8.	PROCREDIT BANK d.d. - SARAJEVO	528,190	2.2%	404,931	2.7%	255,365	1.3%	-647
9.	RAIFFEISEN BANK d.d. BiH - SARAJEVO	4,698,107	19.8%	2,699,797	18.1%	3,869,398	20.4%	56,499
10.	SBERBANK BH d.d. - SARAJEVO	1,517,222	6.4%	1,026,858	6.9%	1,267,513	6.7%	9,143
11.	SPARKASSE BANK d.d. BOSNA I HERCEGOVINA- SARAJEVO	1,615,100	68%	1,106,118	7.4%	1,307,763	6.9%	17,398
12.	UNICREDIT BANK d.d. - MOSTAR	6,414,600	27.0%	3,903,191	26.2%	5,283,578	27.9%	94,784
13.	UNION BANKA d.d. - SARAJEVO	843,852	3.5%	253,212	1.7%	745,803	3.9%	1,478
14.	VAKUFСКА BANKA d.d. - SARAJEVO	315,877	1.3%	206,497	1.3%	273,676	1.4%	572
15.	ZIRAATBANK BH d.d.- SARAJEVO	1,017,155	4.3%	739,537	5.0%	664,629	3.5%	1,410
	TOTAL	23,741,900	100%	14,906,519	100%	18,965,184	100%	250,924

Annex 4- FBiH banks' balance sheet asset classification -30.09.2019

– BALANCE SHEET ASSET ITEMS CLASSIFICATION –

-in BAM 000-

No	Balance sheet asset items	Classification					Total
		A	B	C	D	E	
1.	Short-term loans	2,689,629	179,812	5,951	414	796	2,876,602
2.	Long-term loans	10,158,882	529,902	111,827	74,031	10,113	10,884,755
3.	Other facilities	421,603	624	20	156	2,280	424,683
4.	Accrued interest and fees	42,118	3,340	2,196	3,746	41,111	92,511
5.	Past-due receivables	38,400	22,757	13,356	243,741	650,638	968,892
6.	Receivables on paid guarantees	0	0	0	451	28,462	28,913
7.	Other balance sheet assets classified	881,960	3,164	537	885	45,185	931,731
8.	TOTAL BALANCE SHEET ASSETS THAT ARE CLASSIFIED (sum of positions 1 through 7 – calculation basis for regulatory loan loss reserves)	14,232,592	739,599	133,887	323,424	778,585	16,208,087
9.	ACCRUED REGULATORY LOAN LOSS RESERVES ON BALANCE SHEET ASSETS	280,567	64,298	38,638	189,065	778,585	1,351,153
10.	IMPAIRMENT OF BALANCE SHEET ASSETS	222,528	64,218	75,450	184,755	675,535	1,222,486
11.	REQUIRED REGULATORY RESERVES FROM PROFIT FOR ESTIMATED LOSSES ON BALANCE SHEET ASSETS	164,700	37,524	3,909	40,034	102,691	348,858
12.	CREATED REGULATORY RESERVES FROM PROFIT FOR ESTIMATED LOSSES ON BALANCE SHEET ASSETS	66,942	23,208	2,101	5,413	14,185	111,849
13.	SHORTFALL IN REGULATORY RESERVES FROM PROFIT FOR ESTIMATED LOSSES ON BALANCE SHEET ASSETS						251,485
14.	BALANCE SHEET ASSETS THAT ARE NOT CLASSIFIED (gross carrying amount)						8,762,167
15.	TOTAL BALANCE SHEET ASSETS (gross carrying amount)						24,970,254

OVERVIEW OF NON-CLASSIFIED BALANCE SHEET ASSETS 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	5,187,269
14.b	Sight deposits and term deposits of up to one month in accounts with banks with established investment-grade ratings	2,263,460
14.c	Tangible and intangible assets	564,730
14.d	Foreclosed financial and tangible assets within one year of foreclosure	4,588
14.e	Own (treasury) shares	0
14.f	Receivables on overpaid tax liabilities	25,090
14.g	Held-for-trading securities	11,844
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	705,186
	TOTAL position 14	8,762,167
8a.	Amount of facilities secured with cash deposits	204,329

Annex 4a-Classification of off-balance sheet risk assets items of FBiH banks-30.09.2019

– CLASSIFICATION OF OFF-BALANCE SHEET ITEMS –

-in BAM 000-

No.	Off-balance sheet items	Classification					Total
		A	B	C	D	E	
1.	Payable guarantees	379,570	47,049	748	0	0	427,367
2.	Performance guarantees	738,142	69,325	1,322	4,892	79	813,760
3.	Uncovered letters of credit	36,236	1,997	0	0	0	38,233
4.	Irrevocably approved, but undrawn loans	2,011,549	82,902	357	51	146	2,095,005
5.	Banks' other contingent liabilities	13,845	419	406	143	76	14,889
6.	TOTAL OFF-BALANCE SHEET ASSETS THAT ARE CLASSIFIED (sum of positions 1 through 5 – calculation basis for regulatory loan loss reserves)	3,179,342	201,692	2,833	5,086	301	3,389,254
7.	ACCRUED REGULATORY LOAN LOSS RESERVES ON OFF-BALANCE SHEET ASSETS	62,694	13,132	683	3,049	301	79,859
8.	LOSS PROVISIONS FOR OFF-BALANCE SHEET ITEMS	32,870	2,656	1,836	4,924	211	42,497
9.	REQUIRED REGULATORY RESERVES FROM PROFIT FOR ESTIMATED LOSSES ON OFF-BALANCE SHEET ASSETS	41,118	11,533	58	40	91	52,840
10.	CREATED REGULATORY RESERVES FROM PROFIT FOR ESTIMATED LOSSES ON OFF-BALANCE SHEET ASSETS	21,455	8,829	25	4	2	30,315
11.	SHORTFALL IN REGULATORY RESERVES FROM PROFIT FOR ESTIMATED LOSSES ON OFF-BALANCE SHEET ASSETS						22,525
12.	OFF-BALANCE SHEET ASSETS THAT ARE NOT CLASSIFIED						707,648
13.	TOTAL OFF-BALANCE SHEET ASSETS						4,096,902
6a.	Amount of contingent liabilities secured with cash deposits						44,607
6b.	Amount of approved, but undrawn loans with clause on unconditional cancellation						668,214

Annex 5- FBiH banks' income statement according to FBA's scheme -30.09.2019

-in BAM 000-

No	Description	30.09.2018	%	30.09.2019	%	Index
1	2	3	4	5	6	7=5/3
1.	INTEREST INCOME AND EXPENSES	Amount	%	Amount	%	
a)	Interest income and similar income					
1)	Interest-bearing deposit accounts with deposit institutions	3,183	0.4	4,075	0.5	128
2)	Placements to other banks	1,379	0.2	3,160	0.4	229
3)	Loans and leasing operations	493,134	62.8	486,425	60.6	99
4)	Securities held to maturity	2,510	0.3	3,234	0.4	129
5)	Equity securities	0	0.0	0	0.0	0
6)	Receivables on paid off-balance sheet liabilities	1	0.0	1	0.4	100
7)	Other interest income and similar income	54,767	7.0	52,393	6.5	95.7
8)	TOTAL INTEREST INCOME AND SIMILAR INCOME	554,974	70.7	549,288	68.4	99
b)	Interest expenses and similar expenses					
1)	Deposits	79,870	10.2	70,777	8.8	89
2)	Borrowings from other banks	0	0.0	0	0.0	0
3)	Borrowings taken – past-due liabilities	0	0.0	0	0.0	0
4)	Liabilities on loans and other borrowings taken	6,835	0.9	6,878	0.9	101
5)	Subordinated debts and subordinated bonds	5,859	0.7	5,581	0.7	95
6)	Other interest expenses and similar expenses	6,174	0.8	12,686	1.5	205
7)	TOTAL INTEREST EXPENSES AND SIMILAR EXPENSES	98,738	12.6	95,922	11.9	97
c)	NET INTEREST AND SIMILAR INCOME	456,236	58.1	453,366	56.5	99
2.	OPERATING INCOME					
a)	Income from foreign exchange operations	45,651	5.8	47,758	5.9	105
b)	Loan fees	8,063	1.0	7,928	1.0	98
c)	Off-balance sheet operation fees	16,549	2.1	16,961	2.1	102
d)	Service fees	218,336	27.8	239,957	29.9	110
e)	Income from trading operations	306	0.0	1,319	0.2	431
f)	Other operating income	40,577	5.2	35,673	4.4	88
g)	TOTAL OPERATING INCOME a) through f)	329,482	41.9	349,596	43.5	106
	TOTAL INCOME (1c + 2g)	785,718	100	802,962	100	102
3.	NON-INTEREST EXPENSES					
a)	Operating and direct expenses					
1)	Risk asset impairment costs, provisions for contingent liabilities and other value adjustments	63,377	8.1	58,147	7.3	92
2)	Other operating and direct costs	91,893	11.7	103,937	12.9	113
3)	TOTAL OPERATING AND DIRECT EXPENSES 1) + 2)	155,270	19.8	162,084	20.2	104
b)	Operating expenses					
1)	Salary and contribution costs	190,459	24.2	194,329	24.2	102
2)	Business premises costs, other fixed assets and overheads	112,560	14.3	114,495	14.3	102
3)	Other operating costs	80,758	10.3	79,412	9.9	98
4)	TOTAL OPERATING EXPENSES 1) through 3)	383,777	48.8	388,236	48.4	101
c)	TOTAL NON-INTEREST EXPENSES	539,047	68.6	550,320	68.6	102
	TOTAL EXPENSES (1b7+3c)	637,785	100	646,242	100	101
4.	PROFIT BEFORE TAXATION	259,927	33.1	253,289	31.5	97
5.	LOSS	13,256	1.7	647	0.1	5
6.	TAXES	0	0.0	1,896	0.2	0
7.	PROFIT ON INCREASE IN DEFERRED TAX ASSETS AND DECREASE IN DEFERRED TAX LIABILITIES	0	0.0	208	0.0	0
8.	LOSS ON DECREASE IN DEFERRED TAX ASSETS AND INCREASE IN DEFERRED TAX LIABILITIES	0	0.0	30	0.0	0
9.	NET PROFIT (4.-6.+7.-8. or 7.-5.-6.-8.)	259,927	33.1	251,571	31.3	97
10.	NET LOSS (4.-6.-7+8. or 6.+8.-4.-7.)	13,256	1.7	647	0.1	5
11.	FINANCIAL PERFORMANCE (9.-10.)	246,671	-	250,924	-	102

Annex 6- Weighted average NIR and EIR on loans and deposits as of 30.09.2019

Weighted average NIR and EIR on loans

-in %-

No.	Description	31.12.2018		30.09.2019	
		NIR	EIR	NIR	EIR
1	2	3	4	5	6
1.	Weighted interest rates on short-term loans	2.67	2.97	2.35	2.71
1.1.	Corporate	2.61	2.84	2.30	2.60
1.2.	Retail	7.53	14.66	7.22	13.53
2.	Weighted interest rates on long-term loans	4.66	5.62	4.64	5.59
2.1.	Corporate	3.61	3.91	3.47	3.74
2.2.	Retail	5.55	7.06	5.40	6.77
3.	Total weighted interest rates	3.56	4.15	3.32	3.93
3.1.	Corporate	2.88	3.13	2.56	2.85
3.2.	Retail	5.59	7.22	5.43	6.91

Weighted average NIR and EIR on deposits

-in %-

R.br.	Opis	31.12.2018		30.09.2019	
		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	0.32
2.	Weighted interest rates on long-term deposits	1.15	1.16	1.26	1.20
2.1.	Up to three years	0.99	1.01	1.13	1.04
2.2.	Over three years	1.44	1.45	1.59	1.60
3.	Total weighted interest rates on deposits	0.66	0.65	0.79	0.76

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

Weighted average NIR and EIR on loans by periods

-in %-

No.	Description	30.09.2015		30.09.2016		30.09.2017		30.09.2018		30.09.2019	
		NIR	EIR								
1	2	3	4	5	6	7	8	9	10	11	12
1.	Weighted interest rates on short-term loans	5.16	5.56	4.14	4.58	3.25	3.53	2.71	3.00	2.35	2.71
1.1.	Corporate	5.13	5.47	4.10	4.45	3.19	3.39	2.64	2.87	2.30	2.60
1.2.	Retail	7.82	11.30	7.89	13.61	8.32	15.35	7.62	14.85	7.22	13.53
2.	Weighted interest rates on long-term loans	6.67	7.64	6.23	7.33	5.49	6.56	4.74	5.73	4.64	5.59
2.1.	Corporate	5.73	6.39	4.98	5.29	4.16	4.46	3.69	4.00	3.47	3.74
2.2.	Retail	7.40	8.62	7.25	8.99	6.42	8.02	5.59	7.15	5.40	6.77
3.	Total weighted interest rates	5.87	6.55	5.07	5.81	4.22	4.84	3.61	4.22	3.32	3.93
3.1.	Corporate	5.30	5.74	4.33	4.68	3.42	3.65	2.92	3.17	2.56	2.85
3.2.	Retail	7.41	8.71	7.28	9.14	6.46	8.18	5.64	7.31	5.43	6.91

Weighted average NIR and EIR on deposits by periods

-in %-

No.	Description	30.09.2015		30.09.2016		30.09.2017		30.09.2018		30.09.2019	
		NIR	EIR								
1	2	3	4	5	6	7	8	9	10	11	12
1.	Weighted interest rates on short-term deposits	0.76	0.77	0.36	0.37	0.39	0.39	0.33	0.32	0.33	0.32
1.1.	Up to three months	0.33	0.34	0.28	0.28	0.36	0.36	0.37	0.34	0.33	0.32
1.2.	Up to one year	1.28	1.30	0.71	0.73	0.53	0.54	0.28	0.28	0.33	0.32
2.	Weighted interest rates on long-term deposits	2.41	2.43	1.80	1.82	1.36	1.38	1.10	1.12	1.26	1.20
2.1.	Up to three years	2.21	2.24	1.60	1.63	1.24	1.26	0.93	0.95	1.13	1.04
2.2.	Over three years	2.93	2.94	2.36	2.37	1.79	1.83	1.38	1.39	1.59	1.60
3.	Total weighted interest rates on deposits	1.68	1.70	0.94	0.95	0.72	0.72	0.59	0.59	0.79	0.76

ANNEXES - MICRO CREDIT SECTOR

Annex 7- Basic information on FBiH MCOs as at 30.09.2019

No .	MCO name	Director	License issuance date	Number of employees	Web address
1.	MKD "EKI" d.o.o. Sarajevo	Almir Sultanović	04.02.2008	292	www.eki.ba
2.	MKF "EKI" Sarajevo	Esad Uzunić	20.08.2007	205	www.eki.ba
3.	MKF "LIDER" Sarajevo	Džavid Sejfović	04.02.2008	79	www.lider.ba
4.	"LOK MKF" Sarajevo	Elma Čardaklija - Bašić	04.02.2008	73	www.lok.ba
5.	MKF "MELAHA" Sarajevo	Jakob Finci	09.10.2007	6	www.melaha.ba
6.	MKF "MI-BOSPO" Tuzla	Safet Husić	09.07.2007	185	www.mi-bospo.org
7.	MKF "MIKRA" Sarajevo	Sanin Čampara	19.03.2008	133	www.mikra.ba
8.	MKF "MIKRO ALDI" Goražde	Ferida Softić	20.08.2007	33	www.mikroaldi.org
9.	"PARTNER MKF" Tuzla	Senad Sinanović	20.08.2007	291	www.partner.ba
10.	"PRVA ISLAMSKA MKF" Sarajevo	Edina Hadžimurtezić	10.12.2007	8	www.mfi.ba
11.	MKF "SANI" Zenica	Sulejman Haračić	09.10.2007	4	-
12.	MKF "SUNRISE" Sarajevo	Samir Bajrović	20.08.2007	173	www.microsunrise.ba
13.	MKD „IUTECREDIT BH“ d.o.o. Sarajevo	Vilma Tunjić Juzbašić	28.02.2019	28	www.iutecredit.ba
14.	MKD „CREDO CENTAR“ d.o.o. Mostar*	Mirko Ljubić	12.09.2019	-	-
Total				1,510	

*MCC Credo centar d.o.o. Mostar received an operating license by the FBA on 12.09.2019, but has not started its business activities until 30.09.2019.

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

No.	Description	Microloan disbursements in the period 01.01.2019 – 30.09.2019 (in BAM '000s)	Weighted NIR (average)	Weighted EIR (average)
1.	Short-term microloans for:	52,882	21.00%	31.22%
1.1.	service activities	7,538	19.92%	26.85%
1.2.	trade	2,203	19.88%	27.49%
1.3.	agriculture	11,321	19.39%	26.19%
1.4.	manufacturing	950	19.21%	26.11%
1.5.	housing needs	9,334	19.01%	23.86%
1.6.	general-basic needs	4,794	15.70%	48.73%
1.7.	other	16,742	25.44%	36.46%
2.	Long-term microloans for:	304,338	19.31%	23.06%
2.1.	service activities	58,688	18.85%	22.29%
2.2.	trade	9,919	19.42%	23.31%
2.3.	agriculture	94,773	18.08%	21.33%
2.4.	manufacturing	6,956	18.82%	22.35%
2.5.	housing needs	68,596	18.81%	22.10%
2.6.	general-basic needs	11,390	19.30%	23.27%
2.7.	other	54,016	22.65%	28.10%
3.	Total microloans	357,220	19.56%	24.27%

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

No.	Description	Microloan disbursements in the period 01.01.2019 – 30.09.2019 (in BAM '000s)	Weighted NIR (average)	Weighted EIR (average)
1.	Short-term microloans for:	19,150	15.36%	115.62%
1.1.	service activities	1,699	17.57%	21.21%
1.2.	trade	1,229	16.50%	19.10%
1.3.	agriculture	1,854	17.32%	20.43%
1.4.	manufacturing	488	15.79%	18.67%
1.5.	housing needs	348	17.52%	23.69%
1.6.	general-basic needs	10,720	17.77%	23.69%
1.7.	other	2,812	2.68%	653.47%
2.	Long-term microloans for:	47,940	17.63%	20.86%
2.1.	service activities	6,741	16.55%	18.59%
2.2.	trade	2,284	16.50%	18.58%
2.3.	agriculture	11,370	16.25%	18.22%
2.4.	manufacturing	1,238	16.17%	18.16%
2.5.	housing needs	10,938	18.30%	21.35%
2.6.	general-basic needs	15,088	18.55%	23.86%
2.7.	other	281	22.70%	32.85%
3.	Total microloans	67,090	16.98%	47.91%

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

Average weighted NIR on:	01.01.-30.09. 2015	01.01.-30.09. 2016	01.01.-30.09. 2017	01.01.-30.09. 2018	01.01.-30.09. 2019
Short-term microloans	18.59%	17.27%	19.74%	20.94%	21.00%
Long-term microloans	20.86%	20.75%	20.43%	19.70%	19.31%
Total microloans	20.36%	20.08%	20.31%	19.88%	19.56%
Average weighted EIR on:	01.01.-30.09. 2015	01.01.-30.09. 2016	01.01.-30.09. 2017	01.01.-30.09. 2018	01.01.-30.09. 2019
Short-term microloans	26.39%	26.16%	28.37%	28.20%	31.22%
Long-term microloans	24.64%	24.66%	24.25%	23.39%	23.06%
Total microloans	25.02%	24.94%	24.91%	24.12%	24.27%

Annex 9-MCFs' aggregate balance sheet-30.09.2019

-in BAM 000-

No.	Description	31.12.2018	%	30.09.2019	%	Index
1	2	3	4	5	6	7=5/3
ASSETS		Amount	%	Amount	%	
1.	Cash (1a+1b)	48,291	11.1	38,068	8.1	79
1a)	Cash and non-interest bearing deposit accounts	33,993	7.7	21,750	4.6	64
1b)	Interest-bearing deposit accounts	14,298	3.4	16,318	3.5	114
2.	Placements to banks	210	0.0	2,150	0.5	1024
3.	Loans	322,370	74.4	367,896	78.7	111
3a)	Loan loss reserves	-2,232	-0.5	-2,545	-0.6	114
3b)	Net loans (3-3a)	320,137	73.9	355,351	76.1	111
4.	Business premises and other fixed assets	24,918	5.8	30,077	6.4	121
5.	Long-term investments	33,061	7.6	33,061	7.1	100
6.	Other assets	6,900	1.6	8,693	1.8	126
7.	Minus: reserves on other asset items, except for loans	-135	-0.0	-162	-0.0	120
8.	Total assets	433,382	100	467,238	100	108
LIABILITIES						
9.	Liabilities on short-term loans taken out	69,189	16.0	72,943	15.6	105
10.	Liabilities on long-term loans taken out	108,781	25.1	122,872	26.3	113
11.	Other liabilities	21,647	5.0	25,802	5.5	119
12.	Total liabilities	199,617	46.1	221,617	47.4	111
13.	Donated capital	48,076	11.1	48,076	10.3	100
14.	Tier 1 capital	3,820	0.9	3,870	0.8	101
15.	Surplus of income over expenses	243,189	56.1	254,497	54.5	105
15a)	for previous years	230,646	53.2	243,153	52.0	105
15b)	for current year	12,543	2.9	11,344	2.4	90
16.	Shortfall of income over expenses	-62,021	-14.3	-61,512	-13.2	99
16a)	for previous years	61,278	14.1	61,471	13.2	100
16b)	for current year	743	0.2	41	0.0	6
17.	Other reserves	701	0.1	690	0.2	98
18.	Total capital	233,765	53.9	245,621	52.6	105
19.	Total liabilities	433,382	100	467,238	100	108
Off-balance sheet records						
	- written-off loans	105,151	-	100,697	-	91
	- commission operations	421	-	359	-	98

Annex 10-MCCs' aggregate balance sheet-30.09.2019

-in BAM 000-

No.	Description	31.12.2018	%	30.09.2019	%	Index
1	2	3	4	5	6	7=5/3
ASSETS		Amount	%	Amount	%	
1.	Cash (1a+1b)	9,107	6.2	10,208	6.5	112
1a)	Cash and non-interest bearing deposit accounts	9,107	6.2	9,708	6.2	107
1b)	Interest-bearing deposit accounts	0	0.0	500	0.3	n/a
2.	Placements to banks	0	0.0	0	0.0	n/a
3.	Loans	134,551	91.6	138,990	89.5	103
3a)	Loan loss reserves	-672	-0.5	-913	-0.6	136
3b)	Net loans (3-3a)	133,879	91.1	138,077	88.9	103
4.	Business premises and other fixed assets	1,751	1.2	4,549	2.9	260
5.	Long-term investments	0	0.0	0	0.0	n/a
6.	Other assets	2,270	1.5	2,592	1.7	114
7.	Minus: reserves on other asset items, except for loans	-36	0.0	-59	-0.0	164
8.	Total assets	146,971	100	155,367	100	106
LIABILITIES						
9.	Liabilities on short-term loans taken out	33,197	22.6	51,559	33.2	155
10.	Liabilities on long-term loans taken out	68,515	46.6	51,780	33.3	76
11.	Other liabilities	6,155	4.2	8,592	5.6	140
12.	Total liabilities	107,867	73.4	111,931	72.1	104
13.	Donated capital	0	0.0	0	0.0	n/a
14.	Tier 1 capital	30,600	20.8	31,100	20.0	102
15.	Surplus of income over expenses	0	0.0	0	0.0	n/a
16.	for previous years	6,504	4.4	9,808	6.3	151
16a)	for current year	1,225	0.8	5,976	3.8	488
16b)	Shortfall of income over expenses	5,279	3.6	3,832	2.5	73
17.	for previous years	2,000	1.4	2,528	1.6	126
18.	for current year	0	0.0	0	0.0	n/a
19.	Other reserves	39,104	26.6	43,436	27.9	111
20.	Total capital	146,971	100	155,367	100	106
Off-balance sheet records						
	- written-off loans	1,506	-	2,309	-	153
	- commission operations	0	-	0	-	n/a

Annex 11- Overview of MCOs' key financial indicators - 30.09.2019

-in BAM 000-

No.	MCO name	Amount of assets	Amount of gross portfolio	Amount of capital	Surplus (shortfall) of income over expenses/ net profit (loss)	Placements in January 1-September 30, 2019
1.	MKD "EKI" d.o.o. Sarajevo	153,319	137,917	43,897	4,793	79,589
2.	MKD „IUTECREDIT BH“ d.o.o. Sarajevo	2,048	1,073	-461	-961	1,336
3.	MKF "EKI" Sarajevo	87,997	35,915	68,447	1,302	32,187
4.	MKF "LIDER" Sarajevo	24,328	22,618	11,543	222	17,866
5.	"LOK MKF" Sarajevo	10,479	5,867	3,444	589	4,484
6.	MKF "MELAHA" Sarajevo	1,228	870	531	10	649
7.	MKF "MI-BOSPO" Tuzla	73,148	65,976	25,873	1,964	52,534
8.	MKF "MIKRA" Sarajevo	41,149	33,761	9,761	1,009	27,109
9.	MKF "MIKRO ALDI" Goražde	7,985	7,551	5,144	191	5,981
10.	"PARTNER MKF" Tuzla	157,729	138,026	90,052	5,207	89,556
11.	"PRVA ISLAMSKA MKF" Sarajevo	2,438	1,760	2,162	8	1,853
12.	MKF "SANI" Zenica	423	390	184	-41	379
13.	MKF "SUNRISE" Sarajevo	60,334	45,162	28,480	1,721	43,697
14.	MKD „CREDO CENTAR“ d.o.o. Mostar*	-	-	-	-	-
Total		622,605	496,886	289,057	16,014	357,220

*MCC Credo centar d.o.o. Mostar received an operating license from the FBA on 12.09.2019, but has not started its business activities until 30.09.2019. Resultantly, it has no balance sheet positions posted.

Annex 12-MCFs aggregate income statement-30.09.2019

-in BAM 000-

No.	Description	For the period 01.01. - 30.09.2018	%	For the period 01.01. - 30.09.2019	%	Index
1	2	3	4	5	6	7=(5/3)
I	FINANCIAL INCOME AND EXPENSES	Amount	%	Amount	%	
1.	Interest income and similar income					
1.1.	Interest on interest-bearing deposit accounts with deposit institutions	8	0.0	8	0.0	100
1.2.	Interest on placements to banks	13	0.0	6	0.0	46
1.3.	Interest on loans	46,808	98.1	48,630	98.2	104
1.4.	Other financial income	890	1.9	883	1.8	99
1.5.	Total interest income and similar income (1.1. through 1.4.)	47,719	100	49,527	100	104
2.	Interest expenses and similar expenses					
2.1.	Interest on borrowed funds	5,849	92.2	5,557	91.0	95
2.2.	Other financial expenses	497	7.8	547	9.0	110
2.3.	Total interest expenses and similar expenses (2.1. through 2.2.)	6,346	100	6,104	100	96
3.	Net financial income (1.5. - 2.3.)	41,373	-	43,423	-	105
II	OPERATING INCOME AND EXPENSES					
4.	Operating income					
4.1.	Service fees	4,979	95.0	4,835	94.8	97
4.2.	Other operating income	261	5.0	265	5.2	102
4.3.	Total operating income (4.1. through 4.2.)	5,240	100	5,100	100	97
5.	Operating expenses					
5.1.	Salary and contribution costs	26,879	66.4	27,713	67.8	103
5.2.	Business premises costs, other fixed assets and overheads	7,762	19.2	7,484	18.3	96
5.3.	Other operating costs	5,853	14.4	5,703	13.9	97
5.4.	Total operating expenses (5.1. through 5.3.)	40,494	100	40,900	100	101
6.	Costs of provisions for loan and other losses	2,311	-	2,836	-	123
7.	Surplus/shortfall of income over expenses from ordinary business operations (3.+4.3.-5.4.-6.)	3,808	-	4,787	-	126
8.	Extraordinary income	8,637	-	7,702	-	89
9.	Extraordinary expenses	433	-	307	-	71
10.	Surplus/shortfall of income over expenses (7.+8.-9.)	12,012	-	12,182	-	101

Annex 13-MCCs' Aggregate income statement-30.09.2019

-in BAM 000-

No.	Description	For the period 01.01. - 30.09.2018	%	For the period 01.01. - 30.09.2019	%	Index
1	2	3	4	5	6	7=(5/3)
I	FINANCIAL INCOME AND EXPENSES	Amount	%	Amount	%	
1.	Interest income and similar income					
1.1.	Interest on interest-bearing deposit accounts with deposit institutions	0	0.0	1	0.0	0
1.2.	Interest on placements to banks	0	0.0	0	0.0	0
1.3.	Interest on loans	13,921	99.9	17,937	99.9	129
1.4.	Other financial income	8	0.1	17	0.1	213
1.5.	Total interest income and similar income (1.1. through 1.4.)	13,928	100	17,955	100	129
2.	Interest expenses and similar expenses					
2.1.	Interest on borrowed funds	2,550	94.0	2,989	96.7	117
2.2.	Other financial expenses	164	6.0	102	3.3	62
2.3.	Total interest expenses and similar expenses (2.1. through 2.2.)	2,714	100	3,091	100	114
3.	Net financial income (1.5. - 2.3.)	11,215	-	14,864	-	133
II	OPERATING INCOME AND EXPENSES					
4.	Operating income					
4.1.	Service fees	1,114	90.7	1,366	89.8	123
4.2.	Other operating income	114	9.3	155	10.2	136
4.3.	Total operating income (4.1. through 4.2.)	1,228	100	1,521	100	124
5.	Operating expenses					
5.1.	Salary and contribution costs	4,805	70.9	7,288	66.0	152
5.2.	Business premises costs, other fixed assets and overheads	1,057	15.6	1,814	16.5	172
5.3.	Other operating costs	914	13.5	1,936	17.5	212
5.4.	Total operating expenses (5.1. through 5.3.)	6,776	100	11,038	100	163
6.	Costs of provisions for loan and other losses	986	-	1,151	-	117
7.	PROFIT/LOSS FROM ORDINARY BUSINESS OPERATIONS (3.+4.3.-5.4.-6.)	4,681	-	4,196	-	90
8.	Extraordinary income	36	-	214	-	594
9.	Extraordinary expenses	102	-	45	-	44
10.	PROFIT/LOSS BEFORE TAXATION	4,615	-	4,365	-	95
11.	TAX	462	-	533	-	115
12.	Net profit/loss	4,153	-	3,832	-	92

ANNEXES – LEASING SECTOR

Annex 14- Basic information on leasing companies as at 30.09.2019

No.	Leasing company name	Director	License issuance date	Number of employees	Web address
1.	MOGO d.o.o. Sarajevo	Marina Smailova	01.06.2018	28	www.mogo.ba
2.	PORSCHE LEASING d.o.o.	Dejan Stupar	28.05.2015	21	www.porscheleasing.ba
3.	RAIFFEISEN LEASING d.o.o. Sarajevo	Maja Jurčević	19.01.2010	38	www.rlbh.ba
4.	SPARKASSE LEASING d.o.o. Sarajevo	Elma Hošo	11.02.2010	25	www.s-leasing.ba
5.	Vantage LEASING d.o.o Sarajevo	Slobodan Vujić	12.01.2010	11	www.vantageleasing.ba
Total				123	

Annex 15- Overview of weighted NIR and EIR for financial leasing contracts for the period 01.01.- 30.09.2019

Average nominal and effective interest rates for financial leasing contracts concluded in the period 01.01.-30.09.2019					
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:	37	850	6.8%	13.8%
a.	passenger vehicles	29	412	10.7%	21.7%
b.	vehicles for performing business activity (cargo and passenger vehicles)	7	412	3.4%	6.5%
c.	machines and equipment	1	267	3.0%	6.2%
d.	real estate	0	0	0.0%	0.0%
e.	other	0	0	0.0%	0.0%
1.1.	Short-term leasing contracts by lessees:	37	850	6.8%	13.8%
a.	corporate	19	748	3.2%	6.1%
b.	entrepreneurs	0	0	0.0%	0.0%
c.	retail	18	102	33.0%	69.8%
2.	Long-term leasing contracts by leasing object:	3,565	131,534	5.9%	9.2%
a.	passenger vehicles	2,485	67,586	7.7%	12.3%
b.	vehicles for performing business activity (cargo and passenger vehicles)	841	40,165	4.0%	6.3%
c.	machines and equipment	239	23,783	3.7%	5.2%
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:	3,565	131,534	5.9%	9.2%
a.	corporate	2,489	116,129	4.1%	6.0%
b.	entrepreneurs	83	2,546	5.0%	7.3%
c.	retail	993	12,859	22.3%	39.0%
	Total (1+2)	3,602	132,384	5.9%	9.2%

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

Weighted average NIR and EIR on financial leasing contracts					
	30.09.2015	30.09.2016	30.09.2017	30.09.2018	30.09.2019
Description	1	2	3	4	5

	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
I Short-term leasing contracts										
1. By leasing object	4.8%	7.6%	7.7%	7.1%	3.6%	6.2%	4.5%	11.0%	6.8%	13.8%
a) Passenger vehicles	5.2%	8.4%	4.9%	10.6%	5.0%	8.5%	4.6%	13.4%	10.7%	21.7%
b) Vehicles for performing business activity	4.6%	7.4%	4.0%	5.3%	3.7%	6.2%	4.4%	7.6%	3.4%	6.5%
c) Machines and equipment	3.8%	5.2%	0.8%	2.2%	1.3%	2.6%	0.0%	0.0%	3.0%	6.2%
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	4.8%	7.6%	3.7%	7.0%	3.6%	6.2%	4.5%	11.0%	6.8%	13.8%
a) Corporate	4.7%	7.4%	3.6%	5.6%	3.5%	5.8%	4.3%	7.8%	3.2%	6.1%
b) Entrepreneurs	0.0%	0.0%	5.9%	11.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
c) Retail	7.6%	17.4%	5.9%	45.5%	6.5%	30.2%	7.4%	56.3%	33.0%	69.8%
II Long-term leasing contracts										
2. By leasing object	6.0%	8.2%	5.1%	8.2%	4.7%	7.1%	4.2%	6.6%	5.9%	9.2%
a) Passenger vehicles	6.0%	9.1%	5.5%	9.6%	5.0%	8.1%	4.7%	7.8%	7.7%	12.3%
b) Vehicles for performing business activity	5.5%	7.5%	4.7%	7.1%	4.4%	6.5%	4.0%	5.9%	4.0%	6.3%
c) Machines and equipment	6.3%	8.0%	5.2%	6.9%	4.4%	6.2%	3.5%	5.1%	3.7%	5.2%
d) Real estate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	4.0%	4.2%	0.0%	0.0%
e) Other	7.8%	11.4%	6.0%	9.2%	7.0%	36.5%	0.0%	0.0%	0.0%	0.0%
2.1. By lessee	5.9%	8.1%	5.1%	8.2%	4.7%	7.1%	4.2%	6.6%	5.9%	9.2%
a) Corporate	5.9%	7.9%	5.1%	7.4%	4.6%	6.6%	4.1%	5.9%	4.1%	6.0%
b) Entrepreneurs	6.9%	10.4%	6.4%	8.8%	5.9%	9.3%	5.1%	7.3%	5.0%	7.3%
c) Retail	5.5%	11.1%	5.0%	20.8%	5.2%	17.8%	5.5%	19.9%	22.3%	39.0%
Total	5.9%	8.2%	5.0%	8.1%	4.6%	7.1%	4.2%	6.6%	5.9%	9.2%

Annex 16- Overview of leasing companies' ownership structure -30.09.2019

No.	Leasing company	Owner's name	% share
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1.	MOGO d.o.o. Sarajevo	Pole Alberts, Riga, Latvia	100
2.	PORSCHE LEASING d.o.o.	PORSCHE BANK Aktiengesellschaft Salzburg Austria	100
3.	RAIFFEISEN LEASING d.o.o. Sarajevo	RAIFFEISEN BANK d.d. Sarajevo, BiH	100
4.	SPARKASSE LEASING d.o.o. Sarajevo	STEIERMAERKISCHE BANK UND SPARKASSEN AG, Graz	51.0
		SPARKASSE BANK d.d. Sarajevo	49.0
5.	VANTAGE LEASING d.o.o. Sarajevo	VB LEASING INTERNATIONAL GmbH, Vienna	100

Annex 17- Leasing companies' aggregate balance sheet -30.09.2019

- in BAM 000 -

No.	Description	31.12.2018	30.09.2019	Index
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1.	2.	3.	4.	5.	6.	7=5/3
	ASSETS	Amount	% in total assets	Amount	% in total assets	30.06.2019/ 31.12.2018
1.	Cash and cash equivalents	13,969	4.7	4,103	1.2%	29
2.	Placements to banks	17,235	5.8	21,625	6.5%	125
3.	Financial leasing type receivables, net (3a-3b-3c-3d)	214,674	72.2	246,136	73.6%	115
3a)	Financial leasing type receivables, gross	233,535	78.6	275,064	82.3%	118
3b)	Loss reserves	897	0.3	2,167	0.6%	242
3c)	Deferred interest income	17,794	6.0	26,542	7.9%	149
3d)	Deferred fee income	170	0.1	219	0.1%	129
4.	Receivables from subsidiaries	2	0.0	2	0.0%	100
5.	Tangible and intangible assets, net (5a+5b-5c-5d)	36,485	12.3	46,504	13.9%	127
5a)	Tangible and intangible assets-own resources	4,848	1.6	4,853	1.5%	100
5b)	Tangible and intangible assets -operational leasing	48,482	16.3	60,888	18.2%	126
5c)	Impairment -own resources	3,748	1.3	3,592	1.1%	96
5d)	Impairment-operating leasing	13,097	4.4	15,645	4.7%	119
6.	Long-term investments	203	0.1	203	0.1%	100
7.	Other assets (7a+7b)	14,586	4.9	15,635	4.7%	107
7a)	Loans, net (7a1-7a2)	6,253	2.1	5,463	1.6%	87
7a1)	Loans (past-due receivables+outstanding principal)	12,130	4.1	11,340	3.4%	93
7a2)	Loan reserves	5,877	2.0	5,877	1.8%	100
7b)	Inventory	1,339	0.5	973	0.3%	73
7c)	Other assets	6,994	2.4	9,199	2.8%	132
	TOTAL ASSETS	297,154	100	334,208	100.0%	112
	LIABILITIES					
9.	Liabilities on loans, net	252,389	84.9	298,262	89.2%	118
9a)	Liabilities on short-term loans	0	0.0	0	0.0%	100
9b)	Liabilities on long-term loans	252,729	85.0	298,535	89.3%	118
9c)	Advanced costs and fees	340	0.1	273	0.1%	80
10.	Other liabilities	7,997	2.7	8,030	2.4%	100
	TOTAL LIABILITIES	260,386	87.6	306,292	91.6%	118
11.	Tier 1 capital	33,925	11.4	20,762	6.2%	61
12.	Reserves	4,547	1.5	5,994	1.8%	132
13.	Accumulated profit/loss	-1,704	-0.6	1,160	0.3%	-68
	TOTAL CAPITAL	36,768	12.4	27,916	8.4%	76
	TOTAL LIABILITIES	297,154	100	334,208	100.0%	112
	Written off receivables (opening balance)	84,175	29.2	21,749	6.5%	26
	New write off (+)	896	0.3	405	0.1%	45
	Recovery (-)	4,101	1.4	883	0.3%	22
	Permanent write off (-)	8,033	2.8	3,180	1.0%	40
	Written off receivables (closing balance)	72,937	25.3	18,091	5.4%	25

Annex 18-Overview of leasing companies' assets, financial leasing type receivables and net assets leased under operational leasing, and financial performance as at 30.09.2019

No.	Leasing company	Balance sheet sum		Financial leasing type receivables		Net assets leased under operational leasing		Financial performance
		Amount	%	Amount	%	Amount	%	Amount
1.	Mogo d.o.o. Sarajevo	9,090	2.7%	5,005	2.0	0	0.0	-2,166
2.	Porsche Leasing d.o.o. Sarajevo	116,216	34.8%	79,794	32.4	30,889	68.0	1,741
3.	Raiffeisen Leasing d.o.o. Sarajevo	130,588	39.1%	91,266	37.1	11,326	25.0	2,147
4.	Sparkasse Leasing d.o.o. Sarajevo	73,484	22.0%	68,252	27.8	3,022	7.0	796
5.	Vantage Leasing d.o.o. Sarajevo	4,830	1.4%	1,819	0.7	6	0.0	-1,058
	Total	334,208	100%	246,136	100	45,243	100	1,460

Annex 19- Overview of key financial indicators for leasing companies and banks performing financial leasing operations -30.09.2019

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 the first three quarters of 2019	Ranking by placements in the first three quarters of 2019	Number of contracts in the first three quarters of 2019	Ranking by number of contracts in the first three quarters of 2019
1.	Mogo d.o.o. Sarajevo	0	5 th	-2,166	5 th	6,867	5 th	815	3 rd
2.	Porsche Leasing d.o.o. Sarajevo	5,089	3 rd	1,741	2 nd	57,433	1 st	1,599	1 st
3.	Raiffeisen Leasing d.o.o. Sarajevo	14,067	1 st	2,147	1 st	41,017	2 nd	1,299	2 nd
4.	Sparkasse Leasing d.o.o. Sarajevo	7,126	2 nd	796	3 rd	31,938	3 rd	536	4 th
5.	VB Leasing d.o.o. Sarajevo	1,634	4 th	-1,058	4 th	0	-	0	-
	Total (sector)	27,916		1,460		137,255		4,249	
	UniCredit Bank d.d. Mostar	-	-	-	-	17,597	4 th	295	5 th
	Total (system)					154,852		4,544	

Annex 20- Overview of financial leasing reserves-30.09.2019

-in BAM 000-

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%	242,461	1,783	38,486	772	192	4	642	838
60-90	10%	10%	1,315	0	212	0	21	0	116	137
90-180	50%	50%	2,254	84	702	9	351	4	431	786
over 180	100%	75%	406	0	406	0	406	0	0	406
over 360	100%	100%	0	0	0	0	0	0	0	0
Total			246,436	1,867	39,806	781	970	8	1,189	2,167

Annex 21- Overview of loan reserves-30.09.2019

-in BAM 000-

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%	5,466	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	-	11,340	5,877	0	5,877

Annex 22- Leasing companies' aggregate income statement -30.09.2019

- in BAM 000 -

No.	Description	30.09.2018		30.09.2019		Index 7=5/3
		3	4	5	6	
1	2	Amount	Share in total income /expenses	Amount	Share in total income /expenses	30.06.2019/ 30.06.2018
	Financial income and expenses					
1.	Interest income	8,189	34.4%	10,223	42.2%	125
1a)	Interest on financial leasing	6,799	28.6%	8,740	36.1%	129
1b)	Interest on placements to banks	189	0.8%	299	1.2%	158
1c)	Fees (for leasing application processing, etc.)	459	1.9%	602	2.5%	131
1d)	Other interest income	742	3.1%	582	2.4%	78
2.	Interest expenses	2,396	11.7%	3,246	14.3%	135
2a)	Interest on borrowed funds	2,325	11.3%	3,162	13.9%	136
2b)	Loan processing fees	68	0.3%	75	0.3%	110
2c)	Other interest expenses	3	0.0%	9	0.0%	300
3.	Net interest income	5,793	24.3%	6,977	28.8%	120
	Operating income and expenses					
4.	Operating income	15,623	65.6%	13,993	57.8%	90
4a)	Service fees	1	0.0%	1	0.0%	100
4b)	Operating lease fee	9,474	39.8%	10,866	44.9%	115
4c)	Income from sale of leasing object	253	1.1%	131	0.5%	52
4d)	Other operating income	5,895	24.8%	2,995	12.4%	51
4d1)	Income from recovered written off receivables	3,451	14.5%	718	3.0%	21
4d2)	Income from collection letters	144	0.6%	23	0.1%	16
4d3)	Other	2,300	9.7%	2,254	9.3%	98
5.	Operating expenses	17,890	87.3%	17,869	78.5%	100
5a)	Salary and contribution costs	4,891	23.9%	3,955	17.4%	81
5b)	Business premises costs	7,412	36.2%	7,217	31.7%	97
5c)	Other costs	5,587	27.3%	6,697	29.4%	120
6.	Costs of loss reserves	204	1.0%	1,641	7.2%	804
7.	Profit before tax	3,322	16.2%	1,460	6.0%	44
8.	Corporate income tax	0	0.0%	0	0.0%	100
9.	Net profit	3,322	14.0%	1,460	6.0%	44

ANNEXES - FACTORING SECTOR

Annex 23- Basic information on factoring company and ownership structure as at 30.09.2019

No.	Company name	Director	License issue date	Number of employees	Web address	Owner's name	Share
1.	Batagon factoring d.o.o. Sarajevo	Đenan Bogdanić	28.12.2017	4	www.batagon-factoring.ba	Batagon International AG, Zug, Switzerland	100%



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