



BOSNA I HERCEGOVINA  
FEDERACIJA BOSNE I HERCEGOVINE  
AGENCIJA ZA BANKARSTVO  
FEDERACIJE BOSNE I HERCEGOVINE

# INFORMATION

**ON THE FEDERATION OF BOSNIA AND HERZEGOVINA  
BANKING SYSTEM ENTITIES WITH BALANCE AS OF 31/12/2020  
(AS PER FINAL UNAUDITED DATA)**

*Sarajevo, April 2021*

Abbreviations and terms:

DIA	Deposit Insurance Agency of Bosnia and Herzegovina
BD	Brčko District
GDP	Gross Domestic Product
B&H	Bosnia and Herzegovina
CBB&H	Central Bank of Bosnia and Herzegovina
CLR	Central Loan Register in B&H (for legal entities and private individuals)
FXP	Foreign Exchange Payments
EBA	European Banking Authority
ECB	European Central Bank
ECL	Expected Credit Loss
EFSE	European Fund for Southeast Europe
EIR	Effective Interest Rate
EU	European Union
FBA	Federation of Bosnia and Herzegovina Banking Agency
FB&H	Federation of Bosnia and Herzegovina
FED	The Federal Reserve (U.S. central banking system)
FINREP	Financial Reporting Framework
FMF	FB&H Ministry of Finance
FID	Financial Intelligence Department
FSAP	Financial Sector Assessment Program
FX rizik	Foreign Exchange Risk
ICAAP	Internal Capital Adequacy Assessment Process
ILAAP	Internal Liquidity Adequacy Assessment Process
LCR	Liquidity Coverage Ratio
MCC	Micro credit company
MCF	Micro credit foundation
MCO	Micro credit organisation
IMF	International Monetary Fund
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
NFI	Non-deposit Financial Institutions
NIR	Nominal Interest Rate
NPL	Non-performing Loans
NSFR	Net Stable Funding Ratio
LLP	Loan Loss Provisions
RS	Republic of Srpska
USA	United States of America
WB	World Bank
BSE	FB&H Banking System Entities: banks, banking groups, development banks, MCOs, leasing companies, factoring companies, exchange offices, and other financial organizations whose operations are supervised by the FBA
AML&CTF	Anti-money Laundering and Counter Terrorism Financing
SREP	Supervisory Review and Evaluation Process
BAB&H	Banks Association of Bosnia and Herzegovina
B&HALC	B&H Association of Leasing Companies
DP	Domestic Payments

USAID	United States Agency for International Development - Financial Reform Agenda
FINRA	Activity Project
FBA MB	Management Board of the FB&H Banking Agency
LoA	Law on the Banking Agency of the Federation of Bosnia and Herzegovina
LoB	Law on Banks
LoF	Law on Factoring
LoL	Law on Leasing
LoMCO	Law on Micro Credit Organisations

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## Summary of Regulatory Requirements and Operating Standards of BSEs

Minimum amount of paid in shareholder capital – BAM 15 million	Article 24, Paragraph (2) of LoB <sup>1</sup>
Common Equity Tier 1 capital ratio – 6.75%	Article 34, Paragraph (1), Item a) of the Decision on Capital Calculation in Banks <sup>2</sup>
Tier 1 capital ratio – 9%	Article 34, Paragraph (1), Item b) of the Decision on Capital Calculation in Banks
Own funds ratio – 12%	Article 34, Paragraph (1), Item c) of the Decision on Capital Calculation in Banks
Capital buffer in form of Tier 1 Capital – 2.5% of the total risk exposure	Article 39, Paragraph (1) of the Decision on Capital Calculation in Banks
Financial leverage ratio – 6%	Article 37, Paragraph (2) of the Decision on Capital Calculation in Banks
Liquidity Coverage Ratio – LCR $\geq$ 100%	Article 17, Paragraph (2) of the Decision on Liquidity Risk Management in Banks <sup>3</sup>
Maturity matching of financial assets and financial liabilities	<p>Maturity matching of remaining terms to contractual maturities of assets and liabilities instruments:</p> <ul style="list-style-type: none"><li>- Minimum 65% of funding sources with maturity up to 30 days shall be used for purpose of facilities (assets instruments) with maturity up to 30 days, Article 40a, Paragraph (2), Item a) of the Decision on Liquidity Risk Management in Banks;</li><li>- minimum 60% of funding sources with maturity up to 90 days shall be used in form of facilities (assets instruments) with maturity up to 90 days, Article 40a, Paragraph (2), Item b) of the Decision on Liquidity Risk Management in Banks;</li><li>- minimum 55% of funding sources with maturity up to 180 days shall be used in form of facilities (assets instruments) with maturity up to 180 days, Article 40a, Paragraph (2), Item c) of the Decision on Liquidity Risk Management in Banks.</li></ul>
Limitation regarding individual overnight foreign exchange position of the bank, except in EUR – up to 20% of the bank's eligible capital	Article 3, Paragraph (2), Item a) of the Decision on Foreign Exchange Risk Management in Banks <sup>4</sup>
Limitation regarding individual overnight foreign exchange position of the bank in EUR – up to 40% of the bank's eligible capital.	Article 3, Paragraph (2), Item b) of the Decision on Foreign Exchange Risk Management in Banks
Limitation regarding aggregate foreign exchange position of the bank – up to 40% of	Article 3, Paragraph (2), Item c) of the Decision on Foreign Exchange Risk Management in Banks

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<sup>1</sup> FB&H Official Gazette No. 27/17

<sup>2</sup> FB&H Official Gazette Nos. 81/17, 50/19, 37/20 and 81/20

<sup>3</sup> FB&H Official Gazette Nos. 81/17 and 37/20

<sup>4</sup> FB&H Official Gazette Nos. 81/17 and 37/20

the bank's eligible capital.

Herfindahl-Hirschman Index - HHI	Represents the most frequently used measure of concentration in European and U.S. economic systems. HHI is calculated by summing up the squares of percentage shares of specific items (e.g. assets, deposits, loans) of all market participants in a particular system. If HHI value is below 1,000, it indicates to absence of market concentration, while its value ranging from 1,000 to 1,800 units shows moderate concentration in the market and HHI above means high market concentration.
Concentrations Ratio – CR	CR is an indicator of concentrations in the banking sector. It represents a total share of largest banks in the sector in relevant categories: in assets, loans and deposits. It is being designated by the number of banks included in the calculation, e.g. CR 5. There is no unique and commonly accepted opinion on interpretation of results of CR. With higher the value, comes higher the market concentration.
Ratio of loans/deposits and loans taken	This is a ratio between the most important bank loans, on the assets side, and deposits and loans taken on the liabilities side. With higher rate comes weaker liquidity position of the bank. Behavioral standards are: below 70% - very sound, 71%-75% - satisfactory, 76%-80% - marginally satisfactory, 81%-85% - insufficient, over 85% - critical.
Minimum amount of Tier 1 capital of MCCs - BAM 500,000	Article 26, Paragraph (1) LoMCO <sup>5</sup>
Minimum amount of Tier 1 capital of MCFs - BAM 50,000	Article 36, Paragraph (1) LoMCO
Ratio of fixed assets to total assets minus donated capital – up to 10% for MCFs and MCCs where MCF holds majority ownership	Article 11, Paragraph (2) of the Decision on Business Conditions and Other Standards and Limitations of Micro Credit Organisations <sup>6</sup>
Ratio of equity (minus donated capital) and total assets of MCOs – over 10%	Article 11, Paragraph (1) of the Decision on Business Conditions and Other Standards and Limitations of Micro Credit Organisations
Portfolio at risk of MCOs over 30 days (PAR) – up to 5%	Article 12, Paragraph (1), Item c) of the Decision on Business Conditions and Other Standards and Limitations of Micro Credit Organisations
Annual write off in MCOs – up to 3%	Article 12, Paragraph (1), Item d) of the Decision on Business Conditions and Other Standards and Limitations of Micro Credit Organisations
Operating efficiency of MCOs – up to 45%	Article 12n Paragraph (1), Item b) of the Decision on Business Conditions and Other Standards and Limitations of Micro Credit Organisations
Return on Assets of MCOs adjusted by inflation, market price of capital and donations (AROA) - positive	Article 12, Paragraph (1), Item a) of the Decision on Business Conditions and Other Standards and Limitations of Micro Credit Organisations

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<sup>5</sup> FB&H Official Gazette No. 59/06

<sup>6</sup> FB&H Official Gazette No. 103/18

Minimum amount of Tier 1 capital of leasing companies – BAM 250,000 Article 8, Paragraph (1) LoL<sup>7</sup>

Minimum amount of Tier 1 capital of factoring companies – BAM 750,000 Article 27, Paragraph (1) LoF<sup>8</sup>

## EXECUTIVE SUMMARY

### *FB&H Banking Sector's Key Performance Indicators*

15 commercial banks, with 531 organisational units employing a total of 6,522 persons, operated in the FB&H as at the end of 2020. This number is lower by 137 employees compared to the end of 2019.

The total net assets across the FB&H banking sector as of 31/12/2020 were BAM 24.4 billion and were higher by BAM 185.9 million or 0.8% compared to 31/12/2019.

The FB&H banks' total capital amounted to BAM 3.1 billion, which was lower by BAM 65.3 million or 2.1% compared to the end of 2019, of which shareholders' capital was BAM 1.3 billion. The share of total capital in the funding sources across the FB&H banking sector was 12.6%.

The own funds amounted to BAM 2.7 billion and were almost the same as at the end of 2019. Tier 1 capital decreased by BAM 74.8 million or 2.8%, while Tier 2 capital increased by BAM 83.4 million or 246.9%. This significant increase of Tier 2 capital came as a result of implementation of the Decision on Credit Risk Management and Determination of Expected Credit Losses<sup>9</sup> and cancellation of LLP shortfall as an offset item to Tier 2 capital.

The FB&H banking sector's own funds ratio was 19.1% as at 31/12/2020 and was higher by 1.2 percentage points compared to the end of 2019, while other capital ratios (Common Equity Tier 1 capital ratio and Tier 1 capital ratio) at the FB&H banking sector level were higher by 0.6 percentage points compared to the same period last year.

The financial leverage ratio (i.e. the ratio of Tier 1 capital and total exposure of banks) across the FB&H banking sector was 10.1%, thus being lower by 0.4 percentage points compared to the end of 2019.

Total exposure of banks stood at BAM 28.9 billion, of which BAM 25 billion refers to on-balance exposures and BAM 3.9 billion to off-balance items.

In 2020, balance sheet exposure increased against YE2019 by an amount of BAM 208.4 million or 0.8%. This came as a net effect of an increase of financial assets measured at fair value and at amortised cost, as well as due to other financial receivables and due to a cash decrease. Over the same period, off-balance sheet items rose by BAM 379.1 million or 10.8%, as largely attributable to an increase of irrevocably approved, but undrawn loans with one bank.

As of 31/12/2020, balance sheet exposures within the credit risk grade 1 amounted to BAM 22.3 billion, thus constituting 89.3% of total balance sheet exposures. Balance sheet exposures within

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<sup>7</sup> FB&H Official Gazette Nos. 85/08, 39/09, 65/13, 104/16

<sup>8</sup> FB&H Official Gazette Nos. 14/16 and 74/20

<sup>9</sup> FB&H Official Gazette Nos. 44/19 and 37/20

the credit risk grade 2 stood at BAM 1.6 billion as of 31/12/2020 and represented 6.6% of the total amount of such exposures, while balance sheet exposures in the credit risk grade 3 amount to BAM 1 billion and make up for 4.1% of the said total amount.

As of 31/12/2020, off-balance sheet exposures in the credit risk grade 1 amounted to BAM 3.4 billion and constituted 88.4% of total off-balance sheet exposures. As for credit risk grade 2 exposures, they amounted to BAM 443.2 million and hold a share of 11.4% of total off-balance sheet exposures, while credit risk grade 3 includes BAM 6 million or 0.2% of total off-balance sheet exposures.

As a result of implementation of the Decision on Credit Risk Management and Determination of Expected Credit Losses, the ECL coverage rates rose against YE2019. The balance sheet exposure coverage in the credit risk grade 1 rose from 0.6% to 0.8%, in credit risk grade 2 from 6.9% to 12.4% and in credit risk grade 3 from 72.7% to 78.2%.

The total ECL coverage for off-balance sheet exposures rose from 1.2% to 1.5%. The coverage increase was noted with the credit risk grade 2, while the credit risk grades 1 and 3. This ECL coverage decrease with the credit risk grade 1 was caused by higher exposure increase versus ECL climb, while this decrease with the credit risk grade 3 came as a result of the accounting write off performed in two banks.

As of 31/12/2020, loans amounted to BAM 15.3 billion, up by BAM 33.9 million or 0.2% vs. YE2019. Retail loans hold a share of 47.7% in total loans, went down by 1.6% to BAM 7.3 billion. Corporate loans participate in total loans with 52.3% share, which is an increase by 2% to BAM 8 billion.

As of 31/12/2020, the loan portfolio within the credit risk grade 3 (NPL) stood at BAM 982.8 million, thus constituting 6.4% of the total loan portfolio (down by BAM 264.6 million or 21.2% compared to the end of the previous year, as mostly caused by the accounting write off, thus also causing a reduction of total loans). ECL coverage rate for the credit risk grade 3 is 77.7% (corporate 77.6% and retail 77.8%), which is higher by 5.8 percentage points vs. 31/12/2019.

Following the expiry of measures prescribed by the FBA aimed at recovery from negative economic consequences caused by COVID-19 (hereinafter: the pandemic), i.e. by the end of 2021, we can expect an increase of the loan portfolio within the credit risk grade 3 as a result of extended effect of the pandemic to the operations of bank customers.

Out of total corporate loans, BAM 543.7 million or 6.8% refers to NPLs, which is by 3 percentage points lower than at YE2019. As for the retail segment, NPLs amount to BAM 439.1 million or 6%, down by 0.5 percentage points vs. YE2019.

Until 31/12/2020, BAM 1 billion or 6.7% of total loans was captured by some of the active measures prescribed by the Decision on Temporary Measures of Banks to Ensure Recovery from Negative Economic Consequences Caused by COVID-19.<sup>10</sup> Total amount of the corporate loan portfolio subjected to active measures equaled BAM 892.5 million or 11.2% of the corporate loan portfolio. In the retail segment, active measures were introduced in relation to the portfolio amount of BAM 133.7 million or 1.8% of the retail loan portfolio.

Cash funds equal BAM 7.4 billion and hold a share of 30.4% in total assets, thus being by BAM 227 million or 3% lower than at the end of 2019.

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<sup>10</sup> FB&H Official Gazette No. 60/20

As of 31/12/2020, investments in securities equaled BAM 1.7 billion holding a share in assets of 6.9%, thus increasing against the YE2019 by BAM 231.1 million or 15.9%.

Deposits, being the key source of funding for banks, reached an amount of BAM 19.7 billion with a share of 80.6% in total liabilities. Compared to the end of 2019, they went up by BAM 246.6 million or 1.3%. Savings deposits as the most significant and the biggest segment of deposit and financial potential of banks, increased by BAM 341.9 million or 3.6% to BAM 9.9 billion. This is an important indicator of the citizens' trust in the banking system.

The loans taken amounted to BAM 811.9 million with a share of 3.3% in total liabilities, thus going down by BAM 44.7 million or 5.2% vs. YE2019.

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 FB&H banking sector's liquidity was satisfactory as of 31/12/2020 despite negative effects to the economy caused by the pandemic.

According to reporting data as of 31/12/2020, the FB&H banking sector posted a positive financial result, but this is being by 36.4% lower than in the same period last year. Two banks posted an operating loss during 2020.

#### *FB&H Micro Credit Sector's Key Performance Indicators*

In the FB&H, as of 31/12/2020, 14 MCOs comprising the FB&H microcredit sector had a license issued by the FBA, of which 11 were MCFs (non-profit organizations) and 3 MCCs (profit organizations). As at 31/12/2020, the number of organisational parts of MCOs seated in the FB&H was 354 employing 1,394 persons. This is higher by 3.8% vs. 31/12/2019.

Total assets of the FB&H micro credit sector as of 31/12/2020 were BAM 658.1 million, which is by BAM 28.4 million or 4.5% higher than as at 31.12.2019. Over the observed period, the rate of total assets increase of MCCs was 4.1% and 4.7% in MCFs.

Total net micro loans were BAM 533.9 million, thus constituting 81.1% of total assets of the FB&H micro credit sector. This is by BAM 27 million or 5.3% higher than as of 31/12/2019. The net MCCs' micro loans increased by 6.2%, while at the MCFs' level the increase was 5%, all compared to 31/12/2019.

Quality indicators of the micro credit portfolio at the sector level (portfolio at risk over 30 days – 1.41% and write offs – 1.21%) are within the prescribed limits and show an increase against YE2019.

As of 31/12/2020, BAM 54.3 million or 10.1% of total loans was captured by some of the active measures prescribed by the Decision on Temporary Measures of Leasing Companies and Micro Credit Organisations to Ensure Recovery from Negative Economic Consequences Caused by COVID-19<sup>11</sup>. Total amount of the corporate loan portfolio encompassed by active measures is BAM 5 million or 32.2% of the corporate loan portfolio, while retail portfolio covered by these measures equals BAM 49.3 million or 9.5% of the retail portfolio.

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<sup>11</sup> FB&H Official Gazette No. 60/20

The FB&H micro credit sector's total liabilities under loans taken were BAM 315.4 million as of 31/12/2020, with a share of 47.9% in total liabilities and increasing by BAM 11.8 million or 3.9% compared to 31/12/2019. In the reporting period, MCCs' credit obligations increased by 1%, while MCFs' credit obligations increased by 5.4%.

The total capital across the FB&H micro credit sector was BAM 311.6 million or 47.4% of total liabilities as of 31/12/2020 and was higher by BAM 17.3 million or 5.8% compared to the end of 2019, where the total capital of MCCs rose by 10.9% and the total capital of MCFs by 4.9%.

Across the FB&H micro credit sector, in the period from 01/01/2020 to 31/12/2020, positive financial performance of BAM 11.2 million was reported, which is 37.1% lower compared to the same period of 2019. This was caused by major increase of costs of provisioning for loan and other losses and other operating expenses. The MCCs reported a loss of BAM 1 million, while MCFs reported a surplus of revenues over expenses of altogether BAM 12.2 million.

Operational efficiency of the FB&H micro credit sector was 18.74% as of 31/12/2020, which was within the regulatory indicator, while the reported return on assets, adjusted by the inflation rate, market price of capital and donations, was positive and amounted to 2.06%, which was in compliance with the regulatory limit.

#### *FB&H Leasing Sector's Key Performance Indicators*

The FB&H leasing system comprised, as of 31/12/2020, four leasing companies (leasing sector) and one commercial bank performing financial leasing operations. During the Q4 2020, one leasing company had its operating licence revoked, thus lowering the number of leasing companies by one compared to the end of the previous year. The FB&H leasing sector employed a total of 101 persons as of 31/12/2020, thus being 9.8% lower than at the end of the previous year as a result of terminated operations of one leasing company during Q4 2020.

The FB&H leasing sector's total assets were BAM 343.8 million as at 31/12/2020 and were higher by BAM 20.5 million or 6.3% compared to 31/12/2019.

The net receivables under financial leasing, as the most significant item in the composition of total assets, were BAM 256.8 million or 74.7% of the total assets and were higher by BAM 15.7 million or 6.5% compared to 31/12/2019. With respect to the FB&H leasing sector's asset quality as of 31/12/2020, a total of BAM 3.5 million of overdue receivables was posted, which is an increase of 16.2% with respect to 31/12/2019, as largely caused by an increase of this item with one leasing company. The financial leasing loss reserves dropped by 20.2% vs. end of the previous year. The total number and value of newly concluded leasing contracts (financial and operational leasing) in the reporting period decreased by 30.4% and 16.4% respectively.

As of 31/12/2020, BAM 28.8 million or 11.1% of total financing was captured by some of the active measures prescribed by the Decision on Temporary Measures of Leasing Companies and Micro Credit Organisations to Ensure Recovery from Negative Economic Consequences Caused by COVID-19. Total financing amount of corporate customers encompassed by the active measures was BAM 28.6 million or 12.5% of corporate financing, while retail portfolio under some of the active measures stood at BAM 0.2 million or 0.9% of retail financing.

The largest item in the composition of the FB&H leasing sector's total liabilities constituted, as of 31/12/2020, liabilities of BAM 307.9 million under loans taken and accounted for 89.5% of total liabilities. Compared to 31/12/2019, these liabilities increased by BAM 21.6 million or 7.5%. If

observed from the perspective of contractual maturity, long term loan obligations hold a dominant share in total loan obligations.

The FB&H leasing sector's total capital was BAM 27.8 million as at 31/12/2020, comprising 8.1% of the FB&H leasing sector's total liabilities and decreasing by BAM 1.3 million or 4.4% compared to 31/12/2019.

Across the FB&H leasing sector consisting of four leasing companies, in the January 1 - December 31, 2020 period, a positive financial result was reported in an amount of BAM 4.3 million, thus representing an increase by BAM 5.6 million since the leasing sector has posted negative financial result of BAM 1.3 million in the period 01/01/2019-31/12/2019 (therein consisting of five leasing companies). This increase of the leasing sector's business result largely refers to the improved business result with one leasing company by an amount of BAM 2.7 million (showing positive financial result as of YE2020) and with one other leasing company by an amount of BAM 2.8 million (that, in the same period last year, posted a major operating loss; therein, despite significant improvement of the business result, it recognized a loss as of YE2002). At the same time, the other two leasing companies recognized a positive financial result despite posting a profit decrease by BAM 1.2 million compared to the same period the year before.

#### *FB&H Factoring Sector's Key Indicators*

As of 31/12/2020, there were four commercial banks in the FB&H performing the factoring business, three of which are members of international banking groups seated in the EU member states and one in majority domestic ownership.

In the FB&H, 404 factoring contracts were concluded with the total nominal value of purchased monetary claims as of 31/12/2020 of BAM 124.4 million. Compared to the total number of concluded factoring contracts in the same period last year, this number increased by 15.1%, while the nominal value of purchased monetary claims and settled payables saw a decrease by 30.1% vs. the same period the year before.

The factoring service providers' total income in the FB&H for the Y2020 was BAM 1.2 million, which is lower by 43.3% vs. the same period in 2019.

## 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, supervision principles and professional rules. The MB performs general supervision of the FBA's operations, taking measures for efficient performance of the functions from the FBA's purview in accordance with its statutory competences and reporting to the FB&H 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 31/12/2020 was drawn up based on final unaudited data using reporting information and other data provided by the BSEs and used in regular supervision of the BSEs.

Content-wise, this Information is divided into five sections. The first section refers to the macroeconomic environment within which credit institutions operate on a global level. The second section presents information on regulatory activities of the FBA during 2020 for BSEs. The third section covers a detailed analysis of the FB&H banking sector regarding bank supervision, its structure, financial performance indicators and FBA's recommendations for the FB&H banking sector. The fourth section relates to a detailed analysis of operations of NFIs, as well as compliance of their operations with the laws and regulations within which microcredit and leasing sectors, as well as factoring business, in the FB&H were addressed as separate segments, with the related specific FBA's recommendations. The fifth section relates to bank operations in the segment of payments and AML&CTF.

An overview of average weighted NIR and EIR on loans approved and deposits received by banks, as well as average weighted NIR and EIR for MCOs and financial leasing contracts per segments, is presented herewith for purpose of greater transparency and comparability for financial service users. This has been provided through annexes which form an integral part of this Information.

An integral part of this Information is also an overview of the legal framework related to FBA and BSEs in the FB&H, provided in Annex 1 herewith.

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

In the existing situation caused by the emergence of the pandemic, FBA has acted proactively and enacted series of measures and decisions and in this prolonged crisis, it has continued with activities to avoid further negative consequences and to enable recovery of the economy in general. Therein, it has recognised a need to prolong the measures referring, among other things, to approval of relief measures to private individuals and legal entities whose revenues, i.e. sources of debt repayment, are still lower due to the effects of the pandemic, thus making it difficult, preventing or possibly preventing their debt settlement to BSEs. This entailed also continued activities to draft regulations – temporary measures - aimed at mitigating economic consequences caused by this virus disease and at maintaining stability of BSEs operations.



## 1. MACROECONOMIC FRAMEWORK OF OPERATIONS OF CREDIT INSTITUTIONS

A crisis caused by the pandemic is the biggest economic crisis after World War II. WB estimated the global economic downturn by 4.3% in 2020 and expected increase of real GDP by app. 4% in 2021.

The following table provides selected macroeconomic indicators across periods:

*Table 1: Selected macroeconomic indicators*

No.	Area/interest rates	2016	2017	2018	2019	2020
1	2	3	4	5	6	7
<b>GDP growth in %</b>						
1.	U.S.	1.5	2.2	2.9	2.3	-3.5
2.	Eurozone	1.9	2.5	1.9	1.3	-6.6
3.	EU	2.1	2.7	2.1	1.5	-6.2
4.	Slovenia	3.1	4.8	4.1	2.4	-5.5
5.	Croatia	3.5	3.1	2.7	2.9	-8.4
6.	Serbia	3.3	2.1	4.4	4.2	-1.0
7.	B&H	3.2	3.1	3.6	2.7	-5.5
<b>Consumer Price Index (CPI), annual average in %</b>						
1.	U.S. <sup>12</sup>	1.3	2.1	2.4	1.8	1.4
2.	Eurozone	0.2	1.5	1.8	1.2	0.3
3.	B&H	-1.6	0.8	1.6	0.3	-1.6
<b>Key interest rates</b>						
1.	6-month Euribor <sup>13</sup>	-0.22	-0.27	-0.25	-0.35	-0.51
2.	Yield on 10-year German government bonds <sup>14</sup>	0.25	0.30	0.19	-0.30	-0.62
3.	Yield on 10-year Italian government bonds	1.89	1.80	2.98	1.37	0.58

Source: IMF, World Economic Outlook Database, April 2020, Eurostat

According to preliminary data, U.S., being the world's biggest economy, posted a GDP decrease of 3.5%, thus being below the expectation defined at the start of the pandemic, i.e. when forecasts ranged at about -5%. Also, U.S. has avoided a major increase of the unemployment rate. After almost reaching the critical zone of nearly 15% in the spring of 2020, the U.S. unemployment rate was steadily decreasing and neared 6% until end of 2020. This is by app. 2 percentage points more than before the pandemic. Strong monetary and fiscal expansion is the main reason behind this relatively fast transition into the recovery stage. The latest fiscal package introduced by the new administration of President Biden is worth USD 1.9 billion or app. 9% of GDP. U.S. economy is expected to lead global economy towards the exit from the recession caused by the pandemic.

The EU economy experienced greater impact from the pandemic and had slower recovery than the U.S. The Eurostat's preliminary estimates speak in favour of a decrease by 6.2% in the EU and by 6.6% in the Eurozone. Although such outcome is better than expected at the time when forecasts ranged at about -8%, this is still a sizeable drop that led the unemployment rate to remain high at 7.3% in the EU and at 8.1% in the Eurozone. Unemployment rates remained within the single-digit area thanks to government interventions on the labour market via subsidised salaries. The key reason for the EU lagging behind the U.S., as well as for the Eurozone being behind the EU in this context, is with economies of the EU-member states from South Europe where the most

<sup>12</sup> U.S. has not official published information on the annual average, so we used the inflation rate for December

<sup>13</sup> Information for the relevant period refers to Euribor on the first working day of the last month of particular reporting period.

<sup>14</sup> Eurostat for EU-member countries EU, 10-year yield used for calculating the criteria from Maastricht: data for the last month in particular reporting period.

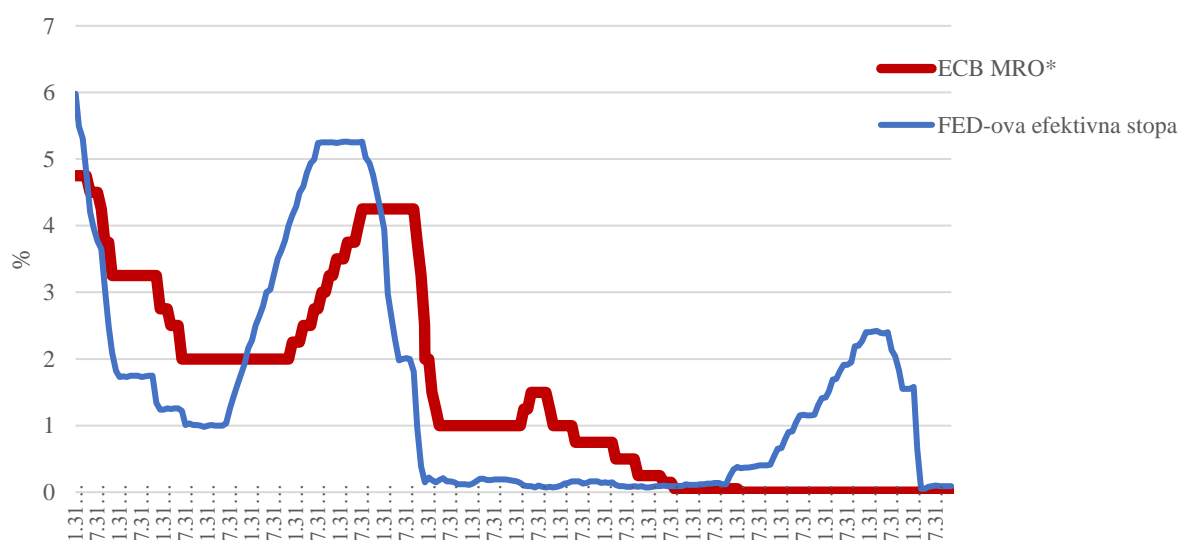
pandemic-affected sectors are located – transport and tourism. The same reasons also rest behind differences among countries of Southeast Europe, where the most tourism-dependent countries are located – Croatia (GDP decrease by 8.4%) and Montenegro where even greater decrease was projected (app. 14%, judging by the opinion of the European Commission). Conversely, preliminary estimates of GDP decrease for B&H and Slovenia range at app. 5.5%, while in Serbia this percentage equals mere 1%.

Fiscal response by the EU was weaker than the one in the U.S. estimated fiscal deficit of 6% of GDP led the ratio of public debt to GDP in the EU to app. 100%, which is by app. 7 percentage points lower ratio than in the U.S. According to the Maastricht Treaty, fiscal rules limiting the budget deficit and public debt have been suspended until further notice (because of the pandemic). The fiscal response mostly occurred at the level of EU-member states, although on two occasions strong fiscal responses were arranged at the EU level. After the first package of assistance from April, an agreement was reached regarding the Next Generation EU program worth EUR 750 billion or app. 4% of GDP of EU. The Program is of historic importance since this is the first time it is being funded from European bonds jointly warranted by the member states. Proceeds from this program will be remitted in 2021 and are expected to strongly boost the recovery.

The strongest response occurred in the area of the monetary policy. Interest rates were kept at their historical low. Negative interest rate on deposits with ECB remained in the negative area (-0.5%) and the key rate for refinancing operations by ECB was at 0%. Refinancing of new loans of the private sector (TLTRO III - Targeted Longer Term Refinancing Operations), w/o residential loans, are practically unlimited. The most important contributor to liquidity and stability of government finances refers to PEPP - Pandemic Emergency Purchase Programme. After further expansion, the value of this programme reached EUR 1,850 billion or app. 10% of GDP of EU and app. 14% of GDP of Eurozone. It is intended for the programme to last until March 2022 at shortest or longer if necessary, all for purpose of bringing the economic activity to its pre-pandemic level. Principal and interest on bonds that get collected in the meantime will be reinvested until end of 2023 at shortest. PEPP operates in addition to the previously established Asset Purchase Program (APP) that has also continued to be implemented at the purchase rate of government bonds of EUR 20 billion per month.

Chart 1 below provides an overview of main interest rates of major central banks:

Chart 1: Main interest rates of major central banks



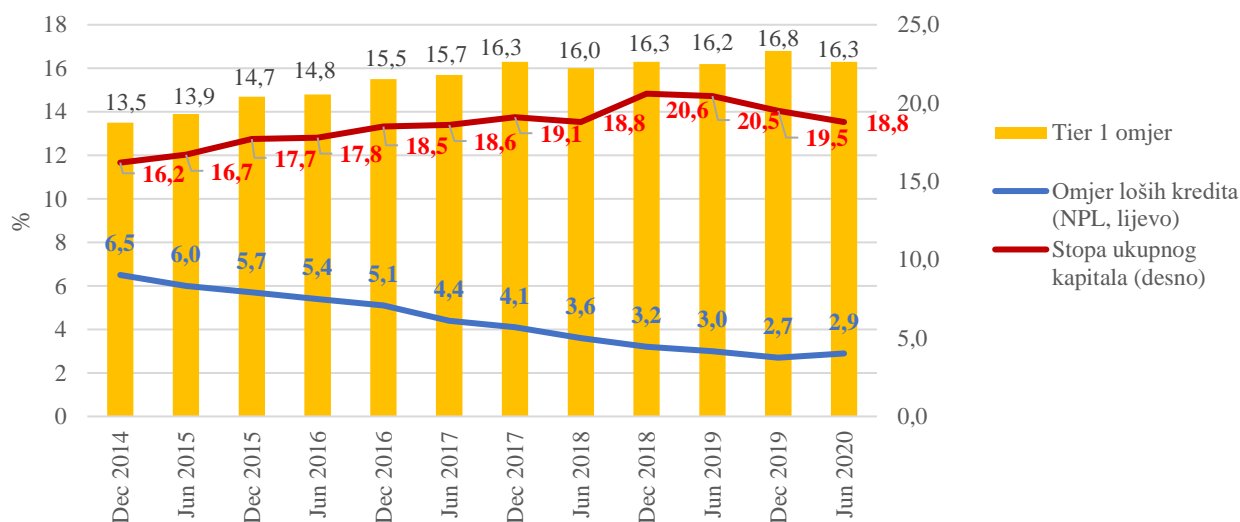
\* MRO - Marginal Refinancing Operations; FED-ova efektivna stopa - FED effective rate  
Source: ECB, FED

This historically unprecedented monetary expansion was made possible by the pandemic shock creating strong deflatory pressures. Average annual inflation rate in the Eurozone was mere 0.3% in 2020, being significantly lower than the declared inflation target of ECB of 2%. In the future, we expect more flexible interpretation of the inflation target of app. 2%. The U.S. FED, that is also implementing the program of significant monetary expansion coupled with quantitative relaxation, has already announced a possibility of temporary approval of the annual inflation rate to move above 2%. First signs of slight inflation at the global level were seen again in early 2021 mostly related to the onset of the new cycle of an oil price increase. Over the past year, the consumer price index in B&H has also posted a decrease by an average 1.6%.

The described conditions and policies have ensured continued period of the historically lowest market interest rates. During 2020, Euribor, as a reference interest rate, has further dropped to app. -0.5% although it was found to be in the negative area over the past few years as well. Yield to 10-year German government bonds has also descended to the negative area, thus ending 2020 with -0.62%. The pressure imposed over the interest rate reduction has also spilled over to the yield related to more risky bonds of EU member countries coming from South Europe. Hence, the yield on 10-year Italian government bonds has ranged at app. 1% at the end of the year and ensured direct access to financial markets under favourable conditions related to financing of elevated levels of budget deficits.

The described international situation has proven to be a prevailing factor to continued stable operations of banks in B&H in 2020. Banks in the FB&H are, to significant extent, integrated with international banking groups, most of which are seated in the Eurozone countries. Find below is an overview of key performance indicators of banks seated in the EU:

Chart 2: NPL ratio and total capital ratio in the EU



\*Tier 1 omjer – Tier 1 ratio; Omjer loših kredita – NPL ratio (to the left), Stopa ukupnog kapitala (desno) – Total capital ratio (to the right)

Source: EBA

EU banks had sound capitalisation rates at the onset of the crisis. Tier 1 ratio stood at 16.8% and total capital ratio at 19.5%. NPL was at 2.7%. During 2020, we saw an expected slight worsening of these ratios. NPL rose to 3% and capita, ratios dropped moderately to 16.3% and 18.8% respectively. Preliminary data for Q3 2020 show a slight improvement. The trends came as no surprise considering the economic downturn caused by the pandemic and banks are sufficiently

solvent and resilient to bear against much stronger crisis impact. Expectantly, the business result has also worsened but EU banks continued to operate within the positive area all the way until Q3 2020, at an average return on assets of 0.16% and average return on equity of 2.5%. Liquidity improved under the crisis based on continued monetary expansion by ECB. Hence, LCR climbed from 149.8% at the end of December 2019 to 171.3% at the end of September 2020.

As for interpretation of the said data, it should be pointed out that, at the very beginning of the crisis, EBA has called on the national regulators to be more flexible in their interpretation of regulations, in particular regarding IFRS 9 implementation. In late March 2020, an interpretation was published according to which reclassification of previously performing loans is not necessary in case a creditor finds that an intervention to the loan agreement (e.g. moratorium, loan rescheduling) was temporarily caused by the pandemic. At the end of 2020, regulators in the EU have announced a gradual normalisation of regulatory requirements and published a new stress testing methodology that was previously suspended in 2020 due to the pandemic.

## **2. BSE REGULATORY FRAMEWORK**

FBA activities regarding supervision and development of banking sector regulations in 2020 were focused on preservation of stability, safety, liquidity and sound capitalisation rate of the FB&H banking sector, as well as of other BSEs.

Under regular operating conditions, regulatory and supervisory activities of the FBA are being performed in line with activities planned in advance for every business year. This, among other things, entails detailed planning of on-site and off-site examinations of BSEs, as well as target examinations by supervision segments and organizational departments of the FBA. Special importance is placed upon the regulatory framework development and alignment with relevant EU regulations, as well as to following up on activities of other regulators in the EU and the region.

Previous years were marked by major projects of harmonization of the supervision process and development of supervisory tools, as well as regulatory framework of the FBA. Considering the existing circumstances related to the pandemic, FBAs plans and priorities for 2020 have changed and adjusted to new challenges. Significant technical assistance in strengthening bank supervision was provided to the FBA also through the long term USAID project aimed at building capacities for bank supervision and resolution. Therein, activities continued with respect to implementation of the regulatory framework for NSFR, amendments to regulations regarding internal governance in banks, implementation of FINREP in sense of developing relevant regulations, guidelines, validation rules and tools for FINREP, building capacities for the supervision support function (models, stress tests, drafting methodologies, standards, and procedures, reporting), as well as updating supervisory stress testing methodology. As for the bank resolution segment, banks' activities were oriented towards further strengthening of capacities related to identification of key functions, adopting an approach to minimum requirements for own funds and eligible liabilities (MREL approach), as well as updating resolution plans.

The Corona virus pandemic has brought unexpected challenges before the banking system in sense of maintaining key processes and efficient internal governance. Through its initial and subsequent set of measures, FBA has established a clear, flexible and realistic framework for continued activities of banks in the market, as based on prior detailed analysis of the special measures' impact on profitability, liquidity, maturity matching of financial assets and liabilities, NPL and capital of banks. Therein, during 2020, FBA adopted decisions on temporary measures that banks, leasing companies and MCOs implement to mitigate and ensure recovery from adverse economic consequences caused by the pandemic. With the said decisions, BSEs were given a

possibility to adjust and operate under existing circumstances in sense of implementation of certain temporary measures for all customers being, either directly or indirectly, affected by the negative consequences of the pandemic. FBA's long term plans are directed towards the recovery period, hence in June 2020, it adopted a set of measures aimed at contributing to stimulation of bank activities, supporting economic growth and employment increase in the country.

As a part of its competences, FBA has adopted a regulatory framework related to operations and supervision of MCOs, leasing companies and factoring business in the FB&H, i.e. it enacted a set of new and changed existing regulations in order to preserve and strengthen stability of the NFI sector in the FB&H, as well as to improve its legitimate, safe and sound operations.

Activities have continued to strengthen and improve cooperation with both local and international financial institutions, as well as regional and other organisations, as well as to strengthen bilateral and multilateral cooperation with bank regulators from the country, region and beyond, all based on existing and new agreements on cooperation and date exchange.

### 3. BANKING SECTOR

#### 3.1. FB&H BANKING SECTOR'S STRUCTURE

##### 3.1.1. Status, Number and Business Network

As of 31/12/2020, 15 commercial banks had banking license in the FB&H. Number of banks remained the same as on December 31<sup>st</sup>, 2019. All banks are members of the DIA.

A special law regulates the establishment and operations of the Development Bank of the Federation of B&H and its supervision is being performed under the Decree on the FB&H Development Bank's Operations Supervision Criteria and Management Method. Hence, data on its operations are not included in this Information.

Annex 2 provides basic information about the FB&H banks as at 31/12/2020.

The FB&H banks had, as of 31/12/2020, a total of 531 organizational units, which was fewer by 2 organisational parts or 0.4% compared to December 31<sup>st</sup>, 2019. In the territory of the FB&H there are 468 organizational units of banks. Seven banks from the FB&H had 52 organizational units in the RS, while 10 banks had 11 organizational units in the BD.

Three banks from the RS have 28 organisational parts in the FB&H, being one organisational part more than as at December 31<sup>st</sup>, 2019.

The table below shows organisational structure of banks in the FB&H as of 31/12/2020:

<i>Table 2: Banks in the FB&amp;H, organisational parts of RS banks doing business in the FB&amp;H and network of ATMs and POS devices</i>					
No.	Bank name	Business unit/ branch	Other organisational parts	POS devices	ATMs
<b>I Banks seated in the FB&amp;H (in the territory of B&amp;H)</b>					
1.	Addiko Bank d.d. Sarajevo	32	-	-	81
2.	ASA Banka d.d. Sarajevo	12	9	-	28
3.	Bosna Bank International d.d. Sarajevo	35	1	-	59
4.	Intesa Sanpaolo Banka d.d. BiH Sarajevo	47	-	2,914	116
5.	Komercijalno-investiciona banka d.d. V. Kladuša	5	7	-	4
6.	NLB Banka d.d. Sarajevo	42	-	1,832	83

7.	Privredna banka Sarajevo d.d. Sarajevo	7	10	-	25
8.	ProCredit Bank d.d. Sarajevo	3	3	-	15
9.	Raiffeisen Bank d.d. BiH Sarajevo	38	68	9,072	289
10.	Sberbank BH d.d. Sarajevo	32	-	33	66
11.	Sparkasse Bank d.d. BiH Sarajevo	46	-	-	107
12.	UniCredit Bank d.d. Mostar	71	-	9,220	271
13.	Union banka d.d. Sarajevo	4	9	-	15
14.	Vakufska banka d.d. Sarajevo	17	1	-	22
15.	ZiraatBank BH d.d. Sarajevo	17	15	774	66
<b>Total I</b>		<b>408</b>	<b>123</b>	<b>23,845</b>	<b>1,247</b>
<b>II Organisational parts of banks from the RS doing business in the FB&amp;H</b>					
1.	Komercijalna banka a.d. Banja Luka	2	0	1	2
2.	Nova banka a.d. Banja Luka	3	11	479	25
3.	MF banka a.d. Banja Luka	5	7	71	11
<b>Total II</b>		<b>10</b>	<b>18</b>	<b>551</b>	<b>38</b>

### 3.1.2. Ownership Structure and Market Share

Ownership structure of the FB&H banks<sup>15</sup> as of 31/12/2020 is the following:

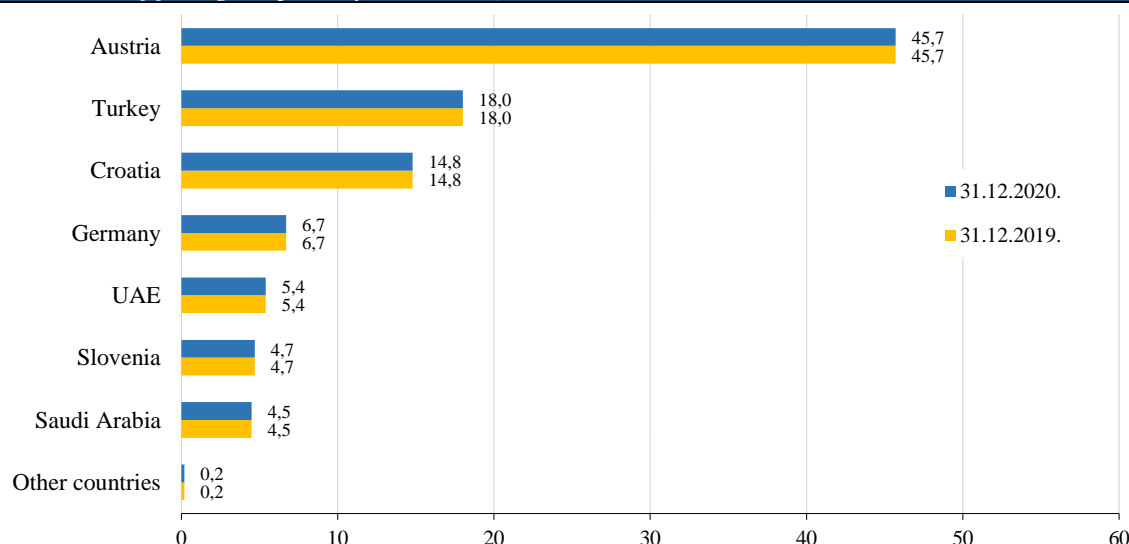
- privately owned and predominantly privately owned - 14 banks,
- state-owned and predominantly state-owned<sup>16</sup> - one bank.

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 analysed, according to the shareholder country of origin criterion, as at 31/12/2020, the situation is unchanged compared to the end of 2019, since the highest share is still held by the shareholders from Austria (45.7% of foreign capital), followed by the shareholders from Turkey (18%) and Croatia (14.8%), while other countries have no major individual shares. Although there were some capital increase initiatives, the ownership structure has not changed, possible reason being difficulties in operations of the FB&H Securities Commission during the observed period.

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

Chart 3: Structure of foreign capital by countries (share in %)



<sup>15</sup> Criteria here was the ownership over shareholder capital in banks.

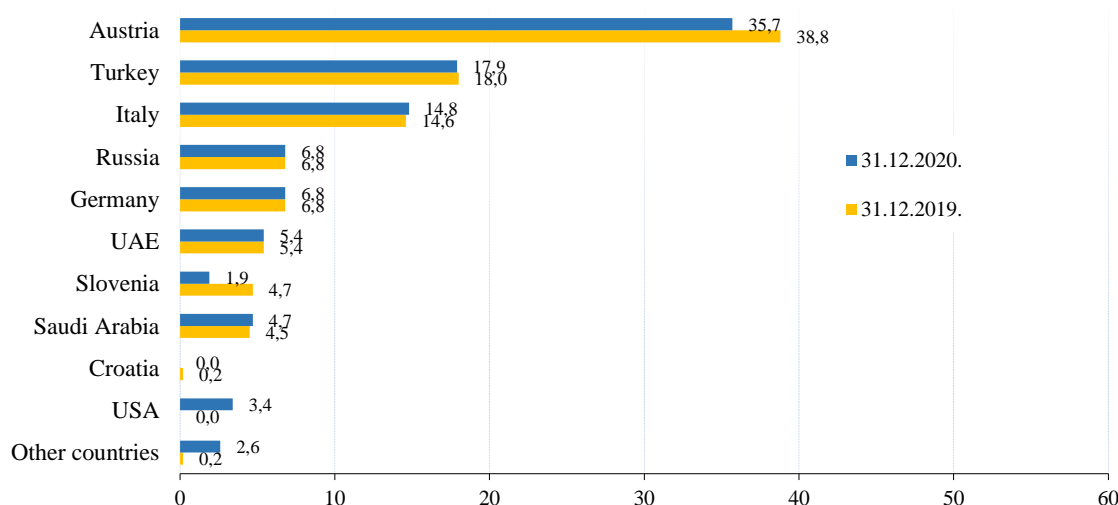
<sup>16</sup> State ownership refers to the capital of the FB&H Government.

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 FB&H banks.

According to this criterion, the highest share as of 31/12/2020 is held by the banking groups and banks from Austria (35.7%), followed by the banking groups and banks from Turkey (17.9%) and Italy (14.8%), 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 4: Structure of foreign capital by countries – residence of the group<sup>17</sup>, share in %**



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

- BAM 000 -

**Table 3: Ownership structure according to total capital**

No.	Banks	31.12.2018		31.12.2019		31.12.2020		Index	
		Amount	% share	Amount	% share	Amount	% share	(5/3)	(7/5)
1	2	3	4	5	6	7	8	9	10
1.	State-owned banks	61,488	2.1	68,881	2.2	63,642	2.1	112	92
2.	Private banks	2,909,598	97.9	3,062,473	97.8	3,002,440	97.9	105	98
	<b>Total</b>	<b>2,971,086</b>	<b>100</b>	<b>3,131,354</b>	<b>100</b>	<b>3,066,082</b>	<b>100</b>	<b>105</b>	<b>98</b>

The total capital of the FB&H banking sector with the balance as at 1/12/2020 decreased by BAM 65.3 million or 2.1% compared to the end of 2019, amounting to BAM 3.1 billion.

The decrease of total capital by BAM 65.3 million was realized as a net effect of: a decrease based on initial implementation of the Decision on Credit Risk Management and Determination of Expected Credit Losses of BAM 244 million and a transfer to the accrued tax liabilities on the transferred loan loss reserves created from the profits in Tier 1 capital of BAM 4.2 million, as well as based on an increase on the basis of the current financial result for 2020 of BAM 174.2 million, fair valuation of assets items through other comprehensive income of BAM 7.8 million and

<sup>17</sup> Pored zemalja sjedišta matice-bankarske grupe čije su članice banke iz FBiH, uključene su i zemlje iz kojih su svi ostali strani dioničari banaka iz FBiH

deferred tax assets depending on future profitability and resulting from temporary differences (for 2019) in an amount of BAM 0.9 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 banks' capital in the FB&H, which is shown in the following table:

- BAM 000 -

*Table 4: Ownership structure according to state-owned, private and foreign capital*

No.	Share capital	31.12.2018		31.12.2019		31.12.2020		Index	
		Amount	% share	Amount	% share	Amount	% share	(5/3)	(7/5)
1	2	3	4	5	6	7	8	9	10
1.	State-owned capital	41,619	3.2	41,619	3.2	41,619	3.2	100	100
2.	Private capital (residents)	139,637	10.7	139,355	10.7	140,547	10.8	100	101
3.	Foreign capital (non-residents)	1,118,444	86.1	1,118,725	86.1	1,117,534	86.0	100	100
	<b>Total</b>	<b>1,299,700</b>	<b>100</b>	<b>1,299,699</b>	<b>100</b>	<b>1,299,700</b>	<b>100</b>	<b>100</b>	<b>100</b>

As of 31/12/2020, the ownership structure has changed slightly against YE2019 through an increase of private capital (residents), i.e. decrease of foreign capital (non-residents) by 0.1 percentage point.

As of 31/12/2020, the market share of banks under majority foreign capital was 92.6%, under majority private capital 5.3% and under majority state owned capital 2.1%. The table below provides an overview of market shares of banks by the ownership types (majority capital) across periods:

*Table 5: Market shares of banks according to the ownership type (majority capital)*

No.	Banks	31.12.2018			31.12.2019			31.12.2020		
		No. of banks	Share in total capital %	Share in total assets %	No. of banks	Share in total capital %	Share in total assets %	No. of banks	Share in total capital %	Share in total assets %
1	2	3	4	5	6	7	8	9	10	11
1.	Banks with majority state-owned capital	1	2.1	3.5	1	2.2	3.3	1	2.1	3.6
2.	Banks with majority private capital – residents	4	5.9	6.3	4	5.9	6.3	4	5.3	6.7
3.	Banks with majority foreign capital	10	92.0	90.2	10	91.9	90.4	10	92.6	89.7
	<b>Total</b>	<b>15</b>	<b>100</b>	<b>100</b>	<b>15</b>	<b>100</b>	<b>100</b>	<b>15</b>	<b>100</b>	<b>100</b>

### 3.1.3. Staff Structure

The number of employees across the banking sector as at 31/12/2020 is 6,522, which is lower by 137 employees or 2.1% compared to the end of 2019. A decrease in the number of employees is present in 10 banks, while the number of employees increased in 5 banks, thus leading to the overall staff increase compared to YE2019.

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

*Table 6: Qualification structure of employees in FB&H banks*

No.	Qualification level	31.12.2018		31.12.2019		31.12.2020		Index	
		Number of employees	% share	Number of employees	% share	Number of employees	% share	(5/3)	(7/5)
1	2	3	4	5	6	7	8	9	10
1.	University degree	4,102	60.9	4,125	61.9	4,088	62.7	101	99
2.	Two-year post-secondary school degree	520	7.7	485	7.3	453	6.9	93	93
3.	Secondary school degree	2,108	31.3	2,041	30.7	1,975	30.3	97	97



4. Others	9	0.1	8	0.1	6	0.1	89	75
<b>Total</b>	<b>6,739</b>	<b>100</b>	<b>6,659</b>	<b>100</b>	<b>6,522</b>	<b>100</b>	<b>99</b>	<b>98</b>

A decrease in the number of employees in the FB&H banking sector as of 31/12/2020 compared to the end of 2019 is present with the employees across all qualification levels.

One of 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 the overall sector.

The following table provides an overview of total assets per an employee in the FB&H banking sector by periods:

-BAM 000-

31.12.2018		31.12.2019			31.12.2020			
No. of employ.	Assets	Assets per employee	No. of employ.	Assets	Assets per employee	No. of employ.	Assets	Assets per employee
1	2	3	4	5	6	7	8	9
6,739	22,094,135	3,279	6,659	24,210,567	3,636	6,522	24,396,438	3,741

## 3.2. FINANCIAL PERFORMANCE INDICATORS

### 3.2.1. Balance Sheet

The presented indicators of the FB&H banks' performance and banking sector analyses include the indicators from the active sub-balance sheet of one bank with a majority of state-owned capital<sup>18</sup>, in accordance with provisions of the FB&H 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 3 of this Information - Balance Sheet of FB&H Banks According to the FBA Scheme (Active Sub-Balance Sheet). Annex 4 provides an overview of assets, loans, deposits and financial performance of the FB&H banks as at 31/12/2020.

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

-BAM 000-

No.	Description	31.12.2018		31.12.2019		31.12.2020		Index	
		Amount	% share	Amount	% share	Amount	% share	(5/3)	(7/5)
1	2	3	4	5	6	7	8	9	10
<b>ASSETS</b>									
1.	Cash	6,591,117	29.8	7,641,570	31.6	7,414,615	30.4	116	97
2.	Securities	1,304,626	5.9	1,456,321	6.0	1,687,459	6.9	112	116
3.	Placements to other banks	270,604	1.2	149,197	0.6	275,941	1.1	55	185
4.	Loans	14,325,634	64.8	15,220,759	62.8	15,254,651	62.5	106	100
5.	Impairments	1,190,760	5.4	1,120,940	4.6	1,127,176	4.6	94	101
6.	Net loans (loans minus impairments)	13,134,874	59.5	14,099,819	58.2	14,127,475	57.9	107	100
7.	Business premises and other fixed assets	531,767	2.4	600,684	2.5	553,475	2.3	113	92
8.	Other assets	261,147	1.2	262,976	1.1	337,473	1.4	101	128
<b>TOTAL ASSETS</b>		<b>22,094,135</b>	<b>100</b>	<b>24,210,567</b>	<b>100</b>	<b>24,396,438</b>	<b>100</b>	<b>110</b>	<b>101</b>
<b>LIABILITIES</b>									
9.	Deposits	17,604,487	79.7	19,414,294	80.2	19,660,862	80.6	110	101
10.	Borrowings from other banks	0	0.0	0	0.0	0	0.0	0	0
11.	Liabilities on loans	862,931	3.9	856,626	3.5	811,878	3.3	99	95
12.	Other liabilities	655,631	3.0	808,293	3.3	857,616	3.5	123	106

<sup>18</sup> The majority state-owned banks report in the "total" balance sheet passive and neutral items.

CAPITAL									
13.	Capital	2,971,086	13.4	3,131,354	13.0	3,066,082	12.6	105	98
<b>TOTAL LIABILITIES (LIABILITIES AND CAPITAL)</b>		<b>22,094,135</b>	<b>100</b>	<b>24,210,567</b>	<b>100</b>	<b>24,396,438</b>	<b>100</b>	<b>110</b>	<b>101</b>

The total net assets across the FB&H banking sector as of 31/12/2020 were BAM 24.4 billion, which is by BAM 185.9 million or 0.8% higher compared to the end of 2019.

The banks' net loans have the highest share (57.9%) within the assets in the banks' balance sheet, followed by cash (30.4%), securities (6.9%), fixed assets (2.3%), other assets (1.4%), and placements to other banks (1.1%). The deposits (80.6%) have the highest share within the liabilities in the banks' balance sheet, followed by capital (12.6%), other liabilities (3.5%) and liabilities based on loans (3.3%).

As of 31/12/2020, compared to the end of 2019, there was an increase of securities, placements to other banks, loans, other assets, deposits and other liabilities, while decrease was evident with cash, business premises and other fixed assets, liabilities based on loans and total capital.

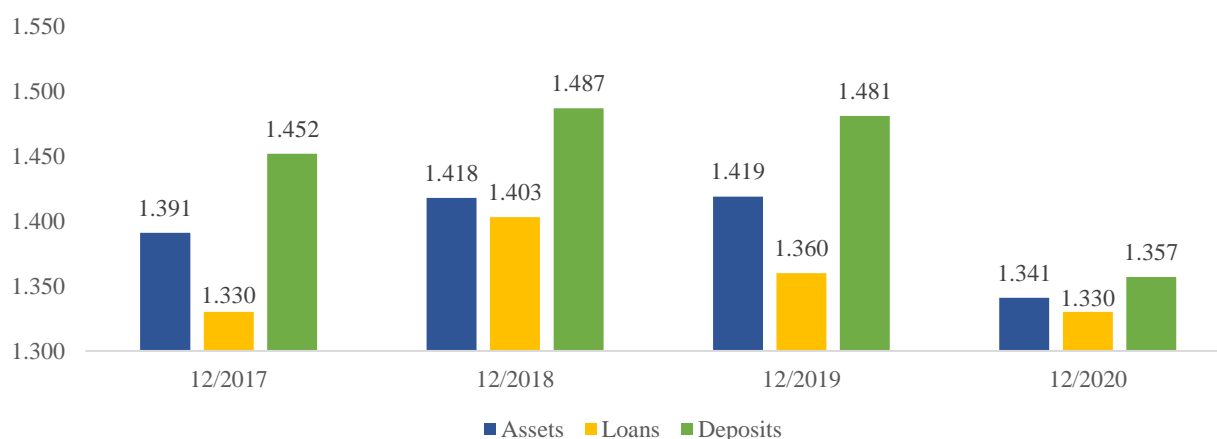
The following table provides an overview of the banks' assets banks according to ownership structure:

- BAM 000 -

No.	Banks	31.12.2018			31.12.2019			31.12.2020			Index	
		Number of banks	Assets (BAM '000s)	% share	Number of banks	Assets (BAM '000s)	% share	Number of banks	Assets (BAM '000s)	% share	(7/4)	(10/7)
1	2	3	4	5	6	7	8	9	10	11	12	13
1.	State-owned	1	775,490	3.5	1	801,261	3.3	1	879,736	3.6	103	110
2.	Private	14	21,318,645	96.5	14	23,409,306	96.7	14	23,516,702	96.4	110	100
<b>Total</b>		<b>15</b>	<b>22,094,135</b>	<b>100</b>	<b>15</b>	<b>24,210,567</b>	<b>100</b>	<b>15</b>	<b>24,396,438</b>	<b>100</b>	<b>110</b>	<b>101</b>

The following chart provides the Herfindahl index of concentrations of assets, loans and deposits by periods:

Chart 5: Herfindahl index of concentration in assets, loans, and deposits

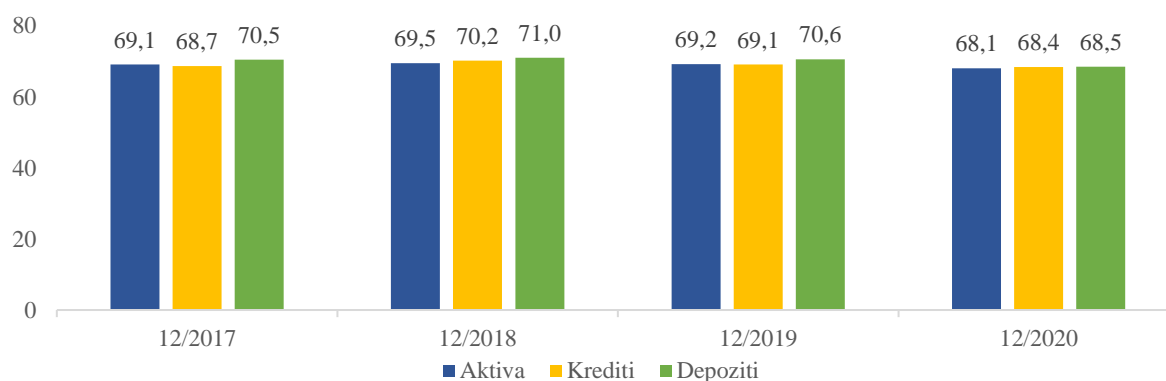


The Herfindahl index of concentration as of 31/12/2020, compared to the end of 2019, dropped for assets by 78 units, for loans by 30 units and for deposits by 124 units. The Herfindahl index of concentration for the reporting period shows a moderate concentration in all three relevant categories (assets, loans and deposits).

If the concentration rate, i.e. total share of the five biggest banks in the sector - CR5 as of 31/12/2020 is viewed compared to the end of 2019, there is a decrease with all selected relevant categories: market share by 1.1 percentage point, loans by 0.7 percentage points and deposits by 2.1 percentage points. The two biggest banks in the sector account for 44.7% of the market (assets 45.2%, loans 43.3 % and deposits 45.6%).

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

**Chart 6: Concentration ratios for five biggest banks - CR5: assets, loans, and deposits**



The banking sector can also be analysed according to the criterion of classification to the groups created according to the size of assets<sup>19</sup>. As of 31/12/2020, three banks in the FB&H banking sector with a 54.8% share stand out according to the size of assets, comprising group I of banks with the assets of over BAM 2.0 billion.

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

- BAM 000 -

No.	Amount of assets	31.12.2018			31.12.2019			31.12.2020		
		Amount	% share	Number of banks	Amount	% share	Number of banks	Amount	% share	Number of banks
1.	I (over BAM 2 billion)	12,456,111	56.4	3	13,686,527	56.5	3	13,375,256	54.8	3
2.	II (BAM 1-2 billion)	6,075,531	27.5	5	6,645,925	27.5	5	7,906,422	32.4	6
3.	III (BAM 0.5-1 billion)	2,168,293	9.8	3	3,451,044	14.2	5	2,708,664	11.1	4
4.	IV (BAM 0.1-0.5 billion)	1,394,200	6.3	4	427,071	1.8	2	406,096	1.7	2
5.	V (below BAM 0.1 billion)	0	0.0	0	0	0.0	0	0	0.0	0
	<b>Total</b>	<b>22,094,135</b>	<b>100</b>	<b>15</b>	<b>24,210,567</b>	<b>100</b>	<b>15</b>	<b>24,396,438</b>	<b>100</b>	<b>15</b>

As of 31/12/2020, there were changes to the structure of the II group of banks in total assets of the FB&H banking sector (total assets from BAM 1-2 billion), i.e. one bank moved from group III to group II. Over the observed period, no bank had assets below BAM 100 million.

Cash across the FB&H banking sector as of 31/12/2020 amounted to BAM 7.4 billion, down by BAM 227 million or 3% vs. YE2019. If observed by banks at the FB&H banking sector level, a cash increase was evident with ten banks, while five banks posted a cash reduction.

Its overview through the periods is provided in the following table:

<sup>19</sup> Banks are divided into five groups depending on the size of assets.

- BAM 000 -

**Table 11: Banks' cash**

No	Cash	31.12.2018		31.12.2019		31.12.2020		Index	
		Amount	% share	Amount	% share	Amount	% share	(5/3)	(7/5)
1	2	3	4	5	6	7	8	9	10
1.	Cash	910,481	13.8	1,004,445	13.1	1,267,712	17.1	110	126
2.	Reserve account with CBB&H	4,002,281	60.7	4,329,659	56.7	4,478,515	60.4	108	103
3.	Accounts with deposit institutions in B&H	38,746	0.6	48,611	0.6	30,194	0.4	125	62
4.	Accounts with deposit institutions abroad	1,639,544	24.9	2,258,758	29.6	1,638,190	22.1	138	73
5.	Cash in process of collection	65	0.0	97	0.0	4	0.0	149	4
	<b>Total</b>	<b>6,591,117</b>	<b>100</b>	<b>7,641,570</b>	<b>100</b>	<b>7,414,615</b>	<b>100</b>	<b>116</b>	<b>97</b>

As of 31/12/2020, compared to the end of 2019, there was a decrease of the banks' cash funds related to deposit accounts with deposit institutions in B&H and abroad, as well all as with cash in process of collection.

In the currency structure of cash funds as of 31/12/2020 (compared to the end of 2019), the share of local currency rose from 66.7% to 73.7%, along with a simultaneous decrease of the share in foreign currency from 33.3% to 26.3%.

The portfolio of securities as at 31/12/2020 amounted to BAM 1.7 billion, which was higher by BAM 231.1 million or 15.9% compared to the end of 2019.

The following table provides an overview of the portfolio according to the type of instruments and issuer:

- BAM 000 -

**Table 12: Investments in securities according to type of instrument**

No.	Investments in securities	31.12.2018		31.12.2019		31.12.2020		Index	
		Amount	% share	Amount	% share	Amount	% share	(5/3)	(7/5)
1	2	3	4	5	6	7	8	9	10
1.	Equity securities	5,281	0.4	5,313	0.4	11,844	0.7	101	223
2.	Debt securities:	1,299,345	99.6	1,451,008	99.6	1,675,615	99.3	112	115
2.1.	- Securities of all levels of governments in B&H	619,536	47.5	747,632	51.3	992,337	58.8	121	133
2.2.	- Government securities (other countries)	533,666	40.9	549,649	37.7	544,646	32.3	103	99
2.3.	- Corporate bonds <sup>20</sup>	146,143	11.2	153,727	10.6	138,632	8.2	105	90
	<b>Total</b>	<b>1,304,626</b>	<b>100</b>	<b>1,456,321</b>	<b>100</b>	<b>1,687,459</b>	<b>100</b>	<b>112</b>	<b>116</b>

The most significant item within the investments in debt securities are the securities of entity governments, namely the securities issued by the FB&H<sup>21</sup> of the total value of BAM 699.6 million, and the securities of the RS as the issuer of BAM 278.3 million.

-BAM 000-

**Table 13: Securities of B&H entity governments**

No.	Investments in securities	31.12.2018		31.12.2019		31.12.2020		Index	
		Amount	% share	Amount	% share	Amount	% share	(5/3)	(7/5)
1	2	3	4	5	6	7	8	9	10
1.	Debt securities of FB&H as issuer:	436,164	71.3	532,147	72.6	699,554	71.5	122	131
1.1.	Treasury bills	35,179	5.7	18,921	2.6	100,007	10.2	54	529
1.2.	Bonds	400,985	65.6	513,226	70.0	599,547	61.3	128	117
2.	Debt securities of RS:	175,395	28.7	201,089	27.4	278,325	28.5	115	138
2.1.	Treasury bills	0	0.0	0	0.0	41,759	4.3	-	-

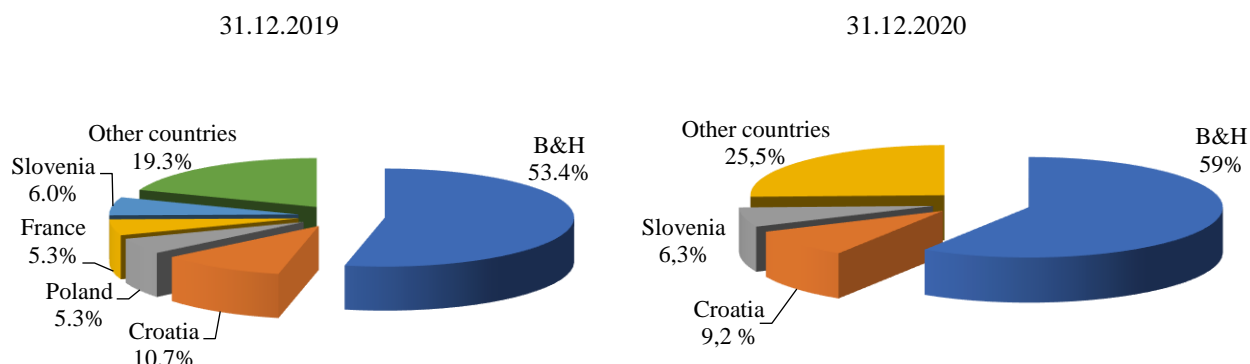
<sup>20</sup> Majority, i.e. app. 92.9%, relates to the EU and US banks' bonds, while the remainder relates to the EU and B&H companies' bonds

<sup>21</sup> All types of securities of the FB&H as the issuer.

2.2.	Bonds	175,395	28.7	201,089	27.4	236,566	24.2	115	118
<b>Total</b>		<b>611,559</b>	<b>100</b>	<b>733,236</b>	<b>100</b>	<b>977,879</b>	<b>100</b>	<b>120</b>	<b>133</b>

If total investments in securities are analysed according to the exposures by countries, the highest share of 59% is to the issuers from B&H, followed by Croatia with a 9.2% share, Slovenia with 6.3% share and other countries with individual shares below 5%.

**Chart 7: Structure of investments in securities according to the criterion of country issuer**



### 3.2.2. Liabilities

As of 31/12/2020, the share of deposits, as the most significant source of the banks' funding, increased by 0.4 percentage points (80.6%), while the share of loan obligations decreased by 0.2 percentage points compared to the YE2019 (3.3%).

The banks' loan obligations with the amount of BAM 811.9 million have decreased by BAM 44.7 million or 5.2% compared to the end of 2019. If subordinated loans of BAM 186.4 million are also added to the loan obligations, total loans have a 4.1% share in the funding sources.

The deposits recorded a decrease of BAM 246.6 million or 1.3% compared to the end of 2019, amounting to BAM 19.7 billion as at 31/12/2020. Out of the total amount of deposits at the end of the reporting period, BAM 1.3 billion or 6.5% relates to deposits collected in the FB&H banks' organizational parts in the RS and BD.

The following charts provide an overview of total deposits and the ratio of loans and deposits by periods:

**Chart 8: Total deposits (BAM 000)**

*Information on the FB&H Banking System Entities with the balance as of 31/12/2020*

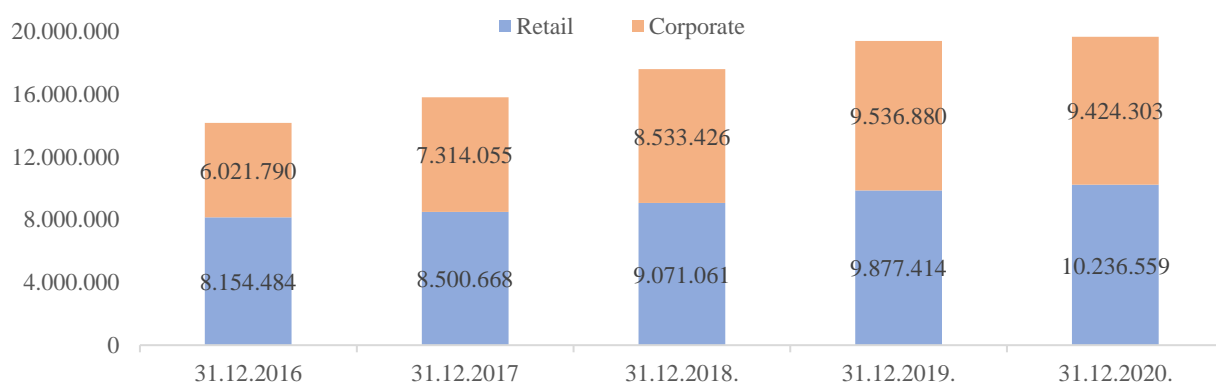
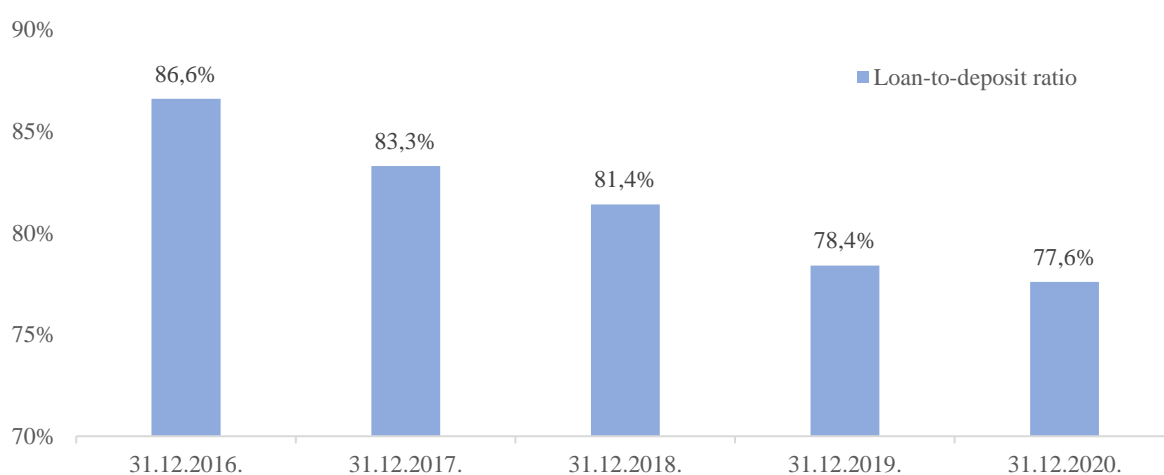


Chart 9: Loan-to-deposit ratio



Across observed periods, the loan-to-deposit ratio shows a constant trend of decrease that was also carried over to 31/12/2020, where the decrease rate against YE2019 was 0.8 percentage points.

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

-BAM 000-

No.	Sectors	31.12.2018		31.12.2019		31.12.2020		Index	
		Amount	% share	Amount	% share	Amount	% share	(5/3)	(7/5)
1	2	3	4	5	6	7	8	9	10
1.	Government institutions	1,778,835	10.1	2,157,147	11.1	2,236,845	11.4	121	104
2.	Public enterprises	1,538,501	8.7	1,651,976	8.5	1,453,080	7.4	107	88
3.	Priv. enterp. and companies	2,834,717	16.1	3,236,224	16.7	3,783,548	19.2	114	117
4.	Banking institutions	1,215,334	6.9	1,208,613	6.2	568,484	2.9	99	47
5.	Non-bank fin. institutions	746,690	4.3	803,516	4.1	848,319	4.3	108	106
6.	Retail	9,071,061	51.5	9,877,414	50.9	10,236,559	52.1	109	104
7.	Other	419,349	2.4	479,404	2.5	534,027	2.7	114	111
	<b>Total</b>	<b>17,604,487</b>	<b>100</b>	<b>19,414,294</b>	<b>100</b>	<b>19,660,862</b>	<b>100</b>	<b>110</b>	<b>101</b>

The largest share in the sector structure of deposits refers to retail loans with 52.1% and this share rose against YE2019 by 1.2 percentage points. As of 31/12/2020, retail deposits stood at BAM 10.2 billion.

An increase in deposits as of 31/12/2020, compared to the end of 2019, was realized in relation to the government institutions' deposits by BAM 79.7 million or 3.7%, deposits of private companies by BAM 547.3 million or 16.9%, deposits of non-bank financial institutions by BAM 44.8 million or 5.6%, retail deposits by BAM 359.1 million or 3.6% and other deposits by BAM 54.6 million or 11.4%.

A decrease of deposits as of 31/12/2020, compared to the end of 2019, was recorded in relation to public companies' deposits by BAM 198.9 million or 12% and banking institutions' deposits by BAM 640.1 million or 53%. The biggest changes in the sector structure of deposits refer to changes in the financing structure regarding deposits of banking groups, while other changes are negligible. The banking group financing is present in eight banks in the FB&H, so that 74.5% of total deposits of banking institutions relates to deposits by banking groups.

The currency structure of deposits as at 31/12/2020 changed compared to the end of 2019, i.e. the share of deposits in domestic currency increased from 61.2% to 64.6%, while the share of deposits in foreign currency decreased from 38.8% to 35.4%. Deposits in BAM rose by an amount of BAM 805 million or 6.8%, while deposits in foreign currencies dropped by BAM 558.4 million or 7.4%.

The structure of deposits according to the origin of depositors as of 31/12/2020, compared to the end of 2019, has the following structure: residents' deposits of BAM 18.7 billion have a 95.3% share (+3.4 percentage points), while non-residents' deposits are BAM 0.9 billion, which was 4.7% of total deposits (-3.4 percentage points).

The long term upward trend of savings deposits (as the most significant segment of deposit and financial potential of banks) has continued as of 31/12/2020 as well. As of 31/12/2020, savings deposits amounted to BAM 9.9 billion, up by BAM 341.9 million or 3.6% compared to the end of 2019.

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

- BAM 000 -

*Table 15: Retail savings*

No.	Banks	Amount			Index	
		31.12.2018	31.12.2019	31.12.2020	(4/3)	(5/4)
1	2	3	4	5	6	7
1.	State-owned	91,645	96,979	105,980	106	109
2.	Private	8,712,454	9,476,470	9,809,340	109	104
	<b>Total</b>	<b>8,804,099</b>	<b>9,573,449</b>	<b>9,915,320</b>	<b>109</b>	<b>104</b>

*Chart 10: Retail savings by periods*



54.1 of savings are concentrated in two biggest banks, while five banks have the individual shares of less than 2%, amounting to 5.3% of the total savings in the sector. Of the total amount of the savings, 51.1% relate to savings deposits in domestic currency, while 48.9% relate to savings deposits in foreign currency.

As of 31/12/2020 vs. YE2019, short term retail deposits rose by BAM 508 million or 9% (while their share rose by 3 percentage points) and long term retail deposits dropped by BAM 166.2 million or 4.2% (while their went down by 3 percentage points).

The maturity structure of savings deposits can be seen in the following table:

- BAM 000 -

No.	Savings deposits	31.12.2018		31.12.2019		31.12.2020		Index	
		Amount	% share	Amount	% share	Amount	% share	(5/3)	(7/5)
1	2	3	4	5	6	7	8	9	10
1.	Short term savings deposits	4,977,201	56.5	5,634,426	58.9	6,142,454	61.9	113	109
2.	Long term savings deposits	3,826,898	43.5	3,939,023	41.1	3,772,866	38.1	103	96
	<b>Total</b>	<b>8,804,099</b>	<b>100</b>	<b>9,573,449</b>	<b>100</b>	<b>9,915,320</b>	<b>100</b>	<b>109</b>	<b>104</b>

Retail loans as of 31/12/2020 amounted to BAM 7.3 billion, down by 1.6% vs. YE2019. At the same time, retail deposits went up by 3.6% to BAM 10.2 billion as of 31/12/2020.

- BAM 000 -

No.	Description	31.12.2018	31.12.2019	31.12.2020	Index	
		Amount	Amount	Amount	(4/3)	(5/4)
1	2	3	4	5	6	7
1.	Retail loans	6,853,979	7,400,278	7,281,540	108	98
2.	Retail savings	8,804,099	9,573,449	9,915,320	109	104
2.1.	Term deposits	4,126,382	4,280,620	4,089,390	104	96
2.2.	Demand deposits	4,677,717	5,292,829	5,825,930	113	110
<b>3.</b>	<b>Loans/savings</b>	<b>78%</b>	<b>77%</b>	<b>73%</b>	-	-
4.	Retail deposits	9,071,061	9,877,414	10,236,559	109	104
<b>5.</b>	<b>Loans/Retail deposits</b>	<b>76%</b>	<b>75%</b>	<b>71%</b>	-	-



## 3.2.3. Capital and Capital Adequacy

As of 31/12/2020, total banks' capital was BAM 3.1 billion, decreasing by BAM 65.3 million or 2.1% compared to the end of 2019 (more details are provided under Subheading 3.1.2 - Ownership Structure and Market Share).

The following table provides a report on the balance, i.e. the structure of the FB&H banks' own funds:

- BAM 000 -

*Table 18: Report on the balance of own funds*

No.	Description	31.12.2018	31.12.2019	31.12.2020	Index	
					(4/3)	(5/4)
1	2	3	4	5	6	7
<b>1.</b>	<b>Own funds</b>	<b>2,478,985</b>	<b>2,690,298</b>	<b>2,698,829</b>	<b>109</b>	<b>100</b>
<b>1.1.</b>	<b>Tier 1 capital</b>	<b>2,351,425</b>	<b>2,656,534</b>	<b>2,581,709</b>	<b>113</b>	<b>97</b>
<b>1.1.1.</b>	<b>Common Equity Tier 1</b>	<b>2,351,425</b>	<b>2,656,534</b>	<b>2,581,709</b>	<b>113</b>	<b>97</b>
1.1.1.1.	Paid-up capital instruments	1,290,878	1,299,335	1,299,335	101	100
1.1.1.2.	Share premium	137,290	137,290	137,290	100	100
1.1.1.3.	(-) Own Common Equity Tier 1 instruments	-215	-215	-214	100	100
1.1.1.4.	Previous year retained profit	238,344	403,027	343,452	169	85
1.1.1.5.	Recognized gain or loss	-34,743	-36,302	-145,228	104	400
1.1.1.6.	Accumulated other comprehensive income	10,296	26,630	29,353	259	110
1.1.1.7.	Other reserves	876,626	970,088	1,000,959	111	103
1.1.1.8.	(-) Other intangible assets	-56,116	-57,589	-58,638	103	102
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	-14	-34	14	243
1.1.1.10.	(-) Deduction from Additional Tier 1 items exceeding Additional Tier 1	0	-1,255	0	-	0
1.1.1.11.	(-) Deferred tax assets that are deductible and rely on future profitability and arise from temporary differences	-1,625	-1,349	-8,300	83	615
1.1.1.12.	(-) Financial sector entities' Common Equity Tier 1 instruments if bank has material investment	-12,118	-15,950	-16,266	132	102
1.1.1.13.	Elements or deductions from Common Equity Tier 1 – other	-97,091	-67,162	0	69	0
<b>1.1.2.</b>	<b>Additional Tier 1</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-</b>	<b>-</b>
<b>1.2.</b>	<b>Tier 2 capital</b>	<b>127,560</b>	<b>33,764</b>	<b>117,120</b>	<b>26</b>	<b>347</b>
1.2.1.	Paid-up capital instruments and subordinated debts	105,592	170,158	117,134	161	69
1.2.2.	(-) Own Tier 2 instruments	-14	-14	-14	100	100
1.2.3.	General impairments for credit risk under standardized approach	153,706	163,569	0	106	0
1.2.4.	Deduction from Tier 2 items exceeding Tier 2 capital (deducted from Additional Tier 1 capital)	0	1,255	0	-	0
1.2.5.	Paid-up capital instruments and subordinated debts	-131,724	-301,204	0	229	0

The FB&H banks' own funds as of 31/12/2020 were BAM 2.7 billion and, compared to the end of 2019, it increased by BAM 8.5 million or 0.3%. The banks' T1 and CET1 capital as at the reporting period is BAM 2.6 billion, with a realized decrease of BAM 74.8 million or 2.8%, while Tier 2 capital is BAM 117.1 million, with a realized increase of BAM 83.4 million or 246.9% compared to the end of 2019.

The own funds' structure of the FB&H banking sector includes a share of Tier 1 capital of 95.7% (12/2019: 98.7%), while Tier 2 capital participates with 4.3% (12/2019: 1.3%). During the reporting period, the own funds' structure has changed via decreased share of Tier 1 capital and

increased share of Tier 2 capital. In 2019, FBA has enacted the Decision on Credit Risk Management and Determination of Expected Credit Losses with effect date starting from 01/01/2020. Accordingly, banks were required to calculate effects of implementation of the Decision as of 31/12/2019, i.e. as of opening balance as of 01/01/2020, post them to capital accounts and recognized under Common Equity Tier 1. Posting the effects of implementation of the said Decision resulted in reduced CET1 and Tier 1 capital and increased share of supplementary capital due to cancellation of LLP shortfall as an off-set item to supplementary capital.

A detailed analysis has shown that the biggest effect to the T1 capital change referred to these items:

- decrease of BAM 244 million based on the initial implementation of the Decision on Credit Risk Management and Determination of Expected Credit Losses,
- decrease based on a loss figure posted by two banks in 2020 in an amount of BAM 13.1 million,
- decrease of BAM 6.3 million based on increased deductible items – deferred tax assets depending on future profitability and resulting from temporary differences,
- increase based on transfer of LLP formed against profit to T1 capital, as per the decision reached by bank's general meeting of shareholders in an amount of BAM 16 million,
- increase of accumulated other comprehensive income of BAM 2.7 million,
- increase based on reduction of deductible items (provisioning shortfall) of BAM 68.4 million related to initial implementation of the Decision on Credit Risk Management and Determination of Expected Credit Losses, and
- increase based on included profit from 2019 of BAM 91.5 million and profit for 2020 of BAM 10 million.

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 FB&H banking sector's total risk exposure with the balance as at 31/12/2020 was BAM 14.1 billion, whose structure is provided in the following table:

- BAM 000 -

*Table 19: Risk exposure structure*

No	Risk exposure	31.12.2018		31.12.2019		31.12.2020		Index	
		Amount	% share	Amount	% share	Amount	% share	(5/3)	(7/5)
1	2	3	4	5	6	7	8	9	10
1.	Risk weighted exposures for credit risk	12,296,292	86.7	13,085,560	87.1	12,843,833	91.0	106	98
2.	Settlement/free delivery risk exposures	0	0.0	0	0.0	0	0.0	0	0
3.	Market risk (position and currency risk) exposures	223,778	1.6	228,011	1.5	119,065	0.8	102	52
4.	Risk exposures for operational risk	1,657,561	11.7	1,705,834	11.4	1,150,236	8.2	103	67
<b>Total risk exposure amount</b>		<b>14,177,631</b>	<b>100</b>	<b>15,019,405</b>	<b>100</b>	<b>14,113,134</b>	<b>100</b>	<b>106</b>	<b>94</b>

The total risk exposure amount across the FB&H banking sector decreased in 2020 by BAM 906.3 million or 6%. Over the reporting period, there was a decrease of credit risk weighted exposures by BAM 241.7 million or 1.8%, while the market risk weighted exposures dropped by BAM 108.9 million or 47.8% and operational risk weighted exposures posted a drop of BAM 555.6 million or 32.6%. There were five banks in the sector that have not posted currency risk exposures since their net open currency position did not exceed 2% of own funds.

As of 31/12/2020, banks were most exposed to the credit risk (91% share), which is dominant in the FB&H banking sector. Compared to the end of the previous year, there were changes in the structure of shares by individual risk types in the total exposure, i.e. the share of credit risk went up by 3.9 percentage points, while the share of the operational risk exposure decreased by 3.2 percentage points and the market risk exposure decreased by 0.7 percentage points.

Within the credit risk weighted exposures, the biggest share is with retail exposures (BAM 4.4 billion or 34.2%), followed by corporate exposures (BAM 3.3 billion or 26%) and RE-secured exposures (BAM 3.2 billion or 25.2%).

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 FB&H banking sector capital adequacy indicators are provided in the following table:

-BAM 000-

<i>Table 20: Capital adequacy indicators</i>				
No.	Capital ratios	% and amount of regulatory minimum surplus or deficit		
		31.12.2018	31.12.2019	31.12.2020
1	2	3	4	5
1.	<b>Common Equity Tier 1 capital ratio</b>	<b>16.6%</b>	<b>17.7%</b>	<b>18.3%</b>
2.	Surplus (+) / Deficit (-) of Common Equity Tier 1	1,394,434	1,642,724	1,629,073
3.	<b>Tier 1 capital ratio</b>	<b>16.6%</b>	<b>17.7%</b>	<b>18.3%</b>
4.	Surplus (+) / Deficit (-) of Tier 1 capital	1,075,438	1,304,787	1,311,528
5.	<b>Own funds ratio</b>	<b>17.5%</b>	<b>17.9%</b>	<b>19.1%</b>
6.	Surplus (+) / Deficit (-) of own funds	777,668	887,971	1,005,254

The own funds rate as at 31/12/2020 is 19.1% and it is considerably higher compared to the statutory minimum of 12% and the same stands for other capital ratios (Common Equity Tier 1 capital and Tier 1 capital ratios).

Compared to YE2019, own funds ratio rose by 1.2 percentage points. With the slight increase of regulatory capital, the own funds ratio came as a result of reduced total risk exposure. T1 ratio decreased by 0.6 percentage points (as a result of initial implementation of the Decision on Credit Risk Management and Determination of Expected Credit Losses, i.e. posting of effects of initial implementation within CET1 capital).

The following table provides an overview of the FB&H banking sector's financial leverage ratio across periods:

- BAM 000 -

<i>Table 21: Financial leverage ratio</i>				
No.	Exposure values	31.12.2018	31.12.2019	31.12.2020
1	2	3	4	5
1.	Leverage ratio exposures - under Article 37(4) of Decision on Capital Calculation in Banks	23,162,644	25,201,918	25,523,184
2.	Tier 1 capital - under Article 37(3) of Decision on Capital Calculation in Banks	2,351,425	2,656,534	2,581,709
	<b>Leverage ratio - under Article 37(2) of Decision on Capital Calculation in Banks</b>	<b>10.1%</b>	<b>10.5%</b>	<b>10.1%</b>

The leverage ratio across the banking sector as at 31/12/2020 is 10.1% and is lower by 0.4 percentage points compared to the end of 2019. As of 31/12/2020, eight banks had their leverage

ratios above the FB&H banking sector average and seven banks had their leverage ratios below this average.

### 3.2.4. Credit Risk

For purpose of standardising credit risk management and ECL valuation and ensuring IFRS 9 compliance, in 2019, FBA has adopted the Decision on Credit Risk Management and Determination of Expected Credit Losses (effect date 01/01/2020). Also, it adopted the Instructions for Classification and Valuation of Financial Assets providing detailed definition of individual clauses of the said Decision as to ensure unique accounting and regulatory treatment of financial assets.

Implementation of the said Decision rendered ineffective the Decision on Minimum Standards for Credit Risk Management and Assets Classification in Banks. The most significant changes in this respect refers to the fact that the concept of assets classification into five categories and LLP allocation for such assets was replaced by the concept of allocating exposures to three credit risk grades and determining ECL. Credit risk grade 1 includes exposures with low level of credit risk the debtor is not overdue on a repayment in a material amount (meaning BAM 200 for private individuals and 1% of the total exposure, while for corporates this amount is BAM 1,000 and 1% of the total exposure) for more than 30 days. Credit risk grade 2 refers to items with increased level of credit risk with material amounts being overdue for more than 30 days, while the credit risk grade 3 (exposures in default status) includes items where a debtor is more than 90 days overdue in materially significant amounts.

Banks are required to adopt internal methodologies defining manner of classification and valuation of exposures, their allocation to credit risk grades and ECL determination. This needs to be aligned with requirements prescribed by the said Decision and the Instructions. In addition, upon initial implementation of the Decision, banks are required to perform an accounting write-off of balance sheet exposures (i.e. transfer to off-balance sheet records) for two years after they have booked ECL at the level of 100% of gross book value of exposures and declared this fully due.

The table below provides an overview of balance sheet exposures at the FB&H banking sector level based on key categories of financial assets, off-balance sheet exposures and related ECLs:

- BAM 000 -

<i>Table 22: Financial assets, off-balance sheet items and ECL</i>										
No	Description	31.12.2018			31.12.2019			31.12.2020		
		Amount	ECL	% ECL	Amount	ECL	% ECL	Amount	ECL	% ECL
1	2	3	4	5	6	7	8	9	10	11
1.	Cash and cash facilities	6,749,437	10,960	0.2	7,796,241	7,696	0.1	7,693,909	9,887	0.1
2.	Financial assets at amortised cost	14,598,680	1,238,638	8.5	15,417,105	1,150,848	7.5	15,460,513	1,136,925	7.4
3.	Financial assets at fair value	1,167,107	0	0.0	1,318,635	0	0.0	1,552,559	0	0.0
4.	Other financial receivables	154,014	20,060	13.0	224,665	36,030	16.0	258,027	33,250	12.9
<b>I Total balance sheet exposure</b>		<b>22,669,238</b>	<b>1,269,658</b>	<b>5.6</b>	<b>24,756,646</b>	<b>1,194,574</b>	<b>4.8</b>	<b>24,965,008</b>	<b>1,180,062</b>	<b>4.7</b>
5.	Issued guarantees	1,199,603	19,197	1.6	1,350,083	21,488	1.6	1,373,899	24,965	1.8
6.	Uncovered letters of credit	55,676	781	1.4	48,255	554	1.1	39,203	1,432	3.7
7.	Irrevocably approved, but undrawn loans	2,058,020	20,741	1.0	2,058,199	19,685	1.0	2,468,359	32,597	1.3
8.	Other contingent liabil.	16,707	143	0.9	54,122	310	0.6	8,274	26	0.3
<b>II Total off-bal.sheet items</b>		<b>3,330,006</b>	<b>40,862</b>	<b>1.2</b>	<b>3,510,659</b>	<b>42,037</b>	<b>1.2</b>	<b>3,889,735</b>	<b>59,020</b>	<b>1.5</b>
<b>Total exposure (I+II)</b>		<b>25,999,244</b>	<b>1,310,520</b>	<b>5.0</b>	<b>28,267,305</b>	<b>1,236,611</b>	<b>4.4</b>	<b>28,854,743</b>	<b>1,239,082</b>	<b>4.3</b>

Total exposure of banks as of 31/12/2020 stood at BAM 28.9 billion, thereof BAM 25 billion referring to balance sheet exposures and BAM 3.9 billion to off-balance sheet items.

In 2020, there was an increase of balance sheet exposures compared to the YE2019 by BAM 208.4 million or 0.8%, as caused by a net effect of an increase of financial assets measured at fair value and at amortised cost, as well as due to an increase of other financial receivables and reduced cash volume.

Over the same period, there was an increase of off-balance sheet items by BAM 379.1 billion or 10.8%, as being largely a result of an increase of irrevocably approved, but undrawn loans with one bank (up by BAM 197.4 million).

The following table shows balance sheet and off-balance sheet exposures at the FB&H banking sector level by credit risk grades and related ECLs:

- BAM 000 -

*Table 23: Exposures by credit risk grades*

No.	Description	31.12.2018			31.12.2019			31.12.2020		
		Amount	ECL	% ECL	Amount	ECL	% ECL	Amount	ECL	% ECL
1	2	3	4	5	6	7	8	9	10	11
1.	Credit risk grade 1	19,393,493	132,218	0.7	21,787,417	123,558	0.6	22,301,920	179,478	0.8
2.	Credit risk grade 2	1,899,346	115,699	6.1	1,652,439	113,839	6.9	1,645,274	204,681	12.4
3.	Credit risk grade 3	1,376,399	1,021,741	74.2	1,316,790	957,177	72.7	1,017,814	795,903	78.2
<b>I Total balance sheet exposure</b>		<b>22,669,238</b>	<b>1,269,658</b>	<b>5.6</b>	<b>24,756,646</b>	<b>1,194,574</b>	<b>4.8</b>	<b>24,965,008</b>	<b>1,180,062</b>	<b>4.7</b>
4.	Credit risk grade 1	2,908,560	21,387	0.7	3,027,094	20,431	0.7	3,440,487	21,343	0.6
5.	Credit risk grade 2	410,239	12,629	3.1	474,159	15,610	3.3	443,246	34,354	7.8
6.	Credit risk grade 3	11,207	6,846	61.1	9,406	5,996	63.7	6,002	3,323	55.4
<b>II Total off-balance sheet exposure</b>		<b>3,330,006</b>	<b>40,862</b>	<b>1.2</b>	<b>3,510,659</b>	<b>42,037</b>	<b>1.2</b>	<b>3,889,735</b>	<b>59,020</b>	<b>1.5</b>
<b>Total exposure (I+II)</b>		<b>25,999,244</b>	<b>1,310,520</b>	<b>5.0</b>	<b>28,267,305</b>	<b>1,236,611</b>	<b>4.4</b>	<b>28,854,743</b>	<b>1,239,082</b>	<b>4.3</b>

As of 31/12/2020, balance sheet exposures within the credit risk grade 1 amounted to BAM 22.3 billion and make up for 89.3% of the total balance sheet exposures. Compared to YE2019, they have risen by BAM 514.5 million or 2.4%. The increase mostly came as a net effect of increased financial assets measured at fair value by BAM 499.7 million, increased loan portfolio within this credit risk grade by BAM 60.5 million and increased other financial receivables by BAM 53.8 million, while decrease was evident with cash funds and cash receivables by BAM 103 million.

As of 31/12/2020, balance sheet exposures within the credit risk grade 2 stood at BAM 1.7 billion, representing 6.6% of the total balance sheet exposures. Compared to YE2019, they have dropped by BAM 7.2 million or 0.4%. The decrease of total balance sheet exposures within this credit risk grade came as a net effect of: a decrease of financial assets measured at fair value (allocated to this credit risk grade) by BAM 256.9 million and decrease of other financial receivables by BAM 15.6 million, while an increase was evident with cash funds and cash receivables by BAM 1.8 million, loan portfolio within this credit risk grade by BAM 243.3 million and other assets valued at amortised cost by BAM 29.3 million.

As of 31/12/2020, balance sheet exposures within the credit risk grade 3 equaled BAM 1.0 billion, representing 4.1% of the total balance sheet exposures. If observed against YE2019, they have dropped by BAM 299 million or 22.7%, as largely resulting from the accounting write-off of balance sheet exposures.

In 2020, ECLs at the credit risk grades 1 and 2 for the balance sheet exposures had a total increase of BAM 146.7 million (ECL for credit risk grade 1 rose by BAM 55.9 million and at the credit risk grade 2 by BAM 90.8 million). ECL at the credit risk grade 3 went down by BAM 161.3 million due to the accounting write off in line with the new regulation.

As a result of implementation of the Decision on Credit Risk Management and Determination of Expected Credit Losses, ECL coverage rates have risen against YE2019. The exposure coverage at the credit risk grade 1 rose from 0.6% to 0.8%, at the credit risk grade 2 from 6.9% to 12.4% and at the credit risk grade 3 from 72.7% to 78.2%.

As of 31/12/2020, off-balance sheet exposures at the credit risk grade 1 stood at BAM 3.4 billion, thus representing 88.4% of the total off-balance sheet exposures. Exposures at the credit risk grade 2 amount to BAM 443.2 million or 11.4% of the total off-balance sheet exposures, while the credit risk grade 3 includes exposures of BAM 6.0 million or 0.2% of the total off-balance sheet exposures.

Total ECL coverage for off-balance sheet exposures rose from 1.2% to 1.5%. The increase of coverage rate was noted with the credit risk grade 2, while the credit risk grades 1 and 3 show a drop in the coverage rate. This drop with the credit risk grade 1 was caused by higher increase of exposures vs. ECL, while the drop with the credit risk grade 3 mostly resulted from the accounting write off performed with two banks.

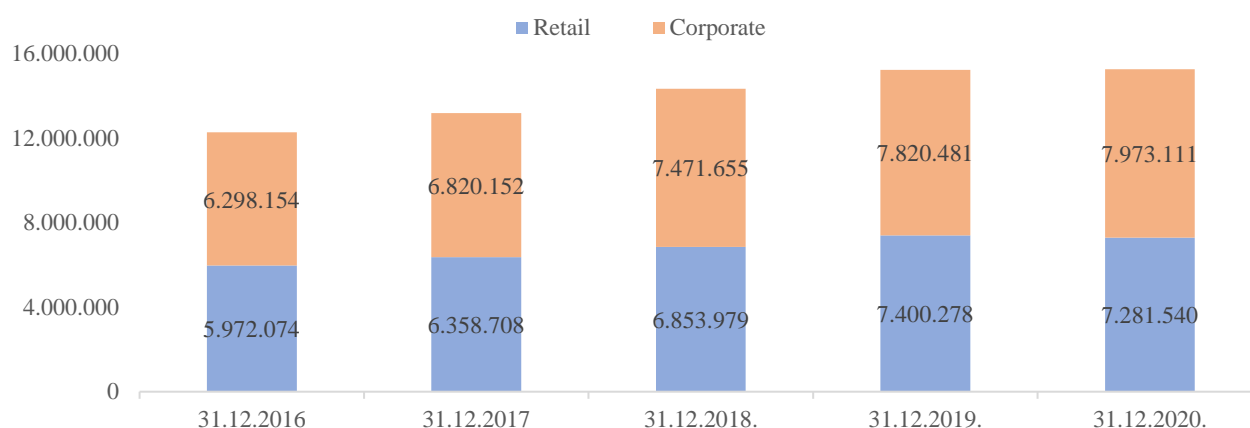
As of 31/12/2020, loans stood at BAM 15.3 billion, up by BAM 33.9 million or 0.2% vs. YE2019. However, over the observed period, the nominal loan portfolio growth was higher considering the accounting write-off of the loan portfolio in an amount of BAM 191.1 million was performed at the FB&H banking sector level subject to the effect date of the Decision on Credit Risk Management and Determination of Expected Credit Losses.

Retail loans amount to BAM 7.3 billion and hold a share in total loans of 47.7%, thus dropping against YE2019 by 1.6%. . On the other hand, corporate loans rose by 2% to BAM 8 billion and hold a share in total loans of 52.3%.

The following chart provides an overview of retail and corporate loans at the FB&H banking sector level in the period from 31/12/2016 to 31/12/2020:

*Chart 11: Loans (BAM 000)*





The following table shows a trend and changes of individual sectors of loan users in the total loan structure:

-BAM 000-

*Table 24: Loan structure by sectors*

No.	Sectors	31.12.2018		31.12.2019		31.12.2020		Index	
		Amount	% share	Amount	% share	Amount	% share	(5/3)	(7/5)
1	2	3	4	5	6	7	8	9	10
1.	Government institutions	216,596	1.5	189,360	1.2	199,032	1.3	87	105
2.	Public sector enterprises	321,493	2.3	359,635	2.4	395,157	2.6	112	110
3.	Private companies	6,625,641	46.3	6,922,742	45.5	6,500,322	42.6	104	94
4.	Banking institutions	217,706	1.5	247,501	1.6	772,554	5.1	114	312
5.	Non-banking financial instit.	75,804	0.5	86,902	0.6	83,921	0.6	115	97
6.	Retail	6,853,979	47.8	7,400,278	48.6	7,281,540	47.7	108	98
7.	Other	14,415	0.1	14,341	0.1	22,125	0.1	99	154
<b>Total</b>		<b>14,325,634</b>	<b>100</b>	<b>15,220,759</b>	<b>100</b>	<b>15,254,651</b>	<b>100</b>	<b>106</b>	<b>100</b>

The following table provides maturity structure of loans by sectors – loan users as of 31/12/2020:

- BAM 000 -

*Table 25: Maturity structure of loans*

No.	Sectors	31.12.2019			31.12.2020			Index		
		ST loans	LT loans	Receiv. due	ST loans	LT loans	Receiv. due	(6/3)	(7/4)	(8/5)
1	2	3	4	5	6	7	8	9	10	11
1.	Government institutions	40	189,215	105	4,732	193,928	372	11.830	102	354
2.	Public sector enterprises	39,363	307,603	12,668	40,618	342,373	12,166	103	111	96
3.	Private companies	2,414,723	3,897,580	610,440	2,301,850	3,782,059	416,413	95	97	68
4.	Banking institutions	247,491	0	10	772,554	0	0	312	0	0
5.	Non-banking financial instit.	26,103	55,779	5,020	18,777	65,113	31	72	117	1
6.	Retail	423,373	6,651,895	325,010	400,340	6,655,109	226,091	95	100	70
7.	Other	7,772	5,686	883	6,476	15,426	223	83	271	25
<b>Total</b>		<b>3,158,865</b>	<b>11,107,758</b>	<b>954,136</b>	<b>3,545,347</b>	<b>11,054,008</b>	<b>655,296</b>	<b>112</b>	<b>100</b>	<b>69</b>

As of 31/12/2020, compared to the end of 2019, short term loans in the FB&H banking sector have risen by BAM 386.5 million or 12.2% and long term loans went down by BAM 53.8 million or 0.5%.

Receivables due amount to BAM 655.3 million, down by BAM 298.8 million or 31.3% vs. YE2019. This significant rate of reduction of receivables due stems largely from the performed accounting write-off.

In the currency structure of loans, loans approved in domestic currency have the highest share of 49.1% or BAM 7.5 billion in the loans' currency structure, followed by loans approved with a currency clause with a share of 45.4% or BAM 6.9 billion (EUR: BAM 6.9 billion or 99.8%, CHF: BAM 13 million or 0.2%), while loans approved in foreign currency have the lowest share of 5.5% or BAM 839.6 million (of which BAM 839.2 million or 99.9% relates to EUR).

The following table provides an overview of corporate and retail loans by credit risk grades and related ECLs:

- BAM 000 -

<i>Table 26: Loans by credit risk grades</i>										
No.	Description	31.12.2018			31.12.2019			31.12.2020		
		Amount	ECL	% ECL	Amount	ECL	% ECL	Amount	ECL	% ECL
1	2	3	4	5	6	7	8	9	10	11
<b>I Corporate loans</b>										
1.	Credit risk grade 1	5,624,867	59,945	1.1	6,146,371	51,146	0.8	6,272,170	78,817	1.3
2.	Credit risk grade 2	1,017,975	57,914	5.7	904,039	55,828	6.2	1,157,194	141,218	12.2
3.	Credit risk grade 3	828,813	572,989	69.1	770,071	516,128	67.0	543,747	421,893	77.6
<b>Total I</b>		<b>7,471,655</b>	<b>690,848</b>	<b>9.2</b>	<b>7,820,481</b>	<b>623,102</b>	<b>8.0</b>	<b>7,973,111</b>	<b>641,928</b>	<b>8.1</b>
<b>II Retail loans</b>										
4.	Credit risk grade 1	5,814,039	59,449	1.0	6,451,878	59,562	0.9	6,395,495	84,591	1.3
5.	Credit risk grade 2	572,455	56,327	9.8	471,019	57,081	12.1	446,971	58,801	13.2
6.	Credit risk grade 3	467,485	384,481	82.2	477,381	381,194	79.9	439,074	341,856	77.9
<b>Total II</b>		<b>6,853,979</b>	<b>500,257</b>	<b>7.3</b>	<b>7,400,278</b>	<b>497,837</b>	<b>6.7</b>	<b>7,281,540</b>	<b>484,248</b>	<b>6.7</b>
<b>Total loans</b>										
7.	Credit risk grade 1	11,438,906	119,394	1.0	12,598,249	110,708	0.9	12,667,665	163,408	1.3
8.	Credit risk grade 2	1,590,430	114,241	7.2	1,375,058	112,909	8.2	1,604,165	200,019	12.5
9.	Credit risk grade 3	1,296,298	957,470	73.9	1,247,452	897,322	71.9	982,821	763,749	77.7
<b>Total loans (I+II)</b>		<b>14,325,634</b>	<b>1,191,105</b>	<b>8.3</b>	<b>15,220,759</b>	<b>1,120,939</b>	<b>7.4</b>	<b>15,254,651</b>	<b>1,127,176</b>	<b>7.4</b>

The loan portfolio allocated to the credit risk grade 1 as of 31/12/2020 stood at BAM 12.7 billion, representing 83.1% of the total loan portfolio. This represents an increase against YE2019 by BAM 117.8 million or 0.9%. The ECL coverage rate for the credit risk grade 1 is 1.3% (corporate and retail), up by 0.4 percentage points vs. 31/12/2019.

The loan portfolio in the credit risk grade 2 as of 31/12/2020 stood at BAM 1.6 billion, thus making up for 10.5% of the total loan portfolio. Compared to YE2019, it is by BAM 229.1 million or 16.7% higher. The ECL coverage rate for this credit risk grade is 12.5% (corporate and retail), up by 4.3 percentage points compared to 31/12/2019.

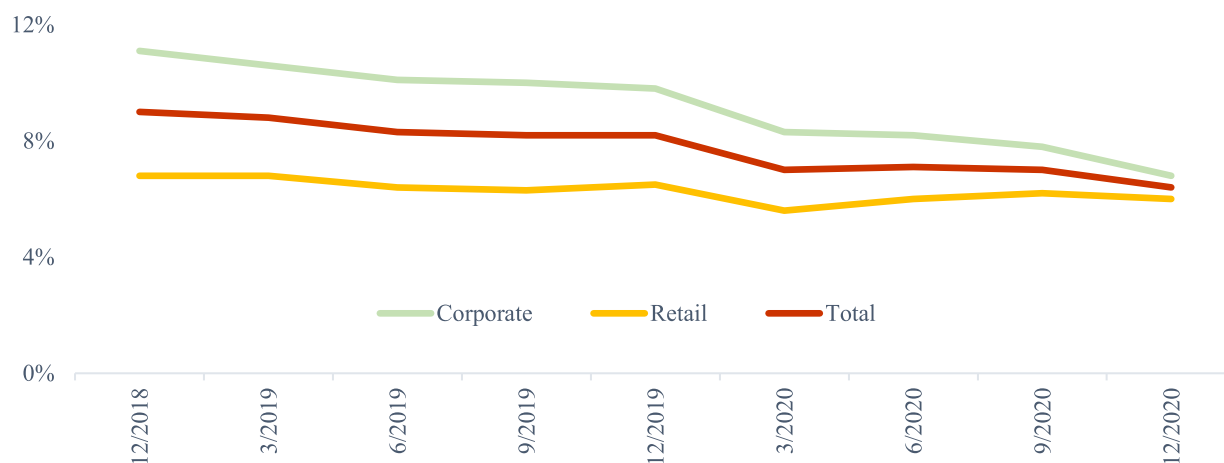
The loan portfolio in the credit risk grade 3 (NPL) as of 31/12/2020 amounted 982.8 million, thus constituting 6.4% of the total loan portfolio. Its reduction by BAM 264.6 million or 21.2% vs. YE2019 was largely resulting from the accounting write off performed in line with the Decision on Credit Risk Management and Determination of Expected Credit Losses. The ECL coverage rate for the credit risk grade 3 is 77.7% (corporate 77.6% and retail 77.9%), up by 5.8 percentage points vs. 31/12/2019.



Out of total corporate loans, BAM 543.7 million or 6.8% refers to the NPL segment, down by 3 percentage points vs. YE2019. As for the retail segment, NPLs stood at BAM 439.1 million or 6%, thus being 0.5 percentage points lower than as at YE2019.

An overview of NPLs (loan portfolio allocated to the credit risk grade 3) is provided in the following chart:

*Chart 12: Share of NPLs in loans*



A more detailed and complete sector analysis of the loan portfolio of the FB&H banking sector is provided in the Annex 5 of this Information and it rests on data of sector-level concentration of loans within corporate (by line of business) and retail segments (by purpose).

As for corporate loans, the biggest share relates to the trade sector (BAM 2.7 billion or 34.1% of corporate loans, i.e. 17.8% of the total loan portfolio), processing industry (BAM 1.9 billion or 23.3% of corporate loans, i.e. 12.2% of the total loans) and financial industry (BAM 887.7 million or 11.1% of corporate loans, i.e. 5.8% of the total loans). The share of NPLs in loans to the trade sector is 6.8%, to the processing industry 9.9% and there are no NPLs in the financial industry.

With regards to corporate loans, the biggest share of NPLs as of 31/12/2020 referred to loans approved to education (29.6%), agriculture (21.9%) and hotel and catering business (12%).

As far as retail loans are concerned, the largest share is with general consumption loans (BAM 5.8 billion or 79.2% of retail loans, i.e. 37.8% of the total loan portfolio) and housing loans (BAM 1.4 billion or 19.5% of retail loans, i.e. 9.3% of the total loan portfolio). The share of NPLs in general consumption loans is 6.6% and with housing loans 3.5%. The high share of general consumption loans in the loan portfolio of the FB&H banking sector calls for greater caution in shaping credit policies in banks.

Credit risk is the dominant risk in the FB&H banking sector, which is why the supervisor's focus is on reviewing the credit risk management practices, i.e. on an assessment of practices regarding approval, monitoring and analysis of credit risk exposures, establishment of an early warning system for cases of increased credit risk, allocation of exposures to credit risk grades and ECL determination, as well as treatment of non-performing exposures and concentration risk management.

Y2020 saw an improvement of key indicators of credit risk measurement in the FB&H banking sector (share of NPLs, ECL coverage rate and share of loans due, as mostly caused by

implementation of the new regulatory framework). A challenge placed before the FB&H banking sector in the forthcoming period is to maintain positive trends considering negative effects for the economy caused by the pandemic.

The measures prescribed by the FBA in March and August 2020 are aimed to avoid negative economic consequences of the pandemic and enable recovery of the economy. This should also result in mitigating the increase of NPLs in the total loan portfolio over the upcoming period. The NPL increase was expected, but it may also depend on efficiency of other measures intended to maintain and recover economic activities.

As of YE2020, BAM 1.0 billion or 6.7% of total loans was encompassed by some of active special measures prescribed by the Decision on Temporary Measures of Banks to Ensure Recovery from Negative Economic Consequences Caused by COVID-19. The total amount of the corporate loan portfolio subjected to some of the active measures was BAM 892.5 million or 11.2% of the corporate loan portfolio, while active measures refer to the retail portfolio amount of BAM 133.7 million or 1.8% of the retail loan portfolio.

### 3.2.5. Profitability

Bank profitability is affected the most by asset quality, i.e. risks, structure, diversification and funding costs, cost efficiency, FB&H 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.).

From a supervisory perspective, profitability of the FB&H banking sector, as well as that of 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.

#### FB&H Banking Sector's Earnings Level, Quality and Trend

Positive financial performance of BAM 174.2 million across the FB&H banking sector was reported for the January 1 – December 31, 2020 period, which was lower by BAM 99.6 million or 36.4% compared to the same period of 2019. Consequences caused by the pandemic had significant influence over the financial result of the FB&H banking sector during 2020. The total net profit was BAM 187.3 million (13 banks), with a BAM 13.1 million loss reported by two banks (99.5% of the posted loss refers to one bank that saw a major increase of value adjustment costs).

Annex 6 shows the FB&H banks' income statement for the January 1 – December 31, 2020 period, according to the FBA's scheme, with the comparative data for the same reporting period of 2019.

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

-BAM 000-

<i>Table 27: Actual financial performance: profit/loss</i>							
No.	Description	31.12.2018		31.12.2019		31.12.2020	
		Amount	Number of banks	Amount	Number of banks	Amount	Number of banks
1	2	3	4	5	6	7	8
1.	Profit	290,979	14	275,448	14	187,335	13

2.	Loss	34,743	1	1,559	1	13,070	2
<b>Total</b>		<b>256,236</b>	<b>15</b>	<b>273,889</b>	<b>15</b>	<b>174,265</b>	<b>15</b>

### FB&H Banking Sector's Total Income

According to the banks' reporting data as of 31/12/2020, the total income across the FB&H banking sector is BAM 1.2 billion and, compared to the same period last year, it decreased by BAM 36.3 million or 3%.

- BAM 000 -

*Table 28: Structure of total income*

No.	Structure of total income	31.12.2019.		31.12.2020.		Index (5/3)
		Amount	%	Amount	%	
1	2	3	4	5	6	7
<b>I Interest income and similar income</b>						
1.	Interest-bearing deposit accounts with deposit institutions	5,478	0.5	2,773	0.3	51
2.	Loans and leasing operations	649,995	54.1	624,578	53.6	96
3.	Other interest income	78,259	6.5	71,457	6.1	91
<b>Total I</b>		<b>733,732</b>	<b>61.1</b>	<b>698,808</b>	<b>60.0</b>	<b>95</b>
<b>II Operating income</b>						
4.	Service fees	352,906	29.4	341,222	29.3	97
5.	Income from FX operations	63,284	5.3	54,201	4.6	86
6.	Other operating income	51,625	4.3	71,055	6.1	138
<b>Total II</b>		<b>467,815</b>	<b>38.9</b>	<b>466,478</b>	<b>40.0</b>	<b>100</b>
<b>Total income (I+II)</b>		<b>1,201,547</b>	<b>100</b>	<b>1,165,286</b>	<b>100</b>	<b>97</b>

In the total income structure, interest income and similar income hold a share of 60%, while operating income participate with 40%. Compared to the same period the year before, there was a decrease of share of interest and similar income by 1.1 percentage points, while the share of operating income increased by the same percentage point. Total interest and similar income reported a decrease in the reporting period by BAM 34.9 million or 4.8%. A dominant item among these income categories was income from interest on loans and leasing facilities with a share in total income dropping by 0.5 percentage points. At the same time, the share of loans and leasing type receivables in total assets decreased by 0.4 percentage point (from 62.9% to 62.5%), while average weighted NIR on loans went down from 3.27% to 3.16% (by 0.11 percentage points).

In 2020, interest income under interest-bearing deposit accounts with deposit institutions dropped by BAM 2.7 million or 49.4% compared to the same period last year. As for other interest income, there was a reduction across all interest income positions (securities held to maturity by 1.7%, placements to other banks by 27.7% and other interest income by 8%).

Looking into the sector structure of interest income, most of this refers to income from the retail segment (62.3%), although retail loans make up for 47.7% of the total loan portfolio of the FB&H banking sector due to higher average NIR of the Retail segment of 5.50% compared to the corporate segment's NIR of 2.54%, as well as due to lower share of NPLs in retail loans. Out of total interest income, the part that refers to private companies is 28.9% and 4.4% refers to government institutions and 1.6% to public companies.

The total operating income recorded a decrease of BAM 1.3 million or 0.3% in the reporting period. The largest item in the structure of total operating income is income from service fees which recorded a decrease of BAM 11.7 million or 3.3%. There was also a decrease in the income from foreign exchange operations by BAM 9.1 million or 14.4%, while other operating income rose by BAM 19.4 million or 37.6%.

## FB&amp;H Banking Sector's Total Expenses

According to the banks' reporting data as of 31/12/2020, total expenses across the FB&H banking sector are BAM 978 million, which increased by BAM 95.3 million or 10.8% compared to 2019. The structure of the FB&H banking sector's total expenses in the reporting period is provided in the following table:

- BAM 000-

*Table 29: Structure of total expenses*

No.	Structure of total expenses	31.12.2019.		31.12.2020.		Index (5/3)
		Amount	%	Amount	%	
1	2	3	4	5	6	7
<b>I Interest expenses and similar expenses</b>						
1.	Deposits	95,143	10.8	90,219	9.2	95
2.	Liabilities on loans and other borrowings	9,229	1.0	8,018	0.8	87
3.	Other interest expenses	26,296	3.0	31,990	3.3	122
<b>Total I</b>		<b>130,668</b>	<b>14.8</b>	<b>130,227</b>	<b>13.3</b>	<b>100</b>
<b>II Non-interest expense</b>						
4.	Costs of impairments of assets at risk, provisions on contingent liabilities and other value adjustments	77,315	8.8	182,004	18.6	235
5.	Salary and contribution costs	260,389	29.5	257,639	26.3	99
6.	Business premises costs and depreciation	160,432	18.2	164,192	16.8	102
7.	Other operating and direct costs	139,986	15.9	135,862	13.9	97
8.	Other operating costs	113,943	12.9	108,112	11.1	95
<b>Total II</b>		<b>752,065</b>	<b>85.2</b>	<b>847,809</b>	<b>86.7</b>	<b>113</b>
<b>Total expenses (I+II)</b>		<b>882,733</b>	<b>100</b>	<b>978,036</b>	<b>100</b>	<b>111</b>

The total expenses structure is dominated by non-interest expenses with a share of 86.7%, while interest expenses and similar expenses account for 13.3%. Compared to the same period last year, the share of interest expenses dropped by 1.5 percentage points, while the share of non-interest expenses rose by the equivalent percentage point.

In the reporting period, interest and similar expenses decreased by BAM 441 ths or 0.3, whereas interest expenses on deposits, which are the FB&H banking sector's dominant funding source, dropped by BAM 4.9million or 5.2%, despite higher level of deposits compared to 2019. The deposit potential at the end of 2020 stood at BAM 19.7 billion, up by BAM 246.6 million compared to the same period last year. Interest-bearing deposits participate in total deposit potential as of 31/12/2020 with a share of 69.3%, thus their share has dropped since the end of 2019 when they participated with 73%. This reduction of interest expenses on deposits came as a result of reduced share of interest-bearing deposits and lower average NIR going from 0.78% as of 31/12/2019 to 0.70 % at the end of 2020.

Other interest expenses increased during the observed period by BAM 5.7 million or 21.7%, as largely based on negative fee on banks' funds in excess of the legal reserves with CBBH and negative interest on deposits with foreign banks.

Over the observed period, interest expenses on loans and other borrowings dropped by BAM 1.2 million or 13.1%, while the FB&H banking sector's level of indebtedness on loans and other borrowings went down by BAM 44.7 million or 5.2%.

Across the FB&H banking sector, there was an increase by BAM 95.7 million or 12.7% in the total non-interest expenses in the reporting period, where the most significant structural change relates to an increase of ECL by BAM 104.7 million or 135.4%. This increase of impairment costs resulted from negative effects of the pandemic to the FB&H economy.

## FB&amp;H 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 FB&H banks' operational profitability, productivity, and efficiency:

- BAM 000 or %-

<b>Table 30: Profitability, productivity, and efficiency ratios by periods</b>					
<b>No.</b>	<b>Description</b>	<b>31.12.2018</b>	<b>31.12.2019</b>	<b>31.12.2020</b>	
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	
1.	Net profit	256,236	273,889	174,265	
2.	Average net assets	21,103,672	23,250,003	23.842,663	
3.	Average total capital	2,924,229	3.111,657	2.996,296	
4.	Total income	1,051,108	1.070,879	1.035,059	
5.	Net interest income	611,313	603,064	568,581	
6.	Operating income	439,795	467,815	466,478	
7.	Operating expenses	526,538	534,764	529,943	
8.	Operating and direct expenses	234,802	217,301	317,866	
9.	Other operating and direct expenses	126,140	139,986	135,862	
10.	Return on average assets (ROAA)	1.2	1.2	0.7	
11.	Return on average equity (ROAE)	8.8	8.8	5.8	
12.	Total income/average assets	5.0	4.6	4.3	
13.	Net interest income/average assets (NIM)*	2.9	2.6	2.4	
14.	Net interest margin (interest income /average interest-bearing assets – interest expenses/average interest-based liabilities)	2.9	2.7	2.5	
15.	Operating expenses/total income minus other operating and direct expenses (CIR)**	56.9	57.5	58.9	

\* NIM - Net Income Margin

\*\* CIR - Cost-income Ratio

During 2020, all indicators of profitability are showing a downward trend against the same period of the year before. This is mostly a result of effects of the pandemic.

Looking into the net interest income, there is a decrease vs. 2019 by BAM 34.5 million or 5.7%. This item constitutes 54.9% of total income, while in the same period in 2019 its share was 56.3%.

### 3.2.6. 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 FB&H, as well as the organizational parts of the banks seated in the RS, which operate in the FB&H, 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<sup>22</sup>.

For purposes of loan beneficiaries and when analysing 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).

<sup>22</sup> Decision on Uniform Method of Calculating and Disclosing Effective Interest Rates on Loans and Deposits ("Official Gazette of the Federation of B&H", No. 81/17), and Instructions for Calculating Weighted Nominal and Effective Interest Rates

Annex 7 provides weighted average NIR and EIR on loans and deposits by periods.

The total weighted average EIR on loans in the FB&H banking sector as of 31/12/2020 is 3.67% and is lower by 0.19 percentage points compared to the same period in 2019, when it was 3.86%. The downward trend in the weighted average EIR is present across the FB&H banking sector in the reporting period, both in long-term loans (0.18 percentage point, decrease from 5.49% to 5.31%) and in short-term loans (0.14 percentage points, from 2.81% to 2.76%). Viewed in the aforementioned period according to the sector structure, EIR on total corporate loans decreased by 0.05 percentage points (from 2.81% to 2.76), while on retail loans it increased by 0.15 percentage points (from 6.89% to 7.04%).

The total weighted average EIR on deposits in the FB&H banking sector as of 31/12/2020 is 0.70% and is lower by 0.05 percentage points compared to the same period in 2019, when it was 0.75%.

Viewed according to the deposit maturity, the weighted average EIR on short-term deposits recorded an increase of 0.01 percentage point (from 0.33% to 0.34%), while it decreased by 0.14 percentage points (from 1.19% to 1.05%) on long-term deposits.

On the overall level in the reporting period, the decrease in EIR on loans (0.19 percentage points) was more pronounced compared to the decrease in EIR on deposits (0.05 percentage points).

### 3.2.7. 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.

The following table provides the trend of LCR performance in the FB&H banking sector:

-BAM 000-

*Table 31: LCR*

No.	Description	31.12.2018	31.12.2019	31.12.2020	Index	
					(4/3)	(5/4)
1	2	3	4	5	6	7
1.	Liquidity buffer	4,325,281	4,727,454	5,849,379	109	124
2.	Net liquidity outflows	1,392,629	1,628,421	2,186,642	117	134
<b>LCR</b>		<b>311%</b>	<b>290%</b>	<b>268%</b>	<b>93</b>	<b>92</b>

As of 31/12/2020, LCR across the FB&H banking sector was 268%. All banks in the FB&H banking sector meet the requirements in respect of LCR, whereas six banks have a below-average LCR and nine banks have an above-average LCR. .

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

- BAM 000 -

*Table 32: Maturity structure of deposits by residual maturity*

No.	Deposits	31.12.2018		31.12.2019		31.12.2020		Index	
		Amount	% share	Amount	% share	Amount	% share	(5/3)	(7/5)
1	2	3	4	5	6	7	8	9	10
1.	Savings and sight deposits (up to 7 days)	10,562,608	60.0	11,196,133	57.7	12,948,828	65.9	106	116

2.	7-90 days	1,058,414	6.0	855,191	4.4	989,184	5.0	81	116
3.	91 days to one year	2,616,873	14.9	3,175,998	16.4	2,153,403	10.9	121	68
<b>I Total short term</b>		<b>14,237,895</b>	<b>80.9</b>	<b>15,227,322</b>	<b>78.5</b>	<b>16,091,415</b>	<b>81.8</b>	<b>107</b>	<b>106</b>
4.	Up to 5 years	3,193,809	18.1	3,983,643	20.5	3,388,072	17.3	125	85
5.	Over 5 years	172,783	1.0	203,329	1.0	181,375	0.9	118	89
<b>II Total long term</b>		<b>3,366,592</b>	<b>19.1</b>	<b>4,186,972</b>	<b>21.5</b>	<b>3,569,447</b>	<b>18.2</b>	<b>124</b>	<b>85</b>
<b>Total (I + II)</b>		<b>17,604,487</b>	<b>100</b>	<b>19,414,294</b>	<b>100</b>	<b>19,660,862</b>	<b>100</b>	<b>110</b>	<b>101</b>

As of 31/12/2020, short-term deposits had a 81.8% share, while long-term ones had a 18.2% share, with the share of the short-term deposits increasing, i.e. the share of the long-term ones decreasing by 3.3 percentage points compared to the end of 2019.

In the reporting period, an increase of BAM 864.1 million or 5.7% was recorded in relation to short-term deposits and a decrease of BAM 617.5 million or 14.7% in relation to long-term deposits. A decrease in long-term deposits was also realized in the deposits of up to 5 years (by BAM 595.6 million or 14.9%) and in deposits of over 5 years (by BAM 22 million or 10.8%).

Looking into the structure of long term deposits by residual maturity, evidently they are dominated by deposits with residual maturity of up to 5 years (94.9%).

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

- % -

No.	Ratios	31.12.2018	31.12.2019	31.12.2020
1	2	3	4	5
1.	Liquid assets <sup>23</sup> /net assets	30.8	31.9	31.3
2.	Liquid assets/ short-term financial liabilities	46.3	49.2	45.9
3.	Short-term financial liabilities/ total financial liabilities	77.7	75.4	78.9
4.	Loans/deposits and loans taken	77.6	75.1	74.5
5.	Loans/ deposits, loans taken and subordinated debts <sup>24</sup>	77.1	74.4	73.8

As of YE2020, all liquidity ratios changed vs. end of 2019, as deemed to be partially a result of the economic crisis caused by the pandemic and changes in the financing structure with deposits of banking groups. The share of short-term financial liabilities in total financial liabilities is still high, but the liquid assets to net assets ratio is still satisfactory. Also, the ratio of “loans/deposits and loans taken” is found to be within the satisfactory grids.

For purpose of planning the required level of 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. An important aspect of monitoring and analysis of the liquidity position is maturity matching of remaining maturities of financial assets and liabilities on a timescale, created for the time horizon of 180 days as per prescribed minimum limits. 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.

For purpose of mitigating negative effects caused by the pandemic, as well as unfavourable consequences to the economic situation in the country, in May 2020, FBA has amended the

<sup>23</sup> Liquid assets in narrow sense: cash and deposits and other financial assets with residual maturity period of less than three months, excluding interbank deposits.

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

Decision on Liquidity Risk Management in Banks so to stimulate lending activity of banks. This enabled banks to apply measures under these new business circumstances that relate to reduction of prescribed limitations regarding maturity matching of financial assets and liabilities in maturity buckets of up to 180 days. An objective here is to enable banks to be more flexible in responding to customer applications and managing liquidity positions.

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

-BAM 000-

<i>Table 34: Maturity matching of financial assets and financial liabilities of up to 180 days</i>						
No.	Description	31.12.2018	31.12.2019	31.12.2020	Index	
		Amount	Amount	Amount	(4/3)	(5/4)
1	2	3	4	5	6	7
<b>I 1-30 days</b>						
1.	Amount of financial assets	9,513,412	10,579,834	10,981,471	111	104
2.	Amount of financial liabilities	10,425,706	11,624,766	13,510,009	112	116
3.	Balance (+ or -) = 1-2	-912,294	-1,044,932	-2,528,538	-	-
<i>Calculation of compliance with regulatory requirements in %</i>						
a)	Actual %= no. 1 / no. 2	91.2%	91.0%	81.3%		
b)	Regulatory minimum %	85.0%	85.0%	65.0%		
<b>More (+) or less (-) = a - b</b>		<b>6.2%</b>	<b>6.0%</b>	<b>16.3%</b>		
<b>II 1-90 days</b>						
1.	Amount of financial assets	10,556,830	11,641,857	12,065,528	110	104
2.	Amount of financial liabilities	11,345,741	12,367,913	14,303,357	109	116
3.	Balance (+ or -) = 1-2	-788,911	-726,056	-2,237,829	-	-
<i>Calculation of compliance with regulatory requirements in %</i>						
a)	Actual %= no. 1 / no. 2	93.0%	94.1%	84.4%		
b)	Regulatory minimum %	80.0%	80.0%	60.0%		
<b>More (+) or less (-) = a - b</b>		<b>13.0%</b>	<b>14.1%</b>	<b>24.4%</b>		
<b>III 1-180 days</b>						
1.	Amount of financial assets	11,640,075	12,985,569	13,257,364	112	102
2.	Amount of financial liabilities	12,644,902	13,550,664	15,167,836	107	112
3.	Balance (+ or -) = 1-2	-1,004,827	-565,095	-1,910,472	-	-
<i>Calculation of compliance with regulatory requirements in %</i>						
a)	Actual %= no. 1 / no. 2	92.1%	95.8%	87.4%		
b)	Regulatory minimum %	75.0%	75.0%	55.0%		
<b>More (+) or less (-) = a - b</b>		<b>17.1%</b>	<b>20.8%</b>	<b>32.4%</b>		

As of 31/12/2020, financial assets in all three time buckets were lower than financial liabilities, and the actual percentages of maturity matching were above the prescribed minimum: in the first time bucket by 16.3%, in the second one by 24.4% and in the third time bucket by 32.4%.

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 FB&H banking sector's liquidity as of 31/12/2020 is satisfactory despite negative effects to the economy caused by the pandemic.

### 3.2.8. 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 Banks 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 capital. For purpose of mitigating consequences of the pandemic, FBA has amended this Decision as well by increasing the limit for individual FX position for EUR and for total FX position of the bank. For purpose of mitigating consequences of the pandemic, FBA has amended this Decision as well by increasing the limit for individual FX position for EUR and for total FX position of the bank.

According to the balance as at 31/12/2020, the items in foreign currencies amounted to BAM 3.9 billion, with a 16% share (BAM 3.8 billion or 15.7% at the end of 2019) in the currency structure of the banks' assets across the banking sector. The currency structure of liabilities is significantly different, because the share of liabilities in foreign currency is significantly higher and amounts to BAM 8 billion or 32.9% (BAM 8.6 billion, with 35.5% share at the end of 2019).

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:

-BAM million-

<i>Table 35: Foreign exchange matching of financial assets and financial liabilities (EUR and total)</i>											
No.	Description	31.12.2019				31.12.2020				Index	
		EUR		Total		EUR		Total		EUR	Total
		Amount	% share	Amount	% share	Amount	% share	Amount	% share	(7/3)	(9/5)
1	2	3	4	5	6	7	8	9	10	11	12
<b>I Financial assets</b>											
1.	Cash	2,065	20,6	2,543	23,8	1,405	14,5	1,950	18,7	68	77
2.	Loans	336	3,4	337	3,2	826	8,5	826	7,9	246	245
3.	Loans with currency clause	6,651	66,3	6,655	62,2	6,321	65,4	6,323	60,8	95	95
4.	Other	727	7,2	911	8,5	929	9,6	1,117	10,7	128	123
5.	Other financial assets with currency clause	251	2,5	251	2,3	190	2,0	190	1,8	76	76
<b>Total I (1+2+3+4+5)</b>		<b>10,030</b>	<b>100</b>	<b>10,697</b>	<b>100</b>	<b>9,671</b>	<b>100</b>	<b>10,406</b>	<b>100</b>	<b>96</b>	<b>97</b>
<b>II Financial liabilities</b>											
6.	Deposits	6,841	73,8	7,529	75,6	6,221	72,5	6,965	74,6	91	93
7.	Loans	850	9,2	850	8,5	809	9,4	809	8,7	95	95
8.	Deposits and loans with currency clause	1,363	14,7	1,364	13,7	1,319	15,4	1,319	14,1	97	97
9.	Other	213	2,3	221	2,2	230	2,7	244	2,6	108	110
<b>Total II (6+7+8+9)</b>		<b>9,268</b>	<b>100</b>	<b>9,964</b>	<b>100</b>	<b>8,579</b>	<b>100</b>	<b>9,337</b>	<b>100</b>	<b>93</b>	<b>94</b>
<b>III Off-balance sheet</b>											
10.	Assets	37		79		26		61			
11.	Liabilities	764		771		1,025		1,034			
<b>IV Position</b>											
Long (amount)		35		41		93		96			
%		1.3%		1.5%		3.4%		3.6%			
Short											
%											
Permitted		30.0%		30.0%		40.0%		40.0%			
<b>Less than permitted</b>		<b>28.7%</b>		<b>28.5%</b>		<b>36.6%</b>		<b>36.4%</b>			

Viewed by banks and as the total across the FB&H banking sector, it could be noted that the banks and sector's FX risk exposures as of 31/12/2020 ranged within the regulatory limits.

As of 31/12/2020, ten banks had long foreign exchange positions, while five banks had short positions. A long foreign exchange position of 3.6% of the banks' total eligible capital was

reported across the sector, which was lower by 36.4 percentage points than the permitted one. The individual foreign exchange position for EUR was 3.4%, which was lower by 36.6 percentage points than the permitted one, where the financial asset items were higher than the financial liabilities (long position).

If the structure of foreign currencies in the financial assets is analysed <sup>25</sup>, the EUR's 81.1% share is dominant (82.5% as at December 31<sup>st</sup>, 2019), with an increase in the nominal amount by BAM 31 million or 1% vs. YE2019. The EUR's share in financial liabilities is 90.6% (91.9% as of 31/12/2019) and, compared to the end of 2019, it decreased by BAM 643.8 million or 8.1%. The calculation basis for EUR's share in financial assets and financial liabilities does not include the items with a currency clause.

### 3.3. BANKING SECTOR RECOMMENDATIONS

The FBA will, in accordance with its prescribed supervisory authorities for the FB&H 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 FB&H banks' safe, quality and lawful operations. The said measures and activities will especially focus on continuation of ongoing supervision of the banks, with an emphasis on:

- monitoring effects of FBA's special measures to ensure recovery from adverse consequences caused by the pandemic and banks' actions regarding these measures;
- implementing SREP for all banks in line with adopted Methodology;
- controls of the dominant risky business areas, examinations of the systemically important banks in terms of the development of credit activities and banks in which large amounts of savings and other deposits are concentrated, and examinations of practices applied in banks in the segment of protection of financial users and guarantors, etc.;
- implementation of capital plans of banks, especially those with a major share of NPLs;
- monitoring implementation of the Decision on Credit Risk Management and Determination of Expected Credit Losses;
- performing stress testing in banks for purpose of monitoring their operations, risk assessment and timely performance of relevant measures;
- continued cooperation with competent supervisory authorities for the supervision of banking groups from the EU and third countries whose members are seated in the FB&H, 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 B&H, 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 BAB&H, 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 competencies, FBA will continue to undertake measures and activities with a view to implementing the latest FSAP mission's recommendations, banking supervision strengthening projects under the technical assistance provided by the international financial institutions WB and IMF, and under the USAID FINRA Project, etc.

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<sup>25</sup> 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.

Due to a special role and responsibilities that banks have in the financial system and the overall economic system, achieved level of development of the FB&H banking sector, and the fact that retail deposits are a dominant funding source for banks, as well as considering negative consequences caused by the pandemic, the banks are expected to focus their activities in the coming period on:

- consistent implementation of special measures that the FBA adopted for purpose of ensuring recovery from negative consequences of the COVID-19 pandemic in a way to:
  - support economic recovery and stimulate credit growth via continuous financing of customers and via sustainable loan arrangements;
  - joint action for purpose of finding appropriate modalities for customers affected by the pandemic;
  - use, as much as possible, the FB&H Guarantee Fund and other potential support mechanisms that executive authorities have adopted to mitigate consequences of the pandemic;
  - improve operating readiness and capacities to respond to the crisis;
  - pay special attention to the quality of portfolio under special measures and assess future repayment capacities of customers, thus ensure timely allocation of reserves for expected loan losses in order to avoid potential negative effects of sudden increase of such reserves over the future period;
- prudential and responsible risk management in line with effective accounting and regulatory framework, local and international standards of best practices;
- bringing operations in compliance with the new regulatory requirements for banks' operations and supervision, including also the requirements related to recovery and resolution planning in banks;
- updating business continuity plans in order to adequately prepare for operations under emergency situations;
- updating recovery plans, thus paying special attention to the following key segments: escalation process, recovery indicators and options;
- improving ICAAP and ILAAP in accordance with the new regulatory requirements;
- consistent implementation of regulations in the segments of payment operations, AML/CTF, protection of financial users and guarantors, security and safety of money in banks and in transport
- further monitoring of increased risks related to information system security and implementation of new technologies, especially in the retail business segment, etc.

#### **4. NON-DEPOSIT FINANCIAL INSTITUTIONS SECTOR**

This section of the Information provides an overview of the structure and financial indicators of operations of NFIs in the FB&H (MCOs, leasing companies and factoring business) as of 31/12/2020 for which founding, operations, management, supervision and termination of their activities are regulated under special laws and regulations. MCO data for 2019 are aligned with the new reporting methodology<sup>26</sup> using forms prescribed by the Decision on Reports Micro Credit Organisations Deliver to the Banking Agency of the Federation of Bosnia and Herzegovina and Reporting Deadlines.<sup>27</sup>

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<sup>26</sup> Manner and methodology of preparing reports of MCOs prescribed in the Reporting Instructions for Micro Credit Organisations No. 01-56/20 of 15.01.2020.

<sup>27</sup> FB&H Official Gazette No. 87/19

## 4.1. MICROCREDIT SECTOR

### 4.1.1. MICROCREDIT SECTOR STRUCTURE IN THE FB&H

#### 4.1.1.1. Status, Number and Business Network

In the FB&H as of 31/12/2020, FBA's operating licenses were held by 14 MCOs that comprise the microcredit sector in the FB&H, of which 11 are MCFs (non-profit organizations) and 3 are MCCs (profit organizations). Compared to December 31, 2019, there were no changes to the number of MCOs.

The microcredit sector in the FB&H is, as of 31/12/2020, operates through the total of 354 organizational parts of MCOs seated in the FB&H, while MCCs with headquarters in the RS operate in the FB&H through 50 organizational units.

Annex 8 provides basic information on MCFs and MCCs which, as of 31/12/2020 held the FBA's license for performing the micro lending activity.

#### 4.1.1.2. Ownership Structure

MCO is a legal person that, in accordance with regulations, can be founded and do business as MCF or MCC. MCFs in the FB&H were founded by non-governmental, mostly humanitarian organizations, citizens' associations and natural persons being registered founders of MCFs, but having no ownership right over capital. Out of three MCCs, one MCC is in 100% ownership of a MCF, one MCC is in the full ownership of one non-resident legal entity and one MCC is in 100% ownership of one resident legal entity.

#### 4.1.1.3. Staff Structure

The microcredit sector in the FB&H, as of 31/12/2020, had a total of 1,394 employees, which is higher by 51 employees, i.e. 3.8%, compared to December 31, 2019. More precisely, in six MCFs and two MCCs there is an evident increase in the number of employees, in three MCFs and one MCC there is a decrease in the number of employees, while in two MCFs the number of employees remained unchanged. Out of the total number of employees in the microcredit sector in the FB&H, MCFs employ 1,144 persons or 82.1% %, while MCCs employ 250 persons or 17.9%.

An overview of qualification structure of employees in the FB&H microcredit sector is provided in the table below:

No.	Qualification	31.12.2019		31.12.2020		Index (5/3)
		No. of employees	% share	No. of employees	% share	
1	2	3	4	5	6	7
1.	University qualifications	702	52.3	743	53.3	106
2.	Two-year post-secondary school qualifications	102	7.6	104	7.5	102
3.	Secondary school qualifications	529	39.4	536	38.4	101
4.	Other	10	0.7	11	0.8	110
<b>Total</b>		<b>1,343</b>	<b>100</b>	<b>1,394</b>	<b>100</b>	<b>104</b>

An analysis of data on staff efficiency in the FB&H microcredit sector as of 31/12/2020 shows that assets per MCO employee amounted BAM 472.1 ths, up by 0.7% vs. 31/12/2019.

## 4.1.2. FINANCIAL INDICATORS OF PERFORMANCE

## 4.1.2.1. Balance Sheet

Total assets of the FB&H microcredit sector as of 31/12/2020 amounted to BAM 658.1 million and are higher by BAM 28.4 million, i.e. 4.5% compared to December 31, 2019. The biggest share in the total balance sheet of MCOs is with five MCFs and one MCC with assets amounting to BAM 602.5 million or 91.6% of total assets of the microcredit sector.

Annexes 9 and 10 provide a summary overview of balance sheets of MCFs and MCCs, while Annex 11 shows basic financial indicators of MCOs based on reporting data as of 31/12/2020.

The aggregate balance sheet of the FB&H microcredit sector as of 31/12/2020 and comparative data with December 31, 2019 are shown in the following table:

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*Table 37: Microcredit sector's balance sheet*

No	Description	31.12.2019				31.12.2020				Index (9/5)
		Balance for MCFs	Balance for MCCs	Total	%	Balance for MCFs	Balance for MCCs	Total	%	
1	2	3	4	5=3+4	6	7	8	9=7+8	10	11
<b>ASSETS</b>										
1.	Cash	35,594	13,281	48,875	7.8	42,575	12,356	54,931	8.4	112
2.	Placements to banks	2,150	0	2,150	0.3	110	0	110	0.0	5
3.	Microloans	370,298	140,707	511,005	81.2	389,972	150,918	540,890	82.2	106
4.	Loan loss provisions	2,759	1,411	4,170	0.7	4,108	2,936	7,044	1.1	169
5.	Net microloans	367,539	139,296	506,835	80.5	385,864	147,982	533,846	81.1	105
6.	Premises and other fixed assets	28,231	5,747	33,978	5.4	26,764	4,540	31,304	4.8	92
7.	Long-term investments	33,061	0	33,061	5.3	33,061	0	33,061	5.0	100
8.	Other assets	3,415	1,304	4,719	0.7	3,565	1,248	4,813	0.7	102
9.	Reserves on other items in assets, apart from loans	3	0	3	0.0	10	0	10	0.0	333
<b>Total assets</b>		<b>469,987</b>	<b>159,628</b>	<b>629,615</b>	<b>100</b>	<b>491,929</b>	<b>166,126</b>	<b>658,055</b>	<b>100</b>	<b>105</b>
<b>LIABILITIES</b>										
10.	Liabilities on loans	196,769	106,797	303,566	48.2	207,503	107,920	315,423	47.9	104
11.	Other liabilities	24,218	7,517	31,735	5.0	23,130	7,928	31,058	4.7	98
12.	Capital	249,000	45,314	294,314	46.8	261,296	50,278	311,574	47.4	106
<b>Total liabilities</b>		<b>469,987</b>	<b>159,628</b>	<b>629,615</b>	<b>100</b>	<b>491,929</b>	<b>166,126</b>	<b>658,055</b>	<b>100</b>	<b>105</b>
13.	Off-bal.sheet records	357,812	62,655	420,467		190,541	35,801	226,342		54

In the structure of assets of the FB&H microcredit sector as of 31/12/2020, the level of placements to banks and tangible and intangible assets got reduced. As of 31/12/2020, placements to banks dropped by BAM 2 million or 94.9% vs. YE2019 due to lower term deposits with banks deposited for a term of over 90 days (with one MCF). Compared to the end of the previous year, balance sheet items posting a rise are the following: cash funds, gross and net loans, other assets and reserves for other assets items (except loans) (posted by one MCF), while long term investments remained the same.

The rate of fixed assets compared to total assets (reduced by donated capital across the FB&H microcredit sector) as of 31/12/2020 amounts to 5.13%, which is within the prescribed limit.

The net microloan portfolio, as a dominant assets item in the microcredit sector amounts to BAM 533.9 million with a share of 81.1% in total assets, hence it recorded an increase in absolute amount of BAM 27 million, i.e. 5.3%, of which BAM 18.3 million, i.e. 5% relate to an increase in net microloans in MCFs, and BAM 8.7 million, i.e. 6.2% relate to an increase of net loans in MCCs, compared to December 31, 2019. The level of loan loss provisions (LLP) for the entire microcredit portfolio in the reporting period is higher by BAM 2.9 million, i.e. 68.9%, as mostly

caused by negative effects of the pandemic, despite timely measures adopted by the FBA. LLP for MCFs went up by BAM 1.3 million with a growth rate of 48.9% and with MCCs this amount is BAM 1.5 million or higher by 108.1%. One MCC had a share of 53% in total LLPs of MCCs, i.e. 22.1% of total LLPs of the microcredit sector.

The total off-balance sheet records as of 31/12/2020 stood at BAM 226.3 million, down by BAM 194.1 million or 46.2% against 31/12/2019. Therein, with MCFs, it dropped by BAM 167.3 million or 46.7%, while with MCCs it decreased by BAM 26.8 million or 42.8%. The biggest decrease with this position occurred in relation to other off-balance sheet items, i.e. promissory notes as security instruments for loans and approved but undrawn loan proceeds from creditors. Out of the total off-balance sheet records, written off loans make up for BAM 149.5 million or 66.1% (write-off under the principal and regular interest – BAM 100.1 million or 67%, write offs under default interest – BAM 42.9 million or 28.7% and write offs of court expenses – BAM 6.5 million or 4.3%), thus being lower by BAM 3 million or 2% vs. end of the previous year. The total number of written off microloans as of 31/12/2020 was 36,784, down by a total of 488 microloans (1.3%) vs. 31/12/2019. This came as a net effect of new write offs, permanent write offs and fully collected microloans.

#### 4.1.2.2. Capital and Liabilities

The biggest items in liabilities in the FB&H microcredit sector as of 31/12/2020 relate to: liabilities on loans taken, which amount to BAM 315.4 million, i.e. 47.9% of the total liabilities and capital, amounting to BAM 311.6 million and representing 47.4% of total liabilities. The remaining amount of BAM 31.1 million, i.e. 4.7% relates to other liabilities. Compared to December 31, 2019, there is an evident increase in liabilities for loans taken by BAM 11.8 million, i.e. 3.9%.

Maturity structure of liabilities for loans taken is presented in the following table:

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*Table 38: Maturity structure of loans taken*

No.	Description	31.12.2019				31.12.2020				Index (9/5)
		MCF	MCC	Total	%	MCF	MCC	Total	%	
1	2	3	4	5=3+4	6	7	8	9=7+8	10	11
1.	Liabilities on short-term loans taken	45,676	56,995	102,671	33.8	20,476	360	20,836	6.6	20
2.	Liabilities on long-term loans taken	150,186	48,888	199,074	65.6	186,128	106,468	292,596	92.8	147
3.	Liabilities based on interest due	907	914	1,821	0.6	899	1,092	1,991	0.6	109
<b>Total</b>		<b>196,769</b>	<b>106,797</b>	<b>303,566</b>	<b>100</b>	<b>207,503</b>	<b>107,920</b>	<b>315,423</b>	<b>100</b>	<b>104</b>

In the structure of total liabilities on loans taken as of 31/12/2020, loan obligations of MCFs represent 65.8%, while loan obligations of MCCs represent 34.2%. With respect of the maturity structure of loan obligations compared to December 31, 2019, there is a much decreased share of short term liabilities by 79.7% with an increase of long term liabilities by 47% because of the changed method of posting values under these balance sheet positions. Interest payables rose by 9.3%. The largest two creditors of the FB&H microcredit sector, according to their share in total loan obligations of MCOs as of 30/09/2020, are EFSE Luxembourg with 16.1% and Hansainvest Finance - Germany with 4.8%.

In the reporting period, across the FB&H microcredit sector, the total increase in capital amounted to BAM 17.3 million, i.e. 5.8%, of which the amount of BAM of 12.3 million, i.e. 4.9% relates to the capital increase in MCFs, while the capital of MCCs in the reporting period increased by BAM 4.9 million, i.e. 10.9%.

The structure of capital of the FB&H microcredit sector is shown in the following table:

*Table 39: Microcredit sector's capital structure*

No.	Description	31.12.2019				31.12.2020				Index (9/5)
		Balance for MCF	Balance for MCC	Total	%	Balance for MCF	Balance for MCC	Total	%	
1	2	3	4	5=3+4	6	7	8	9=7+8	10	11
1.	Donated capital	48,076	0	48,076	16.3	48,076	0	48,076	15.4	100
2.	Tier 1 capital	3,868	31,600	35,468	12.1	3,868	33,100	36,968	11.9	104
3.	Surplus & deficit of revenue over expense	196,938	0	196,938	66.9	209,248	0	209,248	67.2	106
4.	Emission premium	0	0	0	0.0	0	0	0	0.0	0
5.	Unallocated profits	0	9,191	9,191	3.1	0	9,168	9,168	2.9	100
6.	Regulatory reserves	0	2,528	2,528	0.9	0	3,568	3,568	1.1	141
7.	Other reserves	118	2,000	2,118	0.7	104	4,442	4,546	1.5	215
<b>Total capital</b>		<b>249,000</b>	<b>45,319</b>	<b>294,319</b>	<b>100</b>	<b>261,296</b>	<b>50,278</b>	<b>311,574</b>	<b>100</b>	<b>106</b>

Out of the total capital of the FB&H microcredit sector which, as of 31/12/2020 amounted to BAM 311.6 million, the total capital of MCFs amounted to BAM 261.3 million, i.e. 83.9%, and the biggest items are the surplus of revenues over expenses, amounting to BAM 209.2 million and representing 80.1% of total capital of MCFs, and donated capital, amounting to BAM 48.1 million, i.e. 18.4%. Out of the total amount of donated capital, donations for the credit fund were reported by nine MCFs, where 64.5% relates 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 MCFs in the FB&H participate with 69.1% (BAM 33.2 million), where the largest donor participates with BAM 10.1 million or 21% of the total donated capital in one MCF.

Total capital of MCCs amounts to BAM 50.3 million, comprising 16.1% of the total capital of the microcredit sector. Its structure includes these key items: Tier 1 capital of BAM 33.1 million, i.e. 65.8%, and unallocated profit of BAM 9.2 million, i.e. 18.2%. The remaining BAM 8 million, i.e. 16% of MCC capital relate to statutory and other reserves.

Looking into the capital rate reduced by donated capital vs. assets, as of 31/12/2020, it amounted 40.04% at the microcredit sector level. Thus, we find that it is in line with the prescribed limit.

Other liabilities across the FB&H microcredit sector as of 31/12/2020 amounted to BAM 31.1 million, i.e. 4.7% of total liabilities, and compared to December 31, 2019 they have decreased by BAM 0.7 million, i.e. 2.1%.

#### 4.1.2.3. Assets and Asset Quality

The microloan portfolio reported in gross amount in the balance sheet total of the FB&H microcredit sector as of 31/12/2020 amounted to BAM 540.9 million, i.e. 82.2% of total assets of the microcredit sector, i.e. with a reduction for the corresponding LLR in the total amount of BAM 7 million, the net microloan portfolio amounts to BAM 533.9 million, i.e. 81.1% of total assets of the FB&H microcredit sector. Compared to December 31, 2019, the gross microloan portfolio rose by BAM 29.9 million, i.e. by 5.8%, while the net microloan portfolio rose by the amount of BAM 27 million, i.e. 5.3%.

In the same period, the level of LLR increased by BAM 2.9 million, i.e. 68.9% due to worsened portfolio quality caused by difficult business conditions during the pandemic. The LLR to total gross microloan portfolio as of 31/12/2020 amounted to 1.3%, which, compared to the same ratio as of December 31, 2019, when it amounted to 0.8%, represents an increase by 0.5 percentage points. In the structure of total net portfolio of the microcredit sector in the FB&H as of 31/12/2020, the net microloans of MCFs amounted to BAM 385.9 million and represent 72.3% of the total net microloans across the sector, while the amount of BAM 148 million, i.e. 27.7% of the total net microloans across the sector relate to MCCs. Compared to December 31, 2019, net microloans of MCFs increased by BAM 18.3 million, i.e. 5%, while the net microloans of MCCs increased by BAM 8.7 million, i.e. 6.2%.

Net microloans as of 31/12/2020 are shown in the following table:

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No.	Description	31.12.2019			31.12.2020			Index (8/5)
		MCF	MCC	Total	MCF	MCC	Total	
1	2	3	4	5=3+4	6	7	8=6+7	9
1.	Microloans (gross)	370,298	140,707	511,005	389,972	150,918	540,890	106
2.	LLP	2,759	1,411	4,170	4,108	2,936	7,044	169
<b>3.</b>	<b>Net microloans (1.-2.)</b>	<b>367,539</b>	<b>139,296</b>	<b>506,835</b>	<b>385,864</b>	<b>147,982</b>	<b>533,846</b>	<b>105</b>

Detailed data on the sector and the maturity structure of the microloan portfolio (reduced by deferred fee income) as of 31/12/2020 are shown in the following table:

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No.	Microloans	ST micro loans	LT micro loans	Receivables due	Total	%
1	2	3	4	5	6=3+4+5	7
<b>1.</b>	<b>Corporate</b>					
a)	Services	286	8,360	18	8,664	55.8
b)	Trade	116	3,003	9	3,128	20.2
c)	Agriculture	19	1,121	0	1,140	7.3
d)	Manufacturing	92	2,329	9	2,430	15.7
e)	Other	38	115	0	153	1.0
	<b>Total 1</b>	<b>551</b>	<b>14,928</b>	<b>36</b>	<b>15,515</b>	<b>100</b>
<b>2.</b>	<b>Retail</b>					
a)	Services	3,136	90,820	208	94,164	18.1
b)	Trade	680	12,620	36	13,336	2.6
c)	Agriculture	5,476	162,920	245	168,641	32.4
d)	Manufacturing	386	11,943	26	12,355	2.4
e)	Housing needs	3,549	115,098	207	118,854	22.9
f)	Other	18,542	92,933	813	112,288	21.6
	<b>Total 2</b>	<b>31,769</b>	<b>486,334</b>	<b>1,535</b>	<b>519,638</b>	<b>100</b>
	<b>Total (1+2)</b>	<b>32,320</b>	<b>501,262</b>	<b>1,571</b>	<b>535,153</b>	

In the maturity structure of total microloan portfolio as of 31/12/2020 shown in the table above, the highest share is the share of long-term micro loans with 93.7%, while short-term micro loans have a 6% share and receivables due on micro loans have a 0.3% share.

Upon observing the sector structure, the dominant share is the share of retail microloans, with 97.1%, while the remaining 2.9% relate to corporate microloans. Within the retail microloan portfolio, the biggest is the share of microloans approved for agriculture, which amounts to 32.4% and for housing needs, at 22.9%. By share levels, other sectors follow with 21.6% and services with 18.1%. The share of microloans for trade is 2.6% and for manufacturing 2.4%. In the structure of corporate microloans, the dominant share is the share of microloans for services – 55.8%.



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 31/12/2020:

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**Table 42: LLP**

No	Days in default	Rate of provisions	Amount of loans	Share (%)	Interest due		Amount of other assets items	Provisions				Total provisions
					Rate of provisions	Amount of interest		By micro loan	By past -due interest	By other items in assets	By micro loan	
1	2	3	4	5	6	7	8	9=4x3	10=7x6	11=8x3	12	13=9+10+11+12
1.	0	0%	516,917	96.6	0%	257	377	0	0	0	0	0
2.	1-15	2%	5,297	1.0	2%	57	0	106	1	0	1	108
3.	16-30	15%	5,401	1.0	100%	55	0	810	55	0	34	899
4.	31-60	50%	3,077	0.6	100%	76	0	1,540	76	0	16	1,632
5.	61-90	80%	1,722	0.3	100%	67	0	1,378	67	0	2	1,447
6.	91-180	100%	2,739	0.5	100%	198	0	2,739	198	0	21	2,958
<b>Total</b>			<b>535,153</b>	<b>100</b>		<b>710</b>	<b>377</b>	<b>6,573</b>	<b>397</b>	<b>0</b>	<b>74</b>	<b>7,044</b>
7.	over 180	Write off	1,428	-	100%	186	0	0	0	0	0	0

In the total microloan portfolio at the sector level, 96.6% relate to microloans without defaults, while in the remaining 3.4% of microloans there are defaults, of which defaults up to 30 days represent 2% of microloans, while 1.4% are defaults of 31 to 180 days. Out of the total amount of due interest (BAM 0.7 million), defaults up to 30 days represent 15.8%, while defaults of 31 to 180 days represent 48%.

Out of the total amount of provisions under microloans, interest and other asset items as of 31/12/2020 (BAM 7 million), the largest item corresponds to provisions formed for microloans in default of 91 to 180 days, which amount to BAM 3 million and represent 42% of the total amount of provisions.

As of 31/12/2020, an amount of BAM 54.3 million or 10.1% of total loans was captured by some of active special measures based on the Decision on Temporary Measures of Leasing Companies and Micro Credit Organisations to Ensure Recovery from Negative Economic Consequences Caused by COVID-19. Total amount of the corporate loan portfolio subjected to special measures equals BAM 5 million or 32.2% of the corporate loan portfolio, while PI loan portfolio covered by special measures participate in the PI portfolio with an amount of BAM 49.3 million or 9.5% of the corporate loan portfolio.

#### *Key Indicators of Microcredit Portfolio Quality*

The risk portfolio indicator for more than 30 days in default (PAR>30 days) as of 31/12/2020 amounts to 1.41% at the level the microcredit sector and it increased by 0.55 percentage points compared to December 31, 2019, as largely caused by the pandemic. This risk indicator of the microloan portfolio at the sector level is within the prescribed standard.

At the microcredit sector level, the rate of write offs of microloans as of 31/12/2020 amounted to 1.21%, which is within the prescribed standard. Compared to 31.12.2019, this rate rose by 0.34 percentage points.

#### *Weighted NIR and EIR on micro loans*

Over the period from 01/01/2020 to 31/12/2020, MCOs seated in the FB&H had disbursed a total of BAM 454.1 million of microloans, which is by BAM 28.5 million or 5.9% lower than in the same period last year. Over the observed period, MCOs seated in the FB&H had average weighted NIR on total microloans of 19.10% and EIR of 23.98%, whereas NIR on short term microloans was 20.29% and on long term ones 18.90% and EIR on short term microloans was 30.69% and on

long term ones 22.90%. Average weighted EIR on total microloans disbursed by MCOs seated in the FB&H posted a decrease in the period from 01/01/2020 to 31/12/2020 by 0.4 percentage points vs. the same period in 2019, whereas average weighted EIR on short term microloans posted a drop by 1.16 percentage points and on long term microloans a drop by 0.19 percentage points.

Annex 12 provides an overview of average weighted NIR and EIR by maturity and purpose related to microloans disbursed in the period from 01/01/2020 to 31/12/2020 by MCOs seated in the FB&H.

Annex 12a. provides a comparative overview of average weighted NIR and EIR on disbursed microloans (short term, long term and total) in the period from 2016 to 2020.

#### 4.1.2.4. Financial Performance of the FB&H Microcredit Sector

According to reporting data for MCOs, in the period from 01/01/2020 to 31/12/2020, total financial performance at the level of the FB&H microcredit sector (before taxes) was positive and amounted to BAM 11.2 million, down by BAM 6.6 million or 37.1% compared to the same period in 2019. The reason for this rests with major increase of provisioning costs for loans and other losses and other operating expenses.

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

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*Table 43: Aggregate income statement of the microcredit sector*

No.	Description	For the period 01.01. - 31.12.2019				For the period 01.01. - 31.12.2020				Index (9/5)
		MCF	MCC	Total	%	MCF	MCC	Total	%	
1	2	3	4	5=(3+4)	6	7	8	9=(7+8)	10	11
<b>1. INCOME</b>										
1.1.	Interest income and similar income	73,976	26,127	100,103	89.8	76,228	26,725	102,953	92.5	103
1.2.	Operating income	8,756	134	8,890	8.0	7,058	206	7,264	6.5	82
1.3.	Other operating income	2,285	132	2,417	2.2	987	160	1,147	1.0	47
<b>2.</b>	<b>Total income (1.1.+1.2.+1.3.)</b>	<b>85,017</b>	<b>26,393</b>	<b>111,410</b>	<b>98</b>	<b>84,273</b>	<b>27,091</b>	<b>111,364</b>	<b>100</b>	<b>100</b>
<b>3. EXPENSES</b>										
3.1.	Interest expenses and similar expenses	8,360	4,655	13,015	14.2	7,893	5,798	13,691	13.9	105
3.2.	Operating expenses	55,846	15,896	71,742	78.6	57,042	16,655	73,697	74.8	103
3.3.	Other operating expenses	587	72	659	0.7	615	357	972	1.0	147
3.4.	Cost of reserves for loan and other losses	3,965	1,928	5,893	6.5	5,283	4,826	10,109	10.3	172
<b>4.</b>	<b>Total expenses (3.1.+3.2.+3.3.+3.4.)</b>	<b>68,758</b>	<b>22,551</b>	<b>91,309</b>	<b>100</b>	<b>70,833</b>	<b>27,636</b>	<b>98,469</b>	<b>100</b>	<b>108</b>
<b>5.</b>	<b>Profit/loss and excess/shortfall of income over expenses before taxation (2.-4.)</b>	<b>16,259</b>	<b>3,842</b>	<b>20,101</b>	<b>-</b>	<b>13,440</b>	<b>-545</b>	<b>12,895</b>	<b>-</b>	<b>64</b>
6.	Income tax and excess income over expenses	1,581	630	2,211	-	1,238	411	1,649	-	75
<b>7.</b>	<b>Net profit/loss and net excess/shortfall of income over expenses (5.-6.)</b>	<b>14,678</b>	<b>3,212</b>	<b>17,890</b>	<b>-</b>	<b>12,202</b>	<b>-956</b>	<b>11,246</b>	<b>-</b>	<b>63</b>

Over the period from 01/01/2020 to 31/12/2020, MCFs reported excess of income over expenses of BAM 12.2 million, which is by BAM 2.5 million, i.e. 16.9% lower compared to the same period the year before. In analytical terms, as of 31/12/2020, three MCFs posted a shortage of income over expenses, while other MCFs posted excess income over expenses. In the reporting period, total income of MCFs stood at BAM 84.2 million, thus being lower by BAM 0.7 million or 0.9% compared to the same period last year, whereas interest and similar income (as dominant item of total income of MCFs) went up by BAM 2.2 million or 3%. Over the period from 01/01/2020 to 31/12/2020, total expenses of MCFs amounted BAM 70.8 million, up by BAM 2.1

million or 3% vs. the same period last year. Operating expenses (as dominant item of total expenses) of MCFs rose by BAM 1.2 million or 2.1%, while costs of provisions for loan and other losses of MCFs rose by BAM 1.3 million or 33.2% due to difficult operating conditions caused by the pandemic.

In the period from 01/01/2020 to 31/12/2020, MCCs have posted a loss figure of BAM 1 million. Therein, during the reporting period, two MCCs posted profit, while one MCC posted a loss. In the said period, MCCs posted BAM 27.1 million of total income, up by slight 2.6% against the same period the year before. Over the observed period, interest and similar income of MCCs, as a dominant item of total income, have risen by 2.3% compared to the same period in 2019. In the period from 01/01/2020 to 31/12/2020, total expenses stood at BAM 27.6 million, up by BAM 5.1 million or 22.5% compared to the same period in 2019. Operating expenses of MCCs, as dominant item of total expenses, have climbed by BAM 0.8 million or 4.8%, while costs of reserves for loan and other losses of MCCs rose by BAM 2.9 million or 150.3%, as impacted by the major increase of provisioning costs as a result of the pandemic. This refers to two MCCs with 98.5% share in total assets of MCCs.

Annexes 13 and 14 provide an aggregate income statement for MCFs and MCCs respectively.

#### *Efficiency and Sustainability Indicators for the FB&H Microcredit Sector*

Operational efficacy of business operations of the FB&H microcredit sector as of 31/12/2020 amounted to 18.74%, which is within the prescribed range.

According to reporting data at the FB&H microcredit sector as of 31/12/2020, the return on assets adjusted for inflation, market price of capital and donations (AROA) was positive at 2.06%. The indicator of operational sustainability of the FB&H microcredit sector (which is used as a general standard and which represents a ratio of total income from regular operations (minus written off receivables and other operating income) and total expenses) amounts to 113.10%.

#### **4.1.3. MICROCREDIT SECTOR RECOMMENDATIONS**

The FBA will, within its prescribed supervisory authorities for the FB&H microcredit sector continue with the 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 and applicable regulations 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, supporting entrepreneurship development, increasing transparency of operations and protecting rights of financial service users;
- timely and adequate undertaking of activities in MCOs according to the corrective measures imposed to eliminate irregularities and weaknesses in business operations.

The microcredit sector in the FB&H has an obligation to apply prescribed standards and restrictions in performance of microcredit operations, reporting and auditing, starting from regulatory requirements and objectives of micro lending. 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 rate policies on microloans with the prescribed micro lending goals, thus contributing to stability and sustainability of the FB&H 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 function;
- 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 CBB&H 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 prospective 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 micro lending in the FB&H.

## 4.2. LEASING SECTOR

### 4.2.1. FB&H LEASING SECTOR STRUCTURE

#### 4.2.1.1. Number of Leasing Companies

The FBA license for leasing operations was, as of 31/12/2020, held by four leasing companies in the FB&H, which is less by one leasing company compared to 31/12/2019 (as this company had its operating licence revoked in April 2020). Annex 15 provides basic information on leasing companies which, as of 31/12/2020, represented the leasing sector in the FB&H.

#### 4.2.1.2. Ownership Structure

The ownership structure of leasing companies in the FB&H, according to data as of 31/12/2020, is as follows: two leasing companies are in 100% ownership of non-resident legal persons, one leasing company is majority-owned by a non-resident legal person, while one leasing company is in 100% ownership of a resident legal person.

#### 4.2.1.3. Staff Structure

As at 31/12/2020, there was a total of 101 employees in the leasing sector in the FB&H, which is 9.8% less than at the end of the previous year. This came as a result of terminated operations in one leasing company during Q4 2020 (with 11 employees as of 31/12/2019).

An overview of qualification structure of FTEs at the FB&H leasing sector level is provided in the table below:

Table 44: Qualification structure of employees in leasing companies in the FB&amp;H

No.	Qualifications	31.12.2019		31.12.2020		Index (5/3)
		No. of employees	% share	No. of employees	% share	
1	2	3	4	5	6	7
1.	University qualifications	78	69.6	76	75.2	97
2.	Two-year post-secondary school qualifications	5	4.5	4	4.0	80
3.	Secondary school qualifications	20	17.9	13	12.9	65
4.	Other	9	8.0	8	7.9	89
	<b>Total</b>	<b>112</b>	<b>100</b>	<b>101</b>	<b>100</b>	<b>90</b>

Efficiency of employees in the course of performance assessment of leasing companies is based on the ratio of assets and number of employees. According to indicators as at 31/12/2020, at the level of the leasing sector in the FB&H, each employee corresponded to BAM 3.4 million in assets. This is by BAM 0.5 million or 17.9% more than as at 31/12/2019.

#### 4.2.2. FINANCIAL INDICATORS OF PERFORMANCE

##### 4.2.2.1. Balance Sheet

Total assets of the FB&H leasing sector as at 31/12/2020 amounted to BAM 343.8 million and are higher by BAM 20.5 million, i.e. 6.3% compared to December 31, 2019. Two leasing companies, viewed on the basis of asset size, are responsible for 74.1 of total assets of the FB&H leasing sector.

Annex 16 provides an aggregate balance sheet of leasing companies in the FB&H as per reporting data of 31/12/2020, while Annex 7 provides an overview of basic indicators of leasing companies in the FB&H as of 31/12/2020.

In the structure of total assets of the FB&H leasing sector, the most significant share is the share of net receivables under financial leasing, which amount to BAM 256.8 million, i.e. 74.7% of total assets. Compared to December 31, 2019, net receivables under financial leasing are higher by BAM 5.7 million, i.e. 2.4%, while gross receivables under financial leasing are higher by BAM 15.7 million, i.e. 6.5%, while gross receivables under financial leasing went up by BAM 11.7 million or 4.3%. As of 31/12/2020, one bank that performs also financial leasing deals posted net receivables under financial leasing of altogether BAM 48.4 million, thus indicating that net receivables under financial leasing at the leasing system level were equal to BAM 305.1 million, thus being the same as at the end of the previous year.

In the structure of receivables under financial leasing at the level of the leasing sector in the FB&H (if observed by the leasing objects), contracts approved for financing of passenger vehicles and vehicles for performing business activities participate with 84.3%, contracts for equipment financing participate with 15%, while 0.7% relates to contracts under which real estate is financed. If viewed by lessees, 88.2% refers to contracts with legal entities, while the increase of financial leasing receivables was noted in the segment of legal entities and entrepreneurs (by 7.4% and 20.5% respectively).

The following tables provide the structure of receivables under financial leasing at the level of the FB&H leasing sector (receivables before reduction for loss provisions) as of 31/12/2020 and a comparative overview of the structure of receivables as of December 31, 2019 and as of December 31, 2020:

- BAM 000 -

No.	Description	Short-term receivables	Long-term receivables	Due receivables	Total receivables	Share in %
1	2	3	4	5	6	7
<b>1. By leasing object</b>						
1.1.	Passenger vehicles	39,593	85,623	1,886	127,102	49.1
1.2.	Vehicles for performing business activity (cargo and passenger vehicles)	32,836	56,821	1,354	91,011	35.2
1.3.	Machines and equipment	13,022	25,541	277	38,840	15.0
1.4.	Real estate	240	1,651	18	1,909	0.7
1.5.	Other	10	24	0	34	0.0
<b>Total</b>		<b>85,701</b>	<b>169,660</b>	<b>3,535</b>	<b>258,896</b>	<b>100</b>
<b>2. By lessee</b>						
2.1.	Corporate	76,247	149,389	2,693	228,329	88.2
2.2.	Entrepreneurs	2,554	4,791	106	7,451	2.9
2.3.	Retail	5,245	13,851	709	19,805	7.6
2.4.	Other	1,655	1,629	27	3,311	1.3
<b>Total</b>		<b>85,701</b>	<b>169,660</b>	<b>3,535</b>	<b>258,896</b>	<b>100</b>

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No.	Description	31.12.2019	31.12.2020	Index (4/3)
1	2	3	4	5
<b>1. By leasing object</b>				
1.1.	Passenger vehicles	111,444	127,102	114
1.2.	Vehicles for performing business activity (cargo and passenger vehicles)	93,450	91,011	97
1.3.	Machines and equipment	36,588	38,840	106
1.4.	Real estate	2,240	1,909	85
1.5.	Other	21	34	162
<b>Total</b>		<b>243,743</b>	<b>258,896</b>	<b>106</b>
<b>2. By lessee</b>				
2.1.	Corporate	212,667	228,329	107
2.2.	Entrepreneurs	6,184	7,451	120
2.3.	Retail	20,057	19,805	99
2.4.	Other	4,835	3,311	68
<b>Total</b>		<b>243,743</b>	<b>258,896</b>	<b>106</b>

Net receivables under loans as of 31/12/2020 amount to BAM 5 million, i.e. 1.4% of total assets of the FB&H leasing sector. Compared to December 31, 2019, net receivables under loans decreased by BAM 0.3 million or 6.5%. 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 FB&H 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 balance sheet position of cash and cash equivalents as of 31/12/2020 amounted to BAM 6.5 million (constituting 1.9% of total assets), which was by BAM 1 million, i.e. 18.4% higher compared to December 31, 2019. Placements to banks (posted by one leasing company) as of 31/12/2020 amounted to BAM 12.1 million, comprising 3.5% of total assets the FB&H leasing sector, which was by BAM 1.5 million or 10.7% less compared to December 31, 2019.

Net value of fixed assets financed through operational leasing as of 31/12/2020 amounts to BAM 54 million and has increased by BAM 4.8 million, i.e. 9.7% compared to December 31, 2019.

Individually viewed, two leasing companies reported an increase of net value of fixed assets financed through operational leasing of BAM 6.6 million, while one leasing company reported a decrease of BAM 1.8 million.

The structure of net balance sheet assets positions of the leasing sector in the FB&H can be analysed in the table below:

- BAM 000 -

*Table 47: Structure of net balance sheet assets positions*

No.	Description	31.12.2019	% share	31.12.2020	% share	Index (5/3)
1	2	3	4	5	6	7
1.	Financial leasing	241.078	74,5	256.770	74,7	107
2.	Operational leasing	49.166	15,2	53.964	15,7	110
3.	Loan	5.331	1,6	4.982	1,4	93
4.	Other assets	27.712	8,7	28.110	8,2	101
	<b>Total</b>	<b>323.287</b>	<b>100</b>	<b>343.826</b>	<b>100</b>	<b>106</b>

#### 4.2.2.2. Capital and Liabilities

Total capital of the FB&H leasing sector as of 31/12/2020 amounted to BAM 27.8 million, thus constituting 8.1% of total liabilities of the FB&H leasing sector. Compared to December 31, 2019, the aforementioned position decreased by BAM 1.3 million or 4.4%. Observed individually, three leasing companies saw an increase of total capital compared to 31/12/2019, while one leasing company saw a decrease of total capital.

Total liabilities of the leasing sector in the FB&H amounted to BAM 316 million as at 31/12/2020, thus representing 91.9% of total liabilities of leasing companies in the FB&H. Compared to December 31, 2019, total liabilities at the sector level rose by BAM 21.8 million or 7.4%.

Liabilities of leasing companies in the FB&H under loans taken as of 31/12/2020 stood at BAM 307.9 million, thus posing a dominant source in the structure of total liabilities of the FB&H leasing sector since they account for 89.5% of total liabilities. Compared to 31/12/2019, the position of loan obligations is higher by BAM 21.6 million, i.e. 7.5%. If observed by contractual maturity, there is a dominant share of long term loans in liabilities based on loans.

#### 4.2.2.3. Assets and Asset Quality

According to reporting data at the level of the FB&H leasing sector, reported reserves for losses under financial leasing as of 31/12/2020 amount to BAM 2.1 million and are lower compared to December 31, 2019 by BAM 0.5 million or 20.2%, as impacted by the customer structure and specific method of the loss reserve calculation. Out of the total amount of posted loss reserves, 83.2% relates to two leasing companies. If observed individually, three leasing companies posted an increase of reserves for loan losses vs. the end of the previous year and one leasing company posted a decrease of loan loss reserves.

In the structure of receivables under financial leasing as of 31/12/2020, the total of BAM 3.5 million of overdue receivables were reported, which is by BAM 0.5 million or 16.2% higher compared to December 31, 2019, which was largely caused by an increase of this item with one leasing company.

The table below provides a detailed overview of financial leasing reserves as of 31/12/2020:

Table 48: Overview of financial leasing reserves

No.	Days past due	Rate of reserv. for finan. leasing (movables)	Rate of reserv. for finan. leasing (immovables)	Amount of receivables for movables	Amount of receivables for immovables	Basis - movables	Basis - immovables	Reserves			Total reserves
								For movables	For immovables	Excess calculated and allocated reserves	
1	2	3	4	5	6	7	8	9=7*3	10=8*4	11	12=9+10+11
1.	0-60	0.50%	0.50%	252,879	1,937	41,863	874	209	4	955	1,168
2.	60-90	10%	10%	2,242	0	765	0	77	0	18	95
3.	90-180	50%	50%	1,208	0	336	0	168	0	67	235
4.	over 180	100%	75%	527	0	525	0	525	0	0	525
5.	over 360	100%	100%	103	0	103	0	103	0	0	103
<b>Total</b>				<b>256,959</b>	<b>1,937</b>	<b>43,592</b>	<b>874</b>	<b>1,082</b>	<b>4</b>	<b>1,040</b>	<b>2,126</b>

The total amount of written off receivables under financial leasing and loans as of 31/12/2020 amounted to BAM 21 million BAM and is lower compared to December 31, 2019, by BAM 2.4 million or 10.4%.

The appraised market value of foreclosed leasing objects, due to termination of leasing contracts with lessees as of 31/12/2020 at the level of the FB&H leasing sector, amounted to BAM 0.9 million, down by BAM 0.6 million or 38.1% compared to 31.12.2019. There was a total of 29 foreclosed objects, with a posted decrease of the number of foreclosed objects by 49 objects or 628%. Out of the total reported amount of appraised market value of foreclosed items in the FB&H leasing sector as of 31/12/2020, 37.5% refers to passenger vehicles and business vehicles, while 2% relates to machinery and equipment. In addition, 60.5% relates 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 one leasing company.

Viewed from the level of the FB&H leasing system as of 31/12/2020, the market value of foreclosed leasing items amounted to BAM 4.8 million and it decreased by BAM 2.9 million or 37.8% compared to December 31, 2019. Out of the above amount of foreclosed leasing items, items foreclosed by the bank that is performing leasing activities correspond to BAM 3.9 million, i.e. 81.2% of the total market value of foreclosed items reported at the level of the leasing system.

Until 31/12/2020, BAM 28.8 million or 11.1% of the total financing amount was captured by some of the active measures prescribed by the Decision on Temporary Measures of Leasing Companies and Micro Credit Organisations to Ensure Recovery from Negative Economic Consequences Caused by COVID-19. The total financing amount in the legal entities segment that is subjected to some of the active measures equals BAM 28.6 million or 12.5% of the LE financing amount, while active measures in the PI segment refer to an amount of BAM 0.2 million or 0.9% of the financing amount in the PI segment

#### 4.2.2.4. Profitability

According to the reporting data of four leasing companies, across the FB&H leasing sector in the period from January 1 – December 31, 2020, a profit of BAM 4.3 million was reported, which represents an increase by BAM 5.6 million compared to the same period the year before when there were five leasing companies that posted negative financial result of BAM 1.3 million. This increase of the business result of the leasing sector mostly results from an improved business result of one leasing company of BAM 2.7 million (posting a positive financial result as of year-



end) and another leasing company of BAM 2.8 million (that posted a major loss over the same period the year before; this company also posted a loss at the end of 2020, despite significant improvement to its business result). The other two leasing companies recognised a positive financial result, but accompanied with a profit drop by BAM 1.2 million compared to the same period the year before.

The aggregate income statement for leasing companies in the FB&H for the period 01/01/2020 to 31/12/2020 is provided in the Annex 18.

Total income of the FB&H leasing sector for the period 01/01/2020 to 31/12/2020 amounted to BAM 35.8 million, up by BAM 3.5 million or 10.9% compared to the same period of the previous year.

The level and structure of total income with the comparative data for the same period of the preceding financial year are shown in the following table:

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*Table 49: Structure of total income*

No.	Structure of total income	01.01.-31.12.2019		01.01.-31.12.2020		Index (5/3)
		Amount	% share	Amount	% share	
1	2	3	4	5	6	7
<b>1.</b>	<b>Interest income and similar income</b>					
1.1.	Interest under financial leasing	392	1.2	324	1.0	83
1.2.	Interest on placements to banks	11,794	36.5	10,465	29.2	89
1.3.	Other interest income	1,601	5.0	1,913	5.3	119
	<b>Total</b>	<b>13,787</b>	<b>42.7</b>	<b>12,702</b>	<b>35.5</b>	<b>92</b>
<b>2.</b>	<b>Operating income</b>					
2.1.	Operating lease charges	14,943	46.3	17,484	48.8	117
2.2.	Service fees	2	0.0	1	0.0	50
2.3.	Other operating income	3,539	11.0	5,617	15.7	159
	<b>Total</b>	<b>18,484</b>	<b>57.3</b>	<b>23,102</b>	<b>64.5</b>	<b>125</b>
<b>3.</b>	<b>Income from release of reserves for losses</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0.0</b>	<b>-</b>
	<b>Total income (1+2+3)</b>	<b>32,271</b>	<b>100</b>	<b>35,804</b>	<b>100</b>	<b>111</b>

The FB&H leasing sector's interest income in the January 1 – December 31, 2020 period amounted to BAM 12.7 million, thus constituting 35.5% of total income of the leasing sector. It decreased by BAM 1.1 million, i.e. 7.9%, 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 10.5 million and it is by BAM 1.3 million, i.e. 11.3%, lower compared to the same period of the preceding financial year.

Operating income amounted to BAM 23.1 million with a share of 64.5% in total income of the leasing sector. Compared to the same period last year, it is higher by BAM 4.6 million, i.e. 25%, mostly due to an increase of the operational lease fee as a dominant item of operating income (by BAM 2.5 million or 17%), as well as other operating income by BAM 2.1 million or 58.7%.

Total expenses for the period 01/01/2020 to 31/12/2020 amounted to BAM 31.5 million and are lower by BAM 2.1 million or 6.2% compared to the same period of the preceding year.

The level and structure of total expenses with comparative data for the same period over the previous business year, are shown in the following table:

*Table 50: Structure of total expenses*

No.	Structure of total expenses	01.01.-31.12.2019		01.01.-31.12.2020		Index (5/3)
		Amount	% share	Amount	% share	
1	2	3	4	5	6	7
<b>1.</b>	<b>Interest expenses and similar income</b>					
1.1.	Interest on borrowed funds	4,307	12.8	4,171	13.2	97
1.2.	Fees for processing loans	97	0.3	101	0.3	104
1.3.	Other interest expenses	2	0.0	2	0.0	100
	<b>Total</b>	<b>4,406</b>	<b>13.1</b>	<b>4,274</b>	<b>13.5</b>	<b>97</b>
<b>2.</b>	<b>Operating expenses</b>					
2.1.	Salary and contribution costs	5,702	16.9	4,442	14.1	78
2.2.	Business premises costs	9,741	29.0	11,558	36.6	119
2.3.	Other costs	10,535	31.3	9,038	28.7	86
	<b>Total</b>	<b>25,978</b>	<b>77.2</b>	<b>25,038</b>	<b>79.4</b>	<b>96</b>
<b>3.</b>	<b>Costs of reserves</b>	<b>2,142</b>	<b>6.4</b>	<b>1,582</b>	<b>5.0</b>	<b>74</b>
<b>4.</b>	<b>Profit tax</b>	<b>1,106</b>	<b>3.3</b>	<b>653</b>	<b>2.1</b>	<b>59</b>
	<b>Total expenses (1+2+3)</b>	<b>33,632</b>	<b>100</b>	<b>31,547</b>	<b>100</b>	<b>94</b>

In the period from 01/01/2020 to 31/12/2020, interest expenses of the leasing sector amounted to BAM 4.3 million and represented 13.5% of total expenses of the leasing sector. This is lower by BAM 132 ths or 3% vs. the same period of the previous financial year. Interest expenses under loans taken (as their dominant item) posted a drop by BAM 136 ths or 3.2%.

Over the observed period, total operating expenses of the leasing sector stood at BAM 25 million with a share in total expenses of the leasing sector of 79.4%. This is lower by BAM 1 million or 3.6% compared to the same period of the year before, whereas their structure reflects reduced costs of business premises by 18.6% due to , reduced other costs by 14.2%, increased costs of business premises by 19.9% due to higher depreciation costs of operational leasing by 24.1%. Total costs of loss reserves stood at BAM 1.6 million, constituting 5% of total expenses of the leasing sector. They saw a decrease by BAM 0.6 million or 26.1%. Remaining amount of expenses refers to income tax of altogether BAM 0.6 million, thus representing 2.1% of total expenses of the leasing sector.

#### 4.2.2.5. 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 – December 31, 2020, amounts to BAM 164.8 million and is lower by BAM 32.3 million or 16.4%, compared to the same period of the preceding financial year. Thereof, BAM 152.2 million or 92.4% of the total value of newly concluded contracts at the leasing system level refers to the leasing sector (consisting of four leasing companies).

The number of newly concluded leasing contracts at the leasing system level in the same period was 3,579, which was by 1,595 contracts or 30.8% lower compared to the same period last year. Thereof, 3,449 contracts or 96.4% of the total number of newly concluded contracts at the leasing system level refers to the leasing sector. The average value of contracts at the level of the leasing system concluded in the period from 01/01/2020 to 31/12/2020 amounted to BAM 46 ths and it is higher by 20.9% compared to the same period last year, when it amounted to BAM 38.1 ths. Therein, the average value of contracts at the leasing sector level was BAM 44.1 ths, which is 21.7% more than in the same period in 2019 when it stood at BAM 36.3.

Out of the total generated value of newly concluded contracts in the period from 01/01/2020 to 31/12/2020, the amount of BAM 132.5 million, i.e. 80.4% relates to financial leasing contracts and BAM 32.3 million or 19.6% to operational leasing contracts.

The following table shows a comparative overview of the realized volume of newly concluded contracts in the period from 01/01/2020 to 31/12/2020 and in the same period of the preceding financial year, as well as the comparative overview of the number of concluded contracts in the same period:

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*Table 51: Structure of financing amount of the leasing system*

No	Description	01.01.-31.12.2019						01.01.-31.12.2020					
		Financial leasing		Operational leasing		Total		Financial leasing		Operational leasing		Total	
		Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
1	2	3	4	5	6	7=3+5	8=4+6	9	10	11	12	13=9+11	14=10+12
1.	Vehicles	4,028	133,277	815	31,939	4,843	165,216	2,585	110,465	834	32,153	3,419	142,618
2.	Equipment	330	31,152	0	0	330	31,152	157	22,010	3	148	160	22,158
3.	Real estate	1	664	0	0	1	664	0	0	0	0	0	0
4.	Other	0	0	0	0	0	0	0	0	0	0	0	0
	<b>Total</b>	<b>4,359</b>	<b>165,093</b>	<b>815</b>	<b>31,939</b>	<b>5,174</b>	<b>197,032</b>	<b>2,742</b>	<b>132,475</b>	<b>837</b>	<b>32,301</b>	<b>3,579</b>	<b>164,776</b>

The total amount of new financing in 2020 was achieved by three leasing companies and one bank, which performs financial leasing activities (the legal successor of a leasing company that merged with that bank).

The structure of new placements is, according to type of lessee, dominated by placements to legal persons, which represent 89.8% of the total amount of financing in 2020. 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.

#### *Weighted NIR and EIR*

Total average NIR for financial leasing contracts concluded in the period from 01/01/2020 to 31/12/2020 was 3.74.% for short term contracts and 3.96% for long term contracts, while EIR for short term contracts was 6.94% and 7.06% for long term contracts during the same period. Total average weighted NIR was 3.96% and EIR was 7.06%. Compared to the same period in 2019 when total average weighted NIR was 5.52% and EIR 8.88%, there is an evident decrease of NIR by 1.56 percentage points and EIR by 1.82 percentage points.

Annex 19 provides an overview of average weighted NIR and EIR on financial leasing contracts concluded in the period from 01/01/2020 to 31/12/2020 (by maturity, leasing object and lessee).

Differences related to the average weighted EIR level for lessees were caused by the fact that EIR calculation for PI contracts is not identical to the calculation of this rate for corporate contracts since they do not include a casco insurance premium (which in turn is mandated by law for private individuals segment).

Annex 19a provides a comparative overview of average weighted NIR and EIR on financial leasing contracts concluded in the past five years (by maturity and lessee). Difference between posted NIR and EIR is a result of VAT on interest being a mandatory part of the financial leasing contract and being paid by a lessee in advance, as well as creation of a financial leasing contract with surrender value plus additional costs of leasing arrangement being included in the EIR calculation.

#### 4.2.3. LEASING SECTOR RECOMMENDATIONS

FBA will, within its prescribed competencies for the supervision of business operations of leasing companies in the FB&H, continue with planned activities focusing on the following aspects:

- ongoing supervision of business operations of the leasing sector, i.e. system, in the FB&H, through reports and onsite examinations;
- preservation of capital adequacy of the FB&H leasing system and strengthening of internal processes for defining the parameters of capital protection in the entities of the FB&H leasing system;
- monitoring and evaluating efficiency of the established risk management systems in the leasing sector, i.e. system, in the FB&H and quality of overall governance;
- further 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 CBB&H in respect of data structures and quality related to exposures under financial leasing in CLR;
- support to improvement of the business environment for operations of the FB&H leasing sector etc.

Within its competence for supervision of business operations of leasing companies, the FBA expects of leasing entities in the FB&H 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:

- 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 CBB&H 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;
- consistent implementation of regulations defining protection of financial service users, etc.

#### 4.3. FACTORING BUSINESS

##### 4.3.1. Participants in the FB&H Factoring Market

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

As of 31/12/2020, factoring deals were performed by four commercial banks, of which three banks are members of international banking groups seated in EU-member countries and one bank in majority domestic ownership.

## 4.3.2. Scope, Structure and Trend of Factoring Business in the FB&amp;H

In 2020, entities providing factoring services in the FB&H have concluded 404 factoring contracts, all of which referring to domestic factoring. Compared to reporting data for the same period last year, the number of factoring contracts has risen by 53 contracts or 15.1%.

In the period from 01/01/2020 to 31/12/2020, there were 399 (98.8%) concluded contracts on factoring with recourse right and 5 contracts (1.2%) without recourse right. Over the observed period, factoring service providers did not perform any foreign factoring deals or deals similar to factoring.

In 2020, nominal amount of redeemed monetary claims and settled payables of buyers towards suppliers stood at BAM 124.4 million at the FB&H factoring system level. Compared to the same period of the previous year, this represents a decrease by BAM 53.7 million or 30.1%.

The values of redeemed monetary claims and settled payables of buyers to towards suppliers in the FB&H (with comparative data and trends in reporting periods) are shown in the following table:

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*Table 52: Redeemed monetary claims and settled payables of buyers to suppliers in the FB&H - by type of factoring and domicile status*

Type of factoring/ domicile status	Volume of redeemed monetary claims and settled payables of buyers towards suppliers												Index (12/10)
	Factoring companies				Banks				Total				
	01.01. - 31.12.2019		01.01. - 31.12.2020		01.01. - 31.12.2019		01.01. - 31.12.2020		01.01. - 31.12.2019		01.01. - 31.12.2020		
	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	81,503	45.9	47,041	37.8	81,503	45.7	47,041	37.8	58
Factoring without right to recourse	659	100	0	0	93,688	52.8	77,383	62.2	94,347	53.0	77,383	62.2	82
Reversed (supplier) factoring	0	0	0	0	2,277	1.3	0	0	2,277	1.3	0	0	0
<b>Total</b>	<b>659</b>	<b>100</b>	<b>0</b>	<b>0</b>	<b>177,468</b>	<b>100</b>	<b>124,424</b>	<b>100</b>	<b>178,127</b>	<b>100</b>	<b>124,424</b>	<b>100</b>	<b>70</b>
Domestic factoring	659	100	0	0	177,468	100	124,424	100	178,127	100	124,424	100	70
Foreign factoring	0	0	0	0	0	0.0	0	0	0	0.0	0	0	0
<b>Total</b>	<b>659</b>	<b>100</b>	<b>0</b>	<b>0</b>	<b>177,468</b>	<b>100</b>	<b>124,424</b>	<b>100</b>	<b>178,127</b>	<b>100</b>	<b>124,424</b>	<b>100</b>	<b>70</b>

Over the observed period, changes in the structure of redeemed monetary claims by factoring types referred to the share of factoring with and without recourse right, while there was no reverse (supplier) factoring. Relevant structure by domicile status has not changed.

Looking into the factoring contracts by contractual maturity, the highest share in the total volume in 2020 is 74.8% and it refers to redeemed monetary claims with contractual maturity of up to 60 days, followed by the share of 15.7% with contractual maturity of 91-180 days and remaining 9.4% with contractual maturity of 61-90 days. In the same period last year, the highest share referred to claims with maturity ranging from 91-180 days (60.1%).

Looking into the sector structure of buyers in 2020, the biggest share was with public companies with the value of redeemed monetary claims of BAM 73.2 million or 58.9% of total value of the factoring business in the FB&H, while BAM 48.7 million or 39.1% was redeemed from private companies and enterprises, while BAM 2.5 million or 2% of monetary claims was redeemed from government institutions.

Looking into factoring deals by recourse types, total advances paid to suppliers in the segment of private companies and enterprises (sellers of claims) equaled BAM 119.8 million or 98.2%, thereof BAM 76.6 million or 63.9% refers to factoring without recourse right and BAM 43.3 million or 36.1% to factoring with recourse right. In the segment of public companies, the suppliers received an amount of BAM 1.3 million or 1.1% of total paid advances and the entire amount relates to factoring with recourse right. The remaining amount of BAM 821 ths or 0.7% refers to non-profit organisations and others.

On the basis of factoring contracts as of 31/12/2020, banks claimed the total of BAM 20.2 million, fully in domestic factoring, of which BAM 6.2 million or 31% relates to factoring with right to recourse, while BAM 14 million or 69% relates to factoring without right to recourse. There were no claims regarding reverse (supplier) recourse. The structure of the mentioned amount of redeemed claims by contractual maturities is the following: with contractual maturity of up to 60 days – 49.6%, of 61 to 90 days – 13.3%, of 91 to 180 days – 37.1%.

Total income of the factoring service providers in the FB&H in 2020 amounted to BAM 1.2 million (income from interest, fees and administrative fees), down by 43.3% compared to the same period the year before. In the structure of the reported total income, 38.7% refers to factoring with right to recourse and 61.3% to factoring without right to recourse.

#### 4.3.3. RECOMMENDATIONS FOR THE FACTORING BUSINESS

Factoring business in 2020 was conducted solely 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 FB&H 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 FB&H, 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 FB&H financial market.

Within the FBA's prescribed competences regarding supervision over factoring companies in the FB&H and banks performing factoring operations, it will continue with the planned activities, thus focusing on the following aspects over the forthcoming period:

- continuous supervision of the factoring system in the FB&H via off-site and on-site supervision aimed at preserving financial stability in the FB&H;
- providing technical assistance in implementation of laws and regulations by factoring companies and banks performing factoring operations, as well as cooperation with supervisory and control institutions, to include also cooperation with CBB&H regarding the structure and quality of data in CLR referring to factoring exposures;
- supporting improvements to the business environment in the context of the FB&H factoring system, as well as supporting establishment of confidence in factoring service providers, etc.

Within its competences for supervision over operations of factoring companies, FBA expects from the factoring system entities to improve activities and measures aimed at ensuring lawful, stable, efficient and transparent rendering of factoring services, thus focusing on the following:

- compliance with regulatory requirements;
- improvement of safe, stable and sustainable factoring business;
- improvement of the risk management system, strengthening of internal controls system and internal audit function;
- ensuring reliability and integrity of data and information provided to the FBA, CBB&H and other supervisory institutions and bodies;
- ensuring accuracy, validity and comprehensiveness of accounting and non-accounting records, preventive action and prevention of fraud and errors;
- transparent, comprehensive and complete information to customers on factoring services, etc.

## 5. BANKS' PAYMENT OPERATIONS AND AML&CTF

### 5.1. BANKS' PAYMENT OPERATIONS

Total value of payments in banks seated in the FB&H in 2020, based on DP and FXP transactions, is BAM 194.8 billion (transactions performed in all currencies, BAM equivalent). The volume of DP and FXP is shown in the table below:

*Table 53: Volume of DP and FXP*

No.	Effected payment transactions	No. of transactions		Total value of transactions	
		Number	% share	Number	% share
1	2	3	4	5	6
1.	FXP	2,726,343	3.4	27,157,755	13.9
2.	DP	76,393,983	96.6	167,671,742	86.1
<b>Total</b>		<b>79,120,326</b>	<b>100</b>	<b>194,829,497</b>	<b>100</b>

An analysis of banks' reports on effected FXP transactions (collection/inflows and payments/outflows to and from abroad) in the period from 01/01/2020 to 31/12/2020 has shown that the FB&H banks registered the following FXP volume by currencies (EUR, USD, other currencies):

*Table 54: Volume of FXP*

No.	Inflow		Outflow		Currency
	Number	Value (BAM 000)	Number	Value (BAM 000)	
1	2	3	4	5	6
1.	1,662,234	11,031,753	677,928	11,253,498	EUR
2.	60,343	824,975	33,933	993,327	USD
3.	190,369	880,842	101,536	2,173,360	Other currencies
<b>Total</b>	<b>1,912,946</b>	<b>12,737,570</b>	<b>813,397</b>	<b>14,420,185</b>	

Within the structure of FXP transactions, the share of inflows from abroad in the total number of FXP transactions is 70.2%, while outflows to abroad hold a share of 29.8%. Observing the value of FXP transactions, the share of inflows from abroad is 46.9%, while outflows to abroad take on a share of 53.1%. Out of total value of performed FXP transactions, 82.1% was effected in EUR.

Based on analysis of relevant reports that banks seated in the FB&H deliver to the FBA regarding effected DP transactions in the period from 01/01/2020 to 31/12/2020, we have determined that FB&H banks registered the following DP volume by transaction types:

Table 55: Volume of DP

No.	Transaction type	Number of transactions		Transaction value (BAM 000)	
		Number	% share	Number	% share
1	2	3	4	5	6
1.	Cash	9,136,162	12.0	13,128,250	7.8
2.	Non-cash <sup>28</sup>	67,257,821	88.0	154,543,492	92.2
<b>Total</b>		<b>76,393,983</b>	<b>100</b>	<b>167,671,742</b>	<b>100</b>

An analysis of data as of 31/12/2020 in the Registry of Foreign Exchange Deals of Banks has shown that 74 authorised exchange offices with 467 locations hold foreign exchange contracts with banks seated in the FB&H.

The following table provides information on the volume of foreign exchange deals of banks in the FB&H in the period from 01/01/2020 to 31/12/2020 by currencies (EUR, USD, other currencies):

Table 56: Foreign exchange deals in banks

No.	Buy		Sell		Currency
	Number	Value (BAM 000)	Number	Value (BAM 000)	
1	2	3	4	5	6
1.	931,967	691,511	93,304	137,489	EUR
2.	54,009	40,639	6,178	4,141	USD
3.	167,916	107,618	22,257	10,910	Other currencies
<b>Total</b>	<b>1,153,892</b>	<b>839,768</b>	<b>121,739</b>	<b>152,540</b>	

Out of the total number of exchange office transactions, buy transactions hold a share of 90.5% and sell transactions a share of 9.5%, while 84.6% of buy transactions is included in the total value of exchange office deals and 15.4% refers to sell transactions. Out of the total value of effected exchange office transactions in banks seated in the FB&H, 83.5% of buy and sell transactions was effected in EUR.

The table below provides information on the volume of deals effected by authorised exchange offices in the period from 01/01/2020 to 31/12/2020 by currencies (EUR, USD, other currencies):

Table 57: Deals effected by authorised exchange offices

No.	Buy		Sell		Currency
	Number	Value (BAM 000)	Number	Value (BAM 000)	
1	2	3	4	5	6
1.	1,204,959	668,577	56,578	21,287	EUR
2.	28,213	9,839	512	264	USD
3.	152,951	38,792	13,050	3,017	Other currencies
<b>Total</b>	<b>1,386,123</b>	<b>717,208</b>	<b>70,140</b>	<b>24,568</b>	

## 5.2. AML&CTF

According to the Report on Cash Transactions of BAM 30 ths or above and on connected and suspicious transactions (SPNiFTA Form, Tables A to F being submitted to the FBA), in 2020, banks have reported to FID a total of 265,055 transactions (12.4% less than the year before) in total value of BAM 13 billion (12.4% less than in the previous year).

<sup>28</sup> Non-cash transactions include cashless intra-bank payment transactions/internal orders, inter-bank transactions of gyro clearing and RTGS.



In the same reporting period, banks have reported to FID on a total of 246 suspicious transactions (28.8% more than the year before) in total value of BAM 43.8 million (31.6% less than in the previous year). The following tables show the number and value of total reported transactions and reported suspicious transactions.

**Table 58: Reported transactions by number and value - banks**

No.	Description	01.01. - 31.12.2019		01.01. - 31.12.2020		Index	
		Number	Value (BAM 000)	Number	Value (BAM 000)		
1	2	3	4	5	6	7 (5/3)	8 (6/4)
1.	Transactions reported before their realisation	13	4,155	125	7,967	962	192
2.	Transactions reported within 3 days	302,289	14,830,253	264,689	13,012,873	88	88
3.	Transactions reported after 3-day period	105	13,444	241	15,389	230	114
<b>Total</b>		<b>302,407</b>	<b>14,874,852</b>	<b>265,055</b>	<b>13,036,229</b>	<b>88</b>	<b>88</b>

**Table 59: Reported suspicious transactions by number and value - banks**

No.	Description	01.01. -31.12.2019		01.01. - 31.12.2020		Index	
		Number	Value (BAM 000)	Number	Value (BAM 000)		
1	2	3	4	5	6	7 (5/3)	8 (6/4)
1.	Transactions reported before their realisation	13	4,155	4	2,987	31	72
2.	Transactions reported within 3 days	99	50,180	80	29,108	81	58
3.	Transactions reported after 3-day period	79	9,646	162	11,679	205	121
<b>Total</b>		<b>191</b>	<b>63,981</b>	<b>246</b>	<b>43,774</b>	<b>129</b>	<b>68</b>

According to the Report on Cash Transactions of BAM 30 ths or above and on connected and suspicious transactions (SPNiFTA Form, Tables A and B being submitted to the FBA), in the period from 01/01/2020 to 31/12/2020, MCOs have reported to FID a total of 386 transactions (59.5% less than the year before) in total value of BAM 1.5 million (30.6% more than in the previous year).

The following table shows the number and value of reported suspicious transactions by number and value.

**Table 60: Reported suspicious transactions by number and value – MCOs**

No.	Description	01.01. - 31.12.2019		01.01. - 31.12.2020		Index	
		Number	Value (BAM 000)	Number	Value (BAM 000)		
1	2	3	4	5	6	7 (5/3)	8 (6/4)
1.	Transactions for which FID requested information	1	29	0	0	0	0
2.	Transactions for which FID did not request information	953	1,105	386	1,481	40	134
<b>Total</b>		<b>954</b>	<b>1,134</b>	<b>386</b>	<b>1,481</b>	<b>40</b>	<b>131</b>

According to the Report on Cash Transactions of BAM 30 ths or above and on connected and suspicious transactions (SPNiFTA Form, Tables A and B being submitted to the FBA), in the period from 01/01/2020 to 31/12/2020, leasing companies have reported to FID 4 suspicious transactions in total value of BAM 133 ths. FID did not ask for additional information regarding reported transactions.

## **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 FB&H 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. This entails adopting 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.

In 2020, effects were noted regarding the initial implementation of the Decision on Credit Risk Management and Determination of Expected Credit Losses that were aimed towards strengthening the risk management quality and standardizing credit risk management in line with IFRS 9. Also, effects caused by the pandemic became evident with regards to bank operations.

Based on the reported key business indicators of the FB&H banking sector as of 31/12/2020, it could be inferred that it is stable, as ensured via high levels of liquidity and capital and high NPL coverage with provisions for expected loan losses. Although impacted by negative economic effects of the pandemic, if observed against YE2019, there was a continuous growth of key products and positive financial result at the FB&H banking sector level that was still lower than the one posted in the same period last year. The loan portfolio quality structure has not changed much and identified effects resulted from implementation of new regulations and temporary measures to mitigate adverse economic consequences caused by the pandemic. Although the share of NPA has not increased, FBA would like to point out to existence of major risks related to certain parts of the portfolio with fewer chances of successful recovery in 2021. Crucially important is the quality of the overall management system in banks, adequate and efficient functioning of the risk management system and adequate capital coverage of risk in business operations through meeting the prescribed requirements for calculating regulatory capital. Further measures to be taken by the regulator will be aimed towards efficient management of capital, liquidity and risk management support.

The FB&H microcredit sector business operations (observed against end of the previous year) are characterized by an increase in total assets, gross microloan portfolio, loan obligations and total capital. Compared to the same period last year, placement of microloans in the period from 01/01/2020 to 31/12/2020 saw a downward trend. Business operations have continued with a positive financial performance, being lower than the one presented in the same period last year.

As of 31/12/2020, at the level of the leasing system in the FB&H, an increase was reported in the volume of assets, net receivables based on financial leasing, loan obligations, while capital of leasing companies posted a decrease against 31/12/2019. The number and value of newly concluded leasing contracts posted a decrease compared to the same period last year. Over the reporting period, FB&H leasing sector posted an operating profit, thus being higher than in the same period the year before.

Factoring business as possible instrument of short term financing and cash flow management was performed in 2020 solely via its financing function, whereas no collection service and receivables management service was posted or any deals related to factoring. This area is still beginning to develop in the FB&H. Its faster development calls for a legal reform being a limiting factor in its certain elements.

Further measures to be taken by the FBA will be oriented towards efficient risk management, with special emphasis on migration of the portfolio under special measures to higher credit risk grades. Previous year was marked by dynamic adjustment to new business circumstances and importance of understanding support measures for the economy, as well as establishment of adequate and dynamic models of financing. After a year of extreme risk scenarios and disturbances, the year that follows would be a year of caution, analysis and moderate recovery.

## LEGAL FRAMEWORK

### Annex 1- Legal framework related to the FBA and BSEs in the FB&H

#### I REGULATIONS REGARDING FBA ORGANISATION

1. Law on the Banking Agency of the Federation of Bosnia and Herzegovina (FB&H Official Gazette No. 75/17),
2. Statute of the Banking Agency of the Federation of B&H (FB&H Official Gazette No. 3/18),
3. Rules of Procedure of the Banking Agency of the Federation of B&H (No. U.O.-36-8/19 of 16.09.2019 and No. U.O.-38-8/19 of 27.12.2019),
4. Rules of Internal Organisation of the Banking Agency of the Federation of B&H (No. U.O.-38-8-1/19 of 16.09.2019), forming an integral part of the Rules of Procedure,
5. Rules of Job Classification of the Banking Agency of the Federation of Bosnia and Herzegovina (No. 01-4314/19 of 15.11.2019 and No. 01-2541/20 of 22.06.2020).

#### II REGULATIONS RELATED TO FBA COMPETENCIES

##### *Laws*

1. Law on Banks (FB&H Official Gazette No. 27/17),
2. Law on Microcredit Organisations (FB&H Official Gazette No. 59/06),
3. Law on Associations and Foundations (F&H Official Gazette No. 45/02),
4. Law on Leasing (FB&H Official Gazette Nos. 85/08, 39/09, 65/13 and 104/16),
5. Law on the Development Bank of the Federation of B&H (FB&H Official Gazette No. 37/08),
6. Law on Foreign Exchange Operations (FB&H Official Gazette No. 47/10),
7. Law on Anti-Money Laundering and Counter-Terrorism Financing (B&H Official Gazette Nos. 47/14 and 46/16),
8. Law on Protection of Guarantors in the FB&H (FB&H Official Gazette No. 100/13),
9. Law on Protection of Financial Service Users (FB&H Official Gazette No. 31/14),
10. Law on Domestic Payments (FB&H Official Gazette Nos. 48/15 and 79/15-corr.),
11. Law on Factoring in the Federation of B&H (FB&H Official Gazette Nos. 14/16 and 74/20),
12. Law on Deposit Insurance in Banks in Bosnia and Herzegovina (B&H Official Gazette No. 32/20).

##### *FBA decisions, instructions and guidelines related to operations and supervision of banks*

1. Decision on Capital Calculation in Banks (FB&H Official Gazette Nos. 81/17, 50/19, 37/20 and 81/20),
2. Decision on Large Exposures in Banks (FB&H Official Gazette No. 81/17),
3. Decision on Risk Management in Banks (FB&H Official Gazette No. 81/17),
4. Decision on Liquidity Risk Management in Banks (FB&H Official Gazette Nos. 81/17 and 37/20),
5. Decision on Disclosure of Information and Data of the Bank (FB&H Official Gazette No. 81/17),
6. Decision on Control Functions in Banks (FB&H Official Gazette No. 81/17),

7. Decision on External Audit and Audit Contents in Banks (FB&H Official Gazette No. 81/17),
8. Decision on Conditions for Issuance of Procurement in Banks (FB&H Official Gazette No. 81/17),
9. Decision on Purchase and Sale of Bank Facilities (FB&H Official Gazette Nos. 81/17 and 86/20),
10. Decision on Recovery Plans of Banks and Banking Groups (FB&H Official Gazette No. 81/17),
11. Decision on Requirements for Consolidated Banking Groups (FB&H Official Gazette No. 81/17),
12. Decision on Outsourcing Management in Banks (FB&H Official Gazette No. 81/17),
13. Decision on Exceptions to Preserve Banking Secrecy (FB&H Official Gazette No. 81/17),
14. Decision on Records of Banks and Organisational Units of Banks Seated in Republika Srpska or Brčko District and Banks' Representative Offices Opened in the Federation of Bosnia and Herzegovina (FB&H Official Gazette No. 81/17),
15. Decision on Banks Notifications to the Federation of Bosnia and Herzegovina Banking Agency (FB&H Official Gazette No. 81/17),
16. Decision on Banks' Activities with Related Persons (FB&H Official Gazette No. 81/17),
17. Decision on Uniform Manner of Calculating and Reporting of Effective Interest Rate on Loans and Deposits (FB&H Official Gazette No. 81/17),
18. Decision on Conditions when the Bank is Considered Insolvent (FB&H Official Gazette No. 81/17),
19. Decision on Duty of Care of Members of the Bank's Management Bodies (FB&H Official Gazette No. 81/17),
20. Decision on Remuneration Policy and Practice for Bank Employees (FB&H Official Gazette No. 81/17),
21. Decision on the Conditions and Manner of Handling Client's Complaint by Bank, Microcredit Organisation and Leasing Company (FB&H Official Gazette No. 81/17),
22. Decision on Information System Management in Banks (FB&H Official Gazette No. 81/17),
23. Decision on Statement on Financial Situation (*wealth statement*) (FB&H Official Gazette No. 81/17),
24. Decision on Foreign Exchange Risk Management in Banks (FB&H Official Gazette Nos. 81/17 and 37/20),
25. Decision on Internal Control System in Banks (FB&H Official Gazette No. 81/17),
26. Decision on Inclusion of Special Conditions for Arranging Long Term Non-purpose and Consolidation Loans of Private Individuals into the Banks' Risk Management System (FB&H Official Gazette No. 81/17),
27. Decision on Conditions and Procedure for Issuance, Refusal of Issuance and Revocation of a Banking License (FB&H Official Gazette No. 90/17),
28. Decision on Conditions and Procedure for Granting and Withdrawal of Approvals for Selection or Appointment of Supervisory Board and Management Board Members of Banks and Revocation of Issued Approvals (FB&H Official Gazette No. 90/17),
29. Decision on the Requirements and the Process of Granting, Withdrawal and Revocation of Approvals for Performance of Banking Activities (FB&H Official Gazette No. 90/17),
30. Decision on Suitability Assessment of Members of the Bank's Supervisory Board and Management Board (FB&H Official Gazette No. 90/17),
31. Decision on Supervision of Banks and Procedures of the Federation of Bosnia and Herzegovina Banking Agency (FB&H Official Gazette No. 90/17),
32. Decision on Procedure for Determination of Claims and Distribution of Assets and Liabilities in Bank Liquidation (FB&H Official Gazette No. 90/17),

33. Decision on Fee Tariff for Banks (FB&H Official Gazette Nos. 46/18 and 69/19),
34. Decision on Criteria for Inclusion of Loan Loss Reserves into Common Equity Tier 1 (FB&H Official Gazette No. 91/18),
35. Decision on Internal Capital Adequacy Assessment Process and the Internal Liquidity Adequacy Process in Banks (FB&H Official Gazette Nos. 16/19 and 30/20),
36. Decision on Credit Risk Management and Determination of Expected Credit Losses (FB&H Official Gazette Nos. 44/19 and 37/20),
37. Decision on Interest Rate Management in the Banking Book (No. U.O.-46-02/20 dd 18.06.2020, FB&H Official Gazette No. 41/20),
38. Decision on Temporary Measures of Banks to Ensure Recovery from Negative Economic Consequences Caused by COVID-19 (U.O.-48-02/20 dd 24.08.2020, FB&H Official Gazette No. 60/20),
39. Decision on Reports Banks Deliver to the Banking Agency of the Federation of Bosnia and Herzegovina according to Standardised Regulatory Reporting Framework (COREP) (No. U.O.-51-02/20 dd 19.11.2020, FB&H Official Gazette No. 86/20),
40. Decision on Reports Banks Deliver to the Banking Agency of the Federation of Bosnia and Herzegovina for Supervisory and Statistical Purposes (No. U.O.-51-03/20 dd 19.11.2020, FB&H Official Gazette No. 86/20);
41. Decision on Minimum Standards for Documenting Lending Activities of Banks (FB&H Official Gazette Nos. 3/03 and 23/14),
42. Internal Bank Rating Criteria by the Banking Agency of the Federation of Bosnia and Herzegovina (FB&H Official Gazette Nos. 3/03 and 6/03-corr.),
43. Decision on Minimum Standards for Banks' Activities on Anti-Money Laundering and Counter-Terrorism Financing (FB&H Official Gazette No. 48/12),
44. Decision on Minimum Standards for Currency Exchange Operations (FB&H Official Gazette Nos. 95/13, 99/13 and 103/18),
45. Decision on Examination of Currency Exchange Operations (FB&H Official Gazette No. 95/13),
46. Decision on Conditions for Assessing and Documenting a Credit Standing (FB&H Official Gazette No. 23/14),
47. Instruction for Completing Bank Report on Regulatory Capital, Credit, Operational and Market Risk and Financial Leverage Ratio (No. 01-4914/17 dd 22.12.2017 and No. 01-2995/20 dd 17.07.2020),
48. Instruction for Completing Reporting Forms for Large Exposures (No. 01-4915/17 dd 22.12.2017),
49. Instruction on Method of Implementation of the Decision on Liquidity Risk Management in Banks related to LCR Components (No. 01-4918/17 of 22.12.2017),
50. Guidelines to Assess Recovery Plans (No. 01-4919/17 dd 22.12.2017),
51. Instruction for Reporting on Outsourcing Management (No. 01-4920/17 dd 22.12.2017),
52. Instruction for Calculation of Weighted Nominal and Effective Interest Rate (No. 01-4921/17 dd 22.12.2017),
53. Instruction to Apply and Create Creditor's Report in accordance with the Decision on Conditions and Manner of Handling Client Complaints in Banks, Microcredit Organisations and Leasing Companies (No. 01-4922/17 dd 22.12.2017),
54. Instruction for Reporting on Information System Management (No. 01-4923/17 dd 22.12.2017),
55. Instructions for Completing Reporting Forms on Liquidity Coverage (No. 01-75/18 dd 15.01.2018),
56. Guidelines for External Auditors of Information Systems (No. 01-262/18 dd 30.01.2018),
57. Instructions for Completing Reports on Volume of Currency Exchange Deals, Domestic and Foreign Exchange Payments (No. 01-5343/18 dd 28.12.2018),

58. Guidelines on reporting on ICAAP and ILAAP application to the Banking Agency of the Federation of Bosnia and Herzegovina and Appendices 1 and 2 (No. 01-1338/19 dd 16.04.2019 and No. 01-2162/20 dd 29.05.2020),
59. Instructions for Classification and Valuation of Financial Assets (No. 01-2583/19 dd 05.07.2019),
60. Instructions for Implementation of the Decision on Interest Rate Risk Management in the Banking Book (No. 01-2884/20 dd 10.07.2020),
61. Instructions for Implementation of the Decision on Foreign Exchange Risk Management in Banks (No. 01-2942/20 dd 13.07.2020),
62. Instructions for Appraisal of Market Value of Collateral (No. 01-3181/20 dd 03.08.2020),
63. Instructions for Populating Reports on Special Measures Approved in line with the Decision on Temporary Measures of Banks to Ensure Recovery from Negative Economic Consequences Caused by COVID-19 (No. 4003/20 dd 25.09.2020),
64. Instructions for Method of Reporting to Provisional Administrator about Bank Operations under Provisional Administration (No. 06-2516/13 dd 19.07.2013),
65. Instructions for Form and Method of Additional Reporting by Banks under Provisional Administration (No. 06-2514/13 dd 19.07.2013),
66. Instructions for Method of Reporting to Liquidation Administrator about Implementation of Liquidation in Bank (No. 06-2516/13 dd 19.07.2013),
67. Instructions for Preparation of the Banks' Balance Sheet (No. 01-574/00 dd 12.07.2000 and No. 01-2-1669/07 dd 10.10.2007),
68. Instructions for Preparation of the Banks' Income Statement (No. 01-575/00 dd 12.07.2000).

#### ***FBA decisions and instructions related to bank resolutions***

1. Decision on Resolvability Assessment of Banks and Banking Groups (FB&H Official Gazette No. 26/18),
2. Decision on Business Reorganisation Plan for a Bank (FB&H Official Gazette No. 26/18),
3. Decision on Conditions and Manner for Conducting Independent Valuation of Assets and Liabilities of the Bank before and during Resolution Proceedings of the Bank (FB&H Official Gazette No. 26/18),
4. Decision on Sale of Shares, Assets, Rights and Liabilities of Bank in Resolution (FB&H Official Gazette No. 26/18),
5. Decision on Data and Information Delivered to the Federation of Bosnia and Herzegovina Banking Agency for Purpose of Developing and Updating Restructuring Plans for Banks and Banking Groups (FB&H Official Gazette Nos. 44/19 and 48/19),
6. Decision on Establishment, Conditions and Manner of Issuance Consent for Asset Management Company (FB&H Official Gazette No. 26/18),
7. Decision on Procedure and Manner of Performing Write Down or Conversion of Capital Instruments and Liabilities of a Bank (FB&H Official Gazette No. 26/18),
8. Decision on Establishing a Bridge Bank (FB&H Official Gazette No. 26/18),
9. Decision on Types of Arrangements and Financial Instruments to which Protective Measures for Counterparties shall Apply (FB&H Official Gazette No. 26/18),
10. Decision on Minimum Requirements for Own Funds and Eligible Liabilities of Banks (FB&H Official Gazette No. 26/18),
11. Decision on Conditions and Manner of Performing Supervision and Instructing Measures to ensure Implementation of Bank Resolution Competences (No. U.O.-47-03/20 dd 29.07.2020, FB&H Official Gazette No 54/20);
12. Instructions for Preparing Reports Banks Deliver for purpose of Resolution Plan Development and Update (No. 01-2560/19 dd 05.07.2019).

***FBA decisions and instructions related to operations and supervision of MCOs***

1. Decision on Conditions and Procedure for Issuing and Revoking an Operating License and Other Approvals to Microcredit Organisations (FB&H Official Gazette No. 103/18),
2. Decision on Requirements and the Procedure for Issuing the Operating Permit to a Microcredit Foundation Formed upon the Microcredit Organisation's Change of Form (FB&H Official Gazette Nos. 27/07 and 31/18),
3. Decision on Conditions and Other Operational Standards and Limitations in Microcredit Organisations (FB&H Official Gazette No. 103/18),
4. Decision on Supervision of Microcredit Organisations and Procedures of the Banking Agency of the Federation of Bosnia and Herzegovina (FB&H Official Gazette No. 103/18),
5. Decision on Uniform Manner of Calculating and Reporting of Effective Interest Rate on Loans and Deposits (FB&H Official Gazette No. 81/17),
6. Decision on Reports Microcredit Organisations Deliver to the Banking Agency of the Federation of B&H and Reporting Deadlines (FB&H Official Gazette No. 87/19),
7. Decision on Percentage and Manner for Forming and Maintaining Reserves for the Coverage of Loan Losses of Microcredit Organisations (FB&H Official Gazette No. 27/07),
8. Decision on Minimum Standards of for Microcredit Organisations' Activities in Prevention of Money Laundering and Terrorism Financing (FB&H Official Gazette No. 48/12),
9. Decision on Minimum Standards for Documenting Lending Activities of Microcredit Organisations and Assessment of Credit Standing (FB&H Official Gazette Nos. 23/14 and 54/20),
10. Decision on Fee Tariff of Microcredit Organisations (FB&H Official Gazette Nos. 46/18, 69/19 and 86/20),
11. Decision on the Conditions and Manner of Handling Client's Complaint by Bank, Microcredit Organisation and Leasing Company (FB&H Official Gazette No. 81/17),
12. Decision on Temporary Measures of Leasing Companies and Micro Credit Organisations to Ensure Recovery from Negative Economic Consequences Caused by COVID-19 (FB&H Official Gazette No. 60/20),
13. Instruction to Apply and Create Creditor's Report in accordance with the Decision on Conditions and Manner of Handling Client Complaints in Banks, Microcredit Organisations and Leasing Companies (No. 01-4922/17 dd 22.12.2017),
14. Instructions for Calculation of Weighted Nominal Interest Rate and Effective Interest Rate (No. 01-4921/17 dd 22.12.2017),
15. Instructions for Calculation of Adjusted Return on Assets and Operational Activities (No. 01-646/19 dd 04.03.2019),
16. Instructions for Contents and Manner of Keeping the Register of Related Entities in Microcredit Organisations (No. 01-647/19 dd 04.03.2019),
17. Instructions for Preparation of Reports of Microcredit Organisations (No. 01-56/20 dd 15.01.2020),
18. Instructions for Populating Reports on Special Measures Approved in line with the Decision on Temporary Measures of Leasing Companies and Micro Credit Organisations to Ensure Recovery from Negative Economic Consequences Caused by COVID-19 (No. 4004/20 dd 25.09.2020).



***FBA decisions and instructions related to operations and supervision of leasing companies***

1. Decision on the Conditions and Manner of Handling Client's Complaint by Bank, Microcredit Organisation and Leasing Company (FB&H Official Gazette No. 81/17),
2. Decision on Outsourcing of Business Processes of Leasing Companies (FB&H Official Gazette No. 58/17),
3. Decision on Form and Content of the Reports that the Leasing Companies Deliver to the Banking Agency of the Federation of B&H and Reporting Deadlines (FB&H Official Gazette Nos. 46/09, 48/12 and 110/12),
4. Decision on Conditions and Procedure for Issuing and Revoking the License to Perform Leasing Operations (FB&H Official Gazette Nos. 46/09, 58/17 and 31/18),
5. Decision on Conditions and Procedure for Issuing and Revoking an Approval to a Leasing Company (FB&H Official Gazette Nos. 46/09, 46/11 and 58/17),
6. Decision on Uniform Manner for Posting Effective Interest Rate on Financial Leasing Contracts (FB&H Official Gazette No. 46/18),
7. Decision on Fee Tariff of Leasing Companies (FB&H Official Gazette Nos. 46/18 and 69/19),
8. Decision on Uniform Manner and Method for Calculating and Reporting the Leasing Fee for Operational Leasing Arrangements (FB&H Official Gazette Nos. 46/09 and 48/12),
9. Decision on Minimum Amount and Manner for Allocating, Managing and Maintaining the Reserves for Loan Losses and Risk Management of Leasing Companies (FB&H Official Gazette No. 46/09),
10. Decision on Supervision of Leasing Companies (FB&H Official Gazette Nos. 46/09, 58/17, 31/18 and 37/20),
11. Decision on Minimum Standards for Leasing Companies' Activities in Prevention of Money Laundering and Terrorism Financing (FB&H Official Gazette No. 48/12),
12. Decision on Minimum Standards for Documenting Financing Under Leasing Agreements and Assessment of Credit Standing (FB&H Official Gazette No. 46/14 and 37/20),
13. Decision on Temporary Measures of Leasing Companies and Micro Credit Organisations to Ensure Recovery from Negative Economic Consequences Caused by COVID-19 (FB&H Official Gazette No. 60/20),
14. Instructions for Implementation of the Decision on Uniform Manner and Method for Calculating and Posting Effective Interest Rate on Financial Leasing (No. 01-2445/10 dd 11.06.2010),
15. Instructions for Preparation of Reports of Leasing Companies (No. 08-340/13 dd 31.01.2013),
16. Instruction to Apply and Create Creditor's Report in accordance with the Decision on Conditions and Manner of Handling Client Complaints in Banks, Microcredit Organisations and Leasing Companies (No. 01-4922/17 dd 22.12.2017),
17. Instructions for Populating Reports on Special Measures Approved in line with the Decision on Temporary Measures of Leasing Companies and Micro Credit Organisations to Ensure Recovery from Negative Economic Consequences Caused by COVID-19 (No. 4004/20 dd 25.09.2020).

***FBA decisions and instructions related to operations and supervision of factoring business***

1. Decision on Minimum Standards for the Content of Factoring Agreements (FB&H Official Gazette No. 70/16),
2. Decision on Minimum Standards for the Requirements and Manner of Performing the Business Activities of Factoring Companies (FB&H Official Gazette No. 70/16),

3. Decision on Minimum Standards for the Criteria, Rules and Additional Requirements for Capital in Factoring Companies (FB&H Official Gazette No. 70/16),
4. Decision on Minimum Standards for the Criteria and Decision-making Procedure on Issuing Approvals for Acquiring or Increasing Qualifying Shares in Factoring Companies and of Factoring Companies in Another Legal Entity (FB&H Official Gazette No. 70/16),
5. Decision on Minimum Standards for Detailed Requirements and the Manner of Issuing Operating Licenses to Factoring Companies in Domestic Factoring (FB&H Official Gazette No. 70/16),
6. Decision on Minimum Standards for the Requirements to be met by Members of the Factoring Company Supervisory Board and Management (FB&H Official Gazette No. 70/16),
7. Decision on Minimum Standards for the Criteria and Manner of Risk Management in Factoring Companies (FB&H Official Gazette No. 70/16),
8. Decision on Minimum Standards for the Manner of Conducting Internal Audits in Factoring Companies (FB&H Official Gazette No. 70/16),
9. Decision on Minimum Standards of Structure, Contents, Manner and Deadlines for Delivery of Information and Reports of Factoring Companies to the Banking Agency of the Federation of Bosnia and Herzegovina (FB&H Official Gazette Nos. 70/16, 85/16-corr., 104/16),
10. Decision on Fee Tariff of Factoring Companies (FB&H Official Gazette Nos. 46/18 and 69/19),
11. Instructions for Completing Financial and Other Reports that Factoring Companies Prepare for Purposes of the Banking Agency of the Federation of B&H (No. 4203/16 d24.10.2016),
12. Instructions for Preparation of the Report on Capital Calculation of Factoring Companies (No. 4204/16 dd 24.10.2016),
13. Instructions for Preparation and Delivery of Business Projection of Factoring Companies (No. 1100/19 dd 01.04.2019).

#### ***Decisions regarding activities of the Banking System Ombudsmen***

1. Decision on Conditions and Methods Upon the Request of Guarantor to be Exempt from Guarantor's Obligation (FB&H Official Gazette No. 31/18),
2. Code on Conduct of the Ombudsman for the Banking System (FB&H Official Gazette Nos. 62/14 and 93/15),
3. Decision on Minimum Requirements regarding Contents, Comprehensibility and Availability of General and Special Conditions of Operations of Financial Service Providers (FB&H Official Gazette No. 62/14).

#### ***Other regulations:***

##### ***FB&H Development Bank***

1. Decree on the FB&H Development Bank's Operations Supervision Criteria and Management Method (FB&H Official Gazette Nos. 57/08, 77/08 and 62/10),
2. Decision on Determining the Amount of Fees for Conducting Supervision of the Operations of the Development Bank of the FB&H (FB&H Official Gazette No. 65/09).

##### ***Foreign Exchange Operations***

1. Rulebook on the Process of Opening and Maintaining FC Accounts and FC Savings of Resident Customers of Banks (FB&H Official Gazette No. 56/10),

2. Rulebook on Conditions and Manner for Opening, Maintaining and Closing of Nonresident Accounts in Banks (FB&H Official Gazette No. 56/10),
3. Decision on Withdrawing Foreign Cash and Cheques (FB&H Official Gazette No. 58/10),
4. Decision on Conditions and Manner of Conducting Foreign Exchange Operations (FB&H Official Gazette Nos. 58/10 and 49/11),
5. Decision on Conditions for Issuing Approvals for Opening FC Accounts Abroad (FB&H Official Gazette No. 58/10),
6. Decision on Payment, Collection and Transfer of Foreign Currency and Foreign Cash (FB&H Official Gazette No. 58/10),
7. Decision on Manner and Conditions for Residents to Receive or Perform Payment in FCY and LCY Cash in Their Operations with Non-Residents (FB&H Official Gazette No. 58/10),
8. Rules on Method, Deadlines and Forms of Reporting on International Lending Deals (FB&H Official Gazette No. 79/10),
9. Decision on Minimum Standards for Foreign Exchange Operations (FB&H Official Gazette Nos. 95/13 and 99/13),
10. Decision on Examination of Currency Exchange Operations (FB&H Official Gazette No. 95/13).

#### ***AML&CTF***

1. Rulebook on Implementation of the Law on Anti-Money Laundering and Combating Terrorism Financing (B&H Official Gazette No. 41/15)

### **III OTHER LAWS IN THE FB&H OF RELEVANCE FOR OPERATIONS AND SUPERVISION OF BSEs**

1. Law on Obligations (RB&H Official Gazette Nos. 2/92, 13/93 and 13/94, FB&H Official Gazette Nos. 29/03 and 42/11),
2. Law on Payment Transactions (FB&H Official Gazette Nos. 32/00 and 28/03),
3. Law on Cheques (FB&H Official Gazette No. 32/00),
4. Law on Promissory Notes (FB&H Official Gazette Nos. 32/00 and 28/03),
5. Law on Default Interest Rate Level on Public Revenues (FB&H Official Gazette Nos. 48/01, 52/01, 42/06, 28/13, 66/14, 86/15, 34/18 and 99/19),
6. Law on Companies (FB&H Official Gazette No. 81/15)
7. Law on Financial Consolidation of Companies in the FB&H (FB&H Official Gazette Nos. 52/14, 36/18 and 54/19),
8. Law on Takeover of Joint Stock Companies (FB&H Official Gazette No. 77/15),
9. Law on Registration of Commercial Entities in the FB&H (FB&H Official Gazette Nos. 27/05, 68/05, 43/09 and 63/14),
10. Law on Public Companies (FB&H Official Gazette Nos. 8/05, 81/08, 22/09 and 109/12),
11. Law on Liquidation Proceedings (FB&H Official Gazette No. 29/03),
12. Law on Bankruptcy Proceedings (FB&H Official Gazette Nos. 29/03, 32/04, 42/06 and 52/18),
13. Law on Debt, Borrowing and Guarantees of the Federation of Bosnia and Herzegovina (FB&H Official Gazette Nos. 86/07, 24/09 and 44/10),
14. Law on Accounting and Audit in the FB&H (FB&H Official Gazette No. 83/09),
15. Law on Classification of Activities in the Federation of Bosnia and Herzegovina (FB&H Official Gazette Nos. 64/07 and 80/11),
16. Law on Classification of Occupations in the FB&H (FB&H Official Gazette No. 111/12),
17. Law on Securities Market (FB&H Official Gazette Nos. 85/08, 109/12, 86/15 and 25/17),

18. Law on Securities Register (FB&H Official Gazette Nos. 39/98, 36/99 and 33/04),
19. Law on Securities Commission (FB&H Official Gazette Nos. 39/98, 36/99, 33/04 and 6/17),
20. FB&H Labour Law (FB&H Official Gazette Nos. 26/16 and 89/18),
21. Law on Council of Employees (FB&H Official Gazette No. 38/04),
22. Law on Employing Foreigners (FB&H Official Gazette No. 111/12),
23. Law on Investment Funds (FB&H Official Gazette Nos. 85/08 and 25/17),
24. Law on Mediation in Private Insurance (FB&H Official Gazette Nos. 22/05, 8/10 and 30/16),
25. Law on Tax Authorities of the Federation of B&H (FB&H Official Gazette Nos. 33/02, 28/04, 57/09, 40/10, 29/11 i 27/12, 7/13, 71/14 and 91/15),
26. Law on Profit Tax (FB&H Official Gazette Nos. 15/16 and 15/20),
27. Law on Personal Income Tax (FB&H Official Gazette Nos. 10/08, 9/10, 44/11, 7/13 and 65/13),
28. Law on Contributions (FB&H Official Gazette Nos. 35/98, 54/00, 16/01, 37/01, 1/02, 17/06, 14/08, 91/15, 106/16, 34/18 and 99/19),
29. Law on Collection and Partial Write-Off of Past Due Social Insurance Contributions (FB&H Official Gazette Nos. 25/06 and 57/09),
30. Law on Single System of Registration of Control and Collection of Contributions (FB&H Official Gazette Nos. 42/09, 109/12 and 30/16),
31. Law on Opening Balance Sheet of Companies and Banks (FB&H Official Gazette Nos. 12/98, 40/99, 47/06, 38/08 and 65/09),
32. Law on Audit of Privatisation of State-owned Capital in Companies and Banks (FB&H Official Gazette No. 55/12),
33. Law on Identifying and Realising Claims of Citizens in the Privatisation Process (FB&H Official Gazette Nos. 27/97, 8/99, 45/00, 54/00, 7/01, 32/01, 27/02, 57/03, 44/04, 79/07, 65/09, 48/11, 111/12, 86/15, 13/18 and 44/20),
34. Law on Identification and Manner of Settlement of Domestic Debt of the FB&H (FB&H Official Gazette Nos. 66/04, 49/05, 5/06, 35/06, 31/08, 32/09, 65/09, 42/11 and 35/14),
35. Law on Settlement of Liabilities Based on Pre-War FC Savings in the FB&H (FB&H Official Gazette Nos. 62/09, 42/11, 91/13, 101/16 and 57/20),
36. Law on Associations and Foundations (FB&H Official Gazette No. 45/02),
37. Law on Crafts and Similar Services (FB&H Official Gazette Nos. 35/09 and 42/11),
38. Law on Expropriation (FB&H Official Gazette Nos. 70/07, 36/10, 25/12 and 34/16),
39. Law Rendering Ineffective the Law on Construction (FB&H Official Gazette Nos. 55/02 and 34/07),
40. Law on Construction Land in the FB&H (FB&H Official Gazette No. 67/05),
41. Law on Temporary Restriction over Disposing with State Property in the FB&H (FB&H Official Gazette Nos. 20/05, 17/06, 62/06, 40/07, 70/07, 94/07 and 41/08),
42. Law on Free Access to Information in the FB&H (FB&H Official Gazette Nos. 32/01 and 48/11),
43. Regulatory Offence Law of the FB&H (FB&H Official Gazette No. 63/14),
44. Law on Public Notaries (FB&H Official Gazette No. 45/02),
45. Law on Court Appraisers (FB&H Official Gazette Nos. 49/05 and 38/08),
46. Law on Agencies and Internal Departments for Personal and Property Protection (FB&H Official Gazette Nos. 78/08 and 67/13 ),
47. Law on Land Books in the FB&H (FB&H Official Gazette Nos. 58/02, 19/03 and 54/04),
48. Law on Foreign Investments (FB&H Official Gazette Nos. 61/01, 50/03 and 77/15)
49. Law on Mediation Procedure (FB&H Official Gazette No. 49/07),
50. Law on Treasury of the FB&H (FB&H Official Gazette No. 26/16),

51. Law on the FB&H Government (FB&H Official Gazette Nos. 1/94, 8/95, 58/02, 19/03, 2/06 and 8/06),
52. Law on FB&H Prosecutor's Office (FB&H Official Gazette Nos. 42/02 and 19/03),
53. Law on FB&H Courts (FB&H Official Gazette Nos. 38/05, 22/06, 63/10,72/10-corr., 7/13 and 52/14),
54. Law on Enforcement Proceedings (FB&H Official Gazette Nos. 32/03, 52/03, 33/06, 39/06 - corr., 39/09, 74/11, 35/12 and 46/16),
55. Law on Temporary Postponement of Fulfillment of Receivables Based on Executive Decisions Issued in Relation to the FB&H Budget (FB&H Official Gazette Nos. 9/04 and 30/04),
56. Law on Administrative Procedure (FB&H Official Gazette Nos. 2/98 and 48/99),
57. Law on Administrative Disputes (FB&H Official Gazette No. 9/05),
58. Civil Procedure Code (FB&H Official Gazette Nos. 53/03, 73/05,19/06 and 98/15),
59. Law on Non-Civil Proceedings (FB&H Official Gazette Nos. 2/98, 39/04, 73/05 and 80/14),
60. FB&H Criminal Code (FB&H Official Gazette Nos. 36/03, 37/03, 21/04, 69/04, 18/05, 42/10 i 42/11, 59/14, 76/14, 46/16 and 75/17),
61. FB&H Law on Criminal Proceedings (FB&H Official Gazette Nos. 35/03, 37/03, 56/03, 78/04, 28/05, 55/06, 27/07, 53/07, 9/09, 12/10, 8/13, 59/14 and 74/20),
62. Law on Enforcement of Criminal Sanctions in the FB&H (FB&H Official Gazette Nos. 44/98, 42/99, 12/09 and 42/11),
63. Law on Conflict of Interest in Government Bodies in the FB&H (FB&H Official Gazette No. 70/08),
64. Law on Financial-Intelligence Agency (FB&H Official Gazette No. 80/11),
65. Law on Fiscal Systems (FB&H Official Gazette No. 81/09),
66. Law on Privatisation of Banks (FB&H Official Gazette Nos. 12/98, 29/00, 37/01 and 33/02),
67. Law on Archive Materials of the FB&H (FB&H Official Gazette No. 45/02),
68. Law on Recognition of Public Identification Documents on Territory of the FB&H (FB&H Official Gazette No. 4/98),
69. Law on Strike (FB&H Official Gazette No. 14/00),
70. Law on Federal Administrative Taxes and Tariffs of Federal Administrative Taxes (FB&H Official Gazette Nos. 6/98, 8/00, 45/10, 43/13 and 98/17),
71. Law on Domestic Trade (FB&H Official Gazette Nos. 40/10 and 79/17),
72. Property Law (FB&H Official Gazette Nos. 66/13 and 100/13),
73. Law on FB&H Budgets (FB&H Official Gazette Nos. 102/13, 9/14-corr. 13/14, 8/15, 91/15, 102/15, 104/16, 5/18, 11/19 and 99/19),
74. Law on Citizenship of the Federation B&H (FB&H Official Gazette No. 34/16),
75. Law on Voluntary Pension Funds (FB&H Official Gazette No. 104/16),
76. Law on Financial Operations (FB&H Official Gazette No. 48/16),
77. Law on Salaries and Remunerations in Government Bodies of the Federation of Bosnia and Herzegovina (FB&H Official Gazette Nos. 45/10, 111/12 and 20/17),
78. Law on Single Registry of Users of Cash Benefits with no Fee Payment (FB&H Official Gazette No. 25/17),
79. Law on Insurance (FB&H Official Gazette No. 23/17),
80. Law on Development Planning and Management in the Federation of Bosnia and Herzegovina (FB&H Official Gazette No. 32/17),
81. Law on Pension and Disability Insurance (FB&H Official Gazette No. 13/18).
82. Law on Default Interest Rate Level (FB&H Official Gazette No. 18/20),
83. Law on Deadlines and Actions in Court Proceedings during the Emergency Period in the Federation of Bosnia and Herzegovina (FB&H Official Gazette No. 28/20),

84. Law on Court Police in the Federation of Bosnia and Herzegovina (FB&H Official Gazette No. 77/20),
85. Law on Occupational Safety (FB&H Official Gazette No. 79/20).

#### **IV OTHER LAWS IN B&H OF RELEVANCE FOR OPERATIONS AND SUPERVISION OF BSEs**

1. Law on the Central Bank of B&H (B&H Official Gazette Nos. 1/97, 29/02, 8/03, 13/03, 14/03, 9/05, 76/06 and 32/07),
2. Law on Protection of Consumers in B&H (B&H Official Gazette No. 25/06),
3. Law on Market Surveillance in B&H (B&H Official Gazette Nos. 45/04, 44/07 and 102/09),
4. Law on Competition (B&H Official Gazette Nos. 48/05, 76/07 and 80/09),
5. Law on Policy of Direct Foreign Investments in B&H (B&H Official Gazette Nos. 4/98, 17/98, 13/03 and 48/10),
6. Law on Personal Data Protection (B&H Official Gazette Nos. 49/06, 76/11 and 89/11-corr.),
7. Law on Protection of Classified Data of B&H (B&H Official Gazette Nos. 54/05 and 12/09),
8. Law on Electronic Signature (B&H Official Gazette No. 91/06),
9. Decision on Use of Electronic Signature and Documents Certification Services (B&H Official Gazette No. 21/09),
10. Law on classification of activities in Bosnia and Herzegovina (B&H Official Gazette Nos. 76/06, 100/08 and 32/10),
11. Law on Civil Service in the Institutions of Bosnia and Herzegovina (B&H Official Gazette Nos. 12/02, 19/02, 8/03, 35/03, 4/04, 17/04, 26/04, 37/04, 48/05, 2/06, 32/07, 43/09, 8/10, 40/12 and 93/17),
12. Law on Work in Institutions of B&H (B&H Official Gazette Nos. 26/04, 7/05, 48/05, 60/10, 32/13 and 93/17),
13. Law on Borrowing, Debt and Guarantees of Bosnia and Herzegovina (B&H Official Gazette Nos. 52/05, 103/09 and 90/16),
14. Law on Settlement of Obligations arising from Old Foreign Currency Savings of B&H (B&H Official Gazette Nos. 28/06, 76/06, 72/07, 97/11 and 100/13 ),
15. Law on Accounting and Audit in B&H (B&H Official Gazette No. 42/04),
16. Law on Determination and Manner of Settlement of the Internal Debt of B&H (B&H Official Gazette No. 44/04),
17. Framework Law on Pledges (B&H Official Gazette Nos. 28/04 and 54/04),
18. Law on Value Added Tax (B&H Official Gazette Nos. 9/05, 35/05, 100/08 and 33/17),
19. B&H Law on Public Procurements (B&H Official Gazette No. 39/14),
20. Law on Customs Tariff (B&H Official Gazette No. 58/12),
21. . Law on Customs Violations in B&H (B&H Official Gazette No. 88/05),
22. Law on Patents (B&H Official Gazette No. 53/10),
23. Law on Free Access to Information in B&H (B&H Official Gazette Nos. 28/00, 45/06, 102/09, 62/11 and 100/13),
24. . Law on Personal Identification Number (B&H Official Gazette Nos. 32/01, 63/08 and 103/11),
25. B&H Law on Associations and Foundations (B&H Official Gazette Nos. 32/01, 42/03, 63/08, 76/11 and 94/16),
26. Law of Ministries and Other Government Authorities of Bosnia and Herzegovina (B&H Official Gazette Nos. 5/03, 42/03, 26/04, 42/04, 45/06, 88/07, 35/09, 59/09, 103/09, 87/12, 6/13, 19/16 and 83/17),
27. Law on the Temporary Prohibition of Disposal of State Property of Bosnia and Herzegovina (B&H Official Gazette Nos. 18/05, 29/06, 85/06, 32/07, 41/07, 74/07, 99/07 and 58/08),

28. Law on Use and Protection of the Name of B&H (B&H Official Gazette Nos. 30/03, 42/04, 50/08 and 76/11),
29. Law on Fiscal Council in B&H (B&H Official Gazette No. 63/08),
30. Law on the Treasury of Institutions of B&H (B&H Official Gazette Nos. 27/00 and 50/08),
31. Law on Payments into the Single Account and Distribution of Revenues (B&H Official Gazette Nos. 55/04, 34/07, 49/09 and 91/17),
32. Law on the Indirect Taxation System in Bosnia and Herzegovina (B&H Official Gazette Nos. 44/03, 52/04, 34/07, 4/08, 49/09, 32/13 and 91/17),
33. Law on Mediation Procedure (B&H Official Gazette No. 37/04),
34. Law on Transfer of Mediation Business to Association of Mediators (B&H Official Gazette No. 52/05),
35. Law on excises in Bosnia and Herzegovina (B&H Official Gazette Nos. 49/09, 49/14, 60/14 and 91/17)
36. Law on Enforced Collection of Indirect Taxes (B&H Official Gazette Nos. 89/05 and 62/11),
37. Regulatory Offence Law (B&H Official Gazette Nos. 41/07, 18/12, 36/14, 81/15 and 65/20),
38. Law on the B&H Court (B&H Official Gazette Nos. 49/09-consolidated text, 74/09-corr. and 97/09),
39. Law on High Judicial and Prosecutorial Council of Bosnia and Herzegovina (B&H Official Gazette Nos. 35/02, 39/03, 42/03, 10/04, 25/04, 93/05, 32/07 and 48/07),
40. Law on Prosecutor's Office of B&H (B&H Official Gazette Nos. 49/09-consolidated text and 97/09),
41. Law on Administrative Procedure (B&H Official Gazette Nos. 29/02, 12/04, 88/07 and 93/09, 41/13 and 53/16),
42. Law on Administrative Disputes of Bosnia and Herzegovina (B&H Official Gazette Nos. 19/02, 88/07, 83/08 and 74/10),
43. Law on Civil Procedure before the Court of B&H (B&H Official Gazette Nos. 36/04, 84/07, 58/13 and 94/16),
44. Law on Enforcement Proceedings before the B&H Court (B&H Official Gazette No. 18/03),
45. Law on Administration (B&H Official Gazette Nos. 32/02, 102/09 and 72/17),
46. Law on Temporary Postponement of Fulfillment of Claims Based on Executive Decisions Issued in Relation to the Budget of B&H Institutions and International Obligations of B&H (B&H Official Gazette Nos. 43/03 and 43/04),
47. Criminal Code of B&H (B&H Official Gazette Nos. 3/03, 32/03, 37/03, 54/04, 61/04, 30/05, 53/06, 55/06, 32/07, 8/10, 47/14 and 35/18),
48. B&H Law on Criminal Proceedings (B&H Official Gazette Nos. 3/03, 32/03, 36/03, 26/04, 63/04, 13/05, 48/05, 46/06, 76/06, 29/07, 32/07, 53/07, 76/07, 15/08, 58/08, 12/09, 16/09, 93/09, 72/13 and 65/18),
49. Law on Conflict of Interests in Governmental Institutions of Bosnia and Herzegovina (B&H Official Gazette Nos. 13/02, 16/02, 14/03, 12/04, 63/08 i 18/12, 87/13 and 41/16),
50. Law on Archive Materials and Archives of B&H (B&H Official Gazette No. 16/01),
51. Law on Free Legal Aid (B&H Official Gazette No. 83/16),
52. Law on Prohibition of Discrimination (B&H Official Gazette Nos. 59/09 and 66/16),
53. Law on Employee Strike in Institutions of B&H (B&H Official Gazette No. 41/16),
54. . Law on Execution of Criminal Sanctions, Detention and other Measures (B&H Official Gazette No. 22/16 – consolidated text),
55. Law on Citizenship of Bosnia and Herzegovina (B&H Official Gazette No. 22/16 – consolidated text),

56. Law on Salaries and Allowances in the institutions of B&H (B&H Official Gazette Nos. 50/08, 35/09, 75/09, 32/12, 42/12, 50/12, 32/13, 87/13, 75/15, 88/15, 16/16, 94/16, 72/17, 25/18, 32/20 and 65/20),
57. Law on Asylum (B&H Official Gazette No. 11/16).



## ANNEXES – BANKING SECTOR

## Annex 2 - Basic information on FB&amp;H banks – 31/12/2020

No.	Bank	Web address	Number of employees	Management Chairperson
1.	ADDIKO BANK d.d. Sarajevo	www.addiko.ba	368	Sanela Pašić
2.	ASA BANKA d.d. Sarajevo	www.asabanka.ba	222	Samir Mustafić
3.	BOSNA BANK INTERNATIONAL d.d. Sarajevo	www.bbi.ba	454	Amer Bukvić
4.	INTESA SANPAOLO BANKA d.d. BiH Sarajevo	www.intesasanpaolobanka.ba	562	Almir Krkalić
5.	KOMERCIJALNO-INVESTICIONA BANKA d.d. Velika Kladuša	www.kib-banka.com.ba	81	Hasan Porčić
6.	NLB BANKA d.d. Sarajevo	www.nlb.ba	444	Lidija Žigić
7.	PRIVREDNA BANKA SARAJEVO d.d. Sarajevo	www.pbs.ba	177	Hamid Pršeš
8.	PROCREDIT BANK d.d. Sarajevo	www.procreditbank.ba	148	Almir Salkanović
9.	RAIFFEISEN BANK d.d. BiH Sarajevo	www.raiffeisenbank.ba	1,278	Karlheinz Dobnigg
10.	SBERBANK BH d.d. Sarajevo	www.sberbank.ba	433	Jasmin Spahić
11.	SPARKASSE BANK d.d. BiH Sarajevo	www.sparkasse.ba	523	Sanel Kusturica
12.	UNICREDIT BANK d.d. Mostar	www.unicreditbank.ba	1,207	Amina Mahmutović
13.	UNION BANKA d.d. Sarajevo	www.unionbank.ba	195	Vedran Hadžiahmetović
14.	VAKUFСКА BANKA d.d. Sarajevo	www.vakuba.ba	120	Edina Vuk
15.	ZIRAATBANK BH d.d. Sarajevo	www.ziraatbank.ba	310	Yusuf Dilaver
<b>TOTAL</b>			<b>6,522</b>	

Annex 3 - FB&H banks' balance sheet according to FBA scheme (active sub-balance sheet) –  
31/12/2020

- BAM 000 -

No.	Description	31.12.2019	%	31.12.2020	%	Index (5/3)
1	2	3	4	5	6	7
<b>ASSETS</b>						
1.	Cash and deposit accounts with deposit institutions	7,641,570	31.6	7,414,615	30.4	97
	1.a. Cash and non-interest bearing deposit accounts	3,321,750	13.7	3,609,270	14.8	109
	1.b. Interest bearing deposit accounts	4,319,820	17.9	3,805,345	15.6	88
2.	Securities at fair value through profit or loss and at fair value in other comprehensive income	1,297,075	5.4	1,526,169	6.3	118
3.	Placements to other banks	149,197	0.6	275,941	1.1	185
4.	Loans, leasing type receivables and past-due receivables	15,220,759	62.8	15,254,651	62.5	100
	4.a. Loans	14,198,216	58.6	14,544,264	59.6	102
	4.b. Leasing type receivables	68,407	0.3	55,091	0.2	81
	4.c. Due receivables on loans and leasing type receivables	954,136	3.9	655,296	2.7	69
5.	Securities at amortized cost	159,246	0.7	161,290	0.7	101
6.	Business premises and other fixed assets	550,887	2.3	517,475	2.1	94
7.	Other real-estate	49,797	0.2	36,000	0.1	72
8.	Investments in subsidiaries and affiliates	15,944	0.1	15,944	0.1	100
9.	Other assets	321,220	1.3	376,169	1.5	117
10.	MINUS: Impairments	1,195,128	4.9	1,181,816	4.8	99
	10.a. Impairments of items in position 4 of Assets	1,120,940	4.6	1,127,176	4.6	101
	10.b. Impairments of assets items, except for position 4 of Assets	74,188	0.3	54,640	0.2	74
<b>11.</b>	<b>TOTAL ASSETS</b>	<b>24,210,567</b>	<b>100</b>	<b>24,396,438</b>	<b>100</b>	<b>101</b>
<b>LIABILITIES</b>						
12.	Deposits	19,414,294	80.2	19,660,862	80.6	101
	12.a. Interest-bearing deposits	14,181,299	58.6	13,634,083	55.9	96
	12.b. Non interest-bearing deposits	5,232,995	21.6	6,026,779	24.7	115
13.	Borrowings –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	856,626	3.5	811,878	3.3	95
	16.a. with residual maturity up to one year	199,989	0.8	210,081	0.9	105
	16.b. with residual maturity over one year	656,637	2.7	601,797	2.4	92
17.	Subordinated debts and subordinated bonds	189,055	0.8	186,358	0.8	99
18.	Other liabilities	619,088	2.6	671,108	2.7	108
<b>19.</b>	<b>TOTAL LIABILITIES</b>	<b>21,079,213</b>	<b>87.1</b>	<b>21,330,356</b>	<b>87.4</b>	<b>101</b>
<b>CAPITAL</b>						
20.	Permanent priority shares	365	0.0	365	0.0	100
21.	Common shares	1,299,335	5.4	1,299,335	5.3	100
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	1,393,271	5.8	1,460,150	6.0	105
24.	Exchange rate differences	0	0.0	0	0.0	-
25.	Other capital	262,125	1.1	168,942	0.7	64
26.	Loan loss reserves created from profits	38,968	0.2	-	-	-
<b>27.</b>	<b>TOTAL CAPITAL: (20 to 25)</b>	<b>3,131,354</b>	<b>12.9</b>	<b>3,066,082</b>	<b>12.6</b>	<b>98</b>
<b>28.</b>	<b>TOTAL LIABILITIES AND CAPITAL: (19 + 27)</b>	<b>24,210,567</b>	<b>100</b>	<b>24,396,438</b>	<b>100</b>	<b>101</b>
<b>PASSIVE AND NEUTRAL SUB-BALANCE SHEET</b>		<b>712,764</b>		<b>703,769</b>		<b>99</b>
<b>TOTAL</b>		<b>24,923,331</b>		<b>25,100,207</b>		<b>101</b>

## Annex 4 - Overview of assets, loans, deposits and financial result of FB&amp;H banks – 31/12/2020

- BAM 000 -

No.	Bank	Assets		Loans		Deposits		Financial result
		Amount	%	Amount	%	Amount	%	Amount
1.	ADDIKO BANK d.d. Sarajevo	1,013,227	4.2	584,706	3.8	784,057	4.0	-13,011
2.	ASA BANKA d.d. Sarajevo	643,773	2.6	408,235	2.7	571,063	2.9	4,053
3.	BOSNA BANK INTERNATIONAL d.d. Sarajevo	1,310,702	5.4	834,348	5.5	1,037,278	5.3	5,323
4.	INTESA SANPAOLO BANKA d.d. BiH Sarajevo	2,342,099	9.6	1,656,376	10.9	1,773,456	9.0	18,245
5.	KOMERCIJALNO- INVESTICIONA BANKA d.d. Velika Kladuša	109,445	0.4	51,746	0.3	77,783	0.4	-59
6.	NLB BANKA d.d. Sarajevo	1,260,859	5.2	814,433	5.3	1,030,776	5.2	12,887
7.	PRIVREDNA BANKA SARAJEVO d.d. Sarajevo	576,110	2.4	299,346	2.0	483,801	2.5	4,768
8.	PROCREDIT BANK d.d. Sarajevo	609,045	2.5	466,384	3.1	329,238	1.7	507
9.	RAIFFEISEN BANK d.d. BiH Sarajevo	4,910,137	20.1	2,589,233	17.0	3,978,762	20.2	44,621
10.	SBERBANK BH d.d. Sarajevo	1,523,629	6.2	1,012,203	6.6	1,297,036	6.6	6,756
11.	SPARKASSE BANK d.d. BiH Sarajevo	1,708,972	7.0	1,163,653	7.6	1,418,517	7.2	12,008
12.	UNICREDIT BANK d.d. Mostar	6,123,020	25.1	4,007,474	26.3	4,996,745	25.4	74,242
13.	UNION BANKA d.d. Sarajevo	879,736	3.6	310,610	2.0	770,393	3.9	432
14.	VAKUFСКА BANKA d.d. Sarajevo	296,651	1.2	182,155	1.2	267,700	1.4	1,873
15.	ZIRAATBANK BH d.d. Sarajevo	1,089,033	4.5	873,749	5.7	844,257	4.3	1,620
<b>TOTAL</b>		<b>24,396,438</b>	<b>100</b>	<b>15,254,651</b>	<b>100</b>	<b>19,660,862</b>	<b>100</b>	<b>174,265</b>

## Annex 5 - Sector Structure of Loans in the FB&amp;H and ECL – 31/12/2020

- BAM 000 -

Description	Credit risk grade 1	Credit risk grade 2	Credit risk grade 3	Total gross exposure by all credit risk grades	ECL for the credit risk grade 1	ECL for the credit risk grade 2	ECL for the credit risk grade 3	Total ECL
1	2	3	4	5	6	7	8	9
<b>1. Total corporate loans (1.1. to 1.21.)</b>	<b>6,272,170</b>	<b>1,157,194</b>	<b>543,747</b>	<b>7,973,111</b>	<b>78,817</b>	<b>141,218</b>	<b>421,893</b>	<b>641,928</b>
1.1. A Agriculture, forestry and fishing	85,286	14,811	28,041	128,138	983	1,483	21,903	24,369
1.2. B Mining and quarrying	79,210	27,005	260	106,475	1,191	3,630	249	5,070
1.3. C Processing industry	1,349,561	326,799	184,156	1,860,516	20,790	45,995	148,947	215,732
1.4. D Production and supply of electricity, gas, fumes and air conditioning	232,941	11,947	3,467	248,355	2,556	1,807	2,928	7,291
1.5. E Water supply, waste water drainage, commercial waste disposal and environmental recovery	27,144	5,754	654	33,552	293	417	612	1,322
1.6. F Construction	328,662	64,232	39,998	432,892	4,737	7,316	34,008	46,061
1.7. G Wholesale and retail trade; repair of motor vehicles and motorcycles	2,201,085	336,558	183,725	2,721,368	22,751	27,553	140,934	191,238
1.8. H Transport and warehousing	210,540	64,273	19,811	294,624	2,369	5,515	15,048	22,932
1.9. I Accommodation and catering (hotels and hospitalist business)	118,476	104,466	30,341	253,283	6,716	15,283	18,576	40,575
1.10. J Information and communication	126,837	9,741	15,193	151,771	1,094	998	9,745	11,837
1.11. K Financial and insurance business	875,942	11,725	33	887,700	5,673	618	14	6,305
1.12. L Real estate business	86,288	53,315	14,924	154,527	1,582	5,933	11,890	19,405
1.13. M Professional, scientific and technical activities	137,053	68,321	11,567	216,941	2,422	21,456	9,246	33,124
1.14. N Administrat. and auxiliary services	23,283	11,269	2,300	36,852	389	802	2,047	3,238
1.15. O Public administration and defence; social insurance	272,019	4,742	0	276,761	4,055	233	0	4,288
1.16. P Education	7,737	142	3,311	11,190	151	12	536	699
1.17. Q Health care and social welfare	51,533	36,312	501	88,346	611	1,859	431	2,901
1.18. R Art, entertainment and recreation	5,467	4,454	1,274	11,195	82	227	1,201	1,510
1.19. S Other services	53,105	1,325	4,191	58,621	372	81	3,578	4,031
1.20. T Activities of households as employers; activities of households manufacturing different goods and rendering different services for their own needs	1	0	0	1	0	0	0	0
1.21. U activities of extraterritorial organisations and bodies	0	3	0	3	0	0	0	0
<b>2. Total Retail (2.1 + 2.2 + 2.3)</b>	<b>6,395,495</b>	<b>446,971</b>	<b>439,074</b>	<b>7,281,540</b>	<b>84,591</b>	<b>58,801</b>	<b>341,856</b>	<b>485,248</b>
2.1. General consumption	5,007,140	377,112	382,691	5,766,943	74,293	51,467	298,244	424,004
2.2. Housing construction	1,314,934	55,573	49,452	1,419,959	9,314	6,176	37,655	53,145
2.3. Entrepreneurs	73,421	14,286	6,931	94,638	984	1,158	5,957	8,099
<b>3. Total loans (1. + 2.)</b>	<b>12,667,665</b>	<b>1,604,165</b>	<b>982,821</b>	<b>15,254,651</b>	<b>163,408</b>	<b>200,019</b>	<b>763,749</b>	<b>1,127,176</b>

## Annex 6 - FB&amp;H banks' income statement according to FBA's scheme – 31/12/2020

- BAM 000 -

No.	Description	31.12.2019	%	31.12.2020	%	Index (5/3)
1	2	3	4	5	6	7
<b>1.</b>	<b>INTEREST INCOME AND EXPENSES</b>					
a)	<b>Interest income and similar income</b>					
1)	Interest-bearing deposit accounts with deposit institutions	5,478	0.5	2,773	0.3	51
2)	Placements to other banks	4,025	0.4	2,912	0.3	72
3)	Loans and leasing operations	649,995	60.7	624,578	60.3	96
4)	Securities held to maturity	4,203	0.4	4,130	0.4	98
5)	Equity securities	0	0.0	0	0.0	-
6)	Receivables on paid off-balance sheet liabilities	2	0.0	2	0.0	100
7)	Other interest income and similar income	70,029	6.5	64,413	6.2	92
8)	<b>TOTAL INTEREST INCOME AND SIMILAR INCOME</b>	<b>733,732</b>	<b>68.5</b>	<b>698,808</b>	<b>67.5</b>	<b>95</b>
b)	<b>Interest expenses and similar expenses</b>					
1)	Deposits	95,143	8.9	90,219	8.7	95
2)	Borrowings from other banks	0	0.0	0	0.0	-
3)	Borrowings taken – past-due liabilities	0	0.0	0	0.0	-
4)	Liabilities on loans and other borrowings taken	9,229	0.9	8,018	0.8	87
5)	Subordinated debts and subordinated bonds	7,499	0.7	7,303	0.7	97
6)	Other interest expenses and similar expenses	18,797	1.8	24,687	2.4	131
7)	<b>TOTAL INTEREST EXPENSES AND SIMILAR EXPENSES</b>	<b>130,668</b>	<b>12.2</b>	<b>130,227</b>	<b>12.6</b>	<b>100</b>
c)	<b>NET INTEREST AND SIMILAR INCOME</b>	<b>603,064</b>	<b>56.3</b>	<b>568,581</b>	<b>54.9</b>	<b>94</b>
<b>2.</b>	<b>OPERATING INCOME</b>					
a)	Income from foreign exchange operations	63,284	5.9	54,201	5.2	86
b)	Loan fees	10,791	1.0	10,221	1.0	95
c)	Off-balance sheet operation fees	22,850	2.1	23,417	2.3	102
d)	Service fees	319,265	29.8	307,585	29.7	96
e)	Income from trading operations	1,305	0.1	2,354	0.2	180
f)	Other operating income	50,320	4.7	68,701	6.6	137
g)	<b>TOTAL OPERATING INCOME a) through f)</b>	<b>467,815</b>	<b>43.7</b>	<b>466,478</b>	<b>45.1</b>	<b>100</b>
	<b>TOTAL INCOME(1c + 2g)</b>	<b>1,070,879</b>	<b>100</b>	<b>1,035,059</b>	<b>100</b>	<b>97</b>
<b>3.</b>	<b>NON-INTEREST EXPENSES</b>					
a)	<b>Operating and direct expenses</b>					
1)	Risk asset impairment costs, provisions for contingent liabilities and other value adjustments	77,315	7.2	182,004	17.6	235
2)	Other operating and direct costs	139,986	13.1	135,862	13.1	97
3)	<b>TOTAL OPERATING AND DIRECT EXPENSES 1) + 2)</b>	<b>217,301</b>	<b>20.3</b>	<b>317,866</b>	<b>30.7</b>	<b>146</b>
b)	<b>Operating expenses</b>					
1)	Salary and contribution costs	260,389	24.3	257,639	24.9	99
2)	Business premises costs, other fixed assets and overheads	160,432	15.0	164,192	15.9	102
3)	Other operating costs	113,943	10.6	108,112	10.4	95
4)	<b>TOTAL OPERATING EXPENSES 1) through 3)</b>	<b>534,764</b>	<b>49.9</b>	<b>529,943</b>	<b>51.2</b>	<b>99</b>
c)	<b>TOTAL NON-INTEREST EXPENSES</b>	<b>752,065</b>	<b>70.2</b>	<b>847,809</b>	<b>81.9</b>	<b>113</b>
	<b>TOTAL EXPENSES (1b7+3c)</b>	<b>882,733</b>		<b>978,036</b>		<b>111</b>
4.	PROFIT BEFORE TAXATION	320,299	29.9	205,455	19.8	64
5.	LOSS	1,485	0.1	18,205	1.8	1226
6.	TAXES	43,795	4.1	19,311	1.9	44
7.	PROFIT ON INCREASE IN DEFERRED TAX ASSETS AND DECREASE IN DEFERRED TAX LIABILITIES	12	0.0	7,500	0.7	62500
8.	LOSS ON DECREASE IN DEFERRED TAX ASSETS AND INCREASE IN DEFERRED TAX LIABILITIES	1,142	0.1	1,174	0.1	103
9.	<b>NET PROFIT (4-6+7-8 or 7-5-6-8)</b>	<b>275,448</b>	<b>25.7</b>	<b>187,335</b>	<b>18.1</b>	<b>68</b>
10.	<b>NET LOSS (4-6-7+8 or 6+8-4-7)</b>	<b>1,559</b>	<b>0.1</b>	<b>13,070</b>	<b>1.3</b>	<b>838</b>
11.	<b>FINANCIAL PERFORMANCE (9-10)</b>	<b>273,889</b>		<b>174,265</b>		<b>64</b>

## Annex 7 - Weighted average NIR and EIR on loans and deposits by periods

## Weighted average NIR and EIR on loans by periods

- % -

No.	Description	31.12.2016		31.12.2017		31.12.2018		31.12.2019		31.12.2020	
		NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	2	3	4	5	6	7	8	9	10	11	12
<b>1.</b>	<b>Weighted interest rates on short-term loans</b>	<b>4.01</b>	<b>4.41</b>	<b>3.20</b>	<b>3.46</b>	<b>2.67</b>	<b>2.97</b>	<b>2.32</b>	<b>2.67</b>	<b>2.25</b>	<b>2.53</b>
1.1.	Corporate	3.96	4.28	3.13	3.33	2.61	2.84	2.27	2.55	2.20	2.41
1.2.	Retail	8.07	13.91	8.32	15.36	7.53	14.66	7.48	14.02	8.35	15.27
<b>2.</b>	<b>Weighted interest rates on long-term loans</b>	<b>6.08</b>	<b>7.14</b>	<b>5.30</b>	<b>6.33</b>	<b>4.66</b>	<b>5.62</b>	<b>4.58</b>	<b>5.49</b>	<b>4.47</b>	<b>5.31</b>
2.1.	Corporate	4.91	5.23	4.02	4.33	3.61	3.91	3.41	3.67	3.54	3.79
2.2.	Retail	7.10	8.79	6.31	7.89	5.55	7.06	5.38	6.74	5.45	6.88
<b>3.</b>	<b>Total weighted interest rates</b>	<b>4.94</b>	<b>5.64</b>	<b>4.12</b>	<b>4.72</b>	<b>3.56</b>	<b>4.15</b>	<b>3.27</b>	<b>3.86</b>	<b>3.16</b>	<b>3.67</b>
3.1.	Corporate	4.22	4.54	3.36	3.59	2.88	3.13	2.53	2.81	2.54	2.76
3.2.	Retail	7.13	8.95	6.35	8.04	5.59	7.22	5.42	6.89	5.50	7.04

## Average Weighted NIR and EIR on deposits by periods

- % -

No.	Description	31.12.2016		31.12.2017		31.12.2018		31.12.2019		31.12.2020	
		NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	2	3	4	5	6	7	8	9	10	11	12
<b>1.</b>	<b>Weighted interest rates on short-term deposits</b>	<b>0.35</b>	<b>0.35</b>	<b>0.40</b>	<b>0.41</b>	<b>0.38</b>	<b>0.36</b>	<b>0.34</b>	<b>0.33</b>	<b>0.35</b>	<b>0.34</b>
1.1.	Up to three months	0.27	0.27	0.35	0.36	0.41	0.39	0.36	0.35	0.18	0.18
1.2.	Up to one year	0.68	0.69	0.61	0.62	0.31	0.31	0.32	0.32	0.47	0.47
<b>2.</b>	<b>Weighted interest rates on long-term deposits</b>	<b>1.78</b>	<b>1.80</b>	<b>1.37</b>	<b>1.39</b>	<b>1.15</b>	<b>1.16</b>	<b>1.24</b>	<b>1.19</b>	<b>1.04</b>	<b>1.05</b>
2.1.	Up to three years	1.59	1.62	1.22	1.24	0.99	1.01	1.12	1.05	0.89	0.89
2.2.	Over three years	2.33	2.34	1.82	1.85	1.44	1.45	1.54	1.55	1.34	1.36
<b>3.</b>	<b>Total weighted interest rates on deposits</b>	<b>0.88</b>	<b>0.89</b>	<b>0.75</b>	<b>0.76</b>	<b>0.66</b>	<b>0.65</b>	<b>0.78</b>	<b>0.75</b>	<b>0.70</b>	<b>0.70</b>

## ANNEXES - MICROCREDIT SECTOR

## Annex 8 - Basic information on FB&amp;H MCOs – 31/12/2020

No.	MCO Name	Web address	Director	Licence issuance date	Number of employees
1.	MKD „CREDO CENTAR“ d.o.o. Mostar	-	Mirko Ljubić	12.09.2019	8
2.	MKD "EKI" d.o.o. Sarajevo	<a href="http://www.eki.ba">www.eki.ba</a>	Almir Sultanović	04.02.2008	204
3.	MKF "EKI" Sarajevo	<a href="http://www.eki.ba">www.eki.ba</a>	Esad Uzunić	20.08.2007	133
4.	MKD „IUTECREDIT BH“ d.o.o. Sarajevo	<a href="http://www.iutecredit.ba">www.iutecredit.ba</a>	Vilma Tunjić Juzbašić	28.02.2019	38
5.	MKF "LIDER" Sarajevo	<a href="http://www.lider.ba">www.lider.ba</a>	Džavid Sejfović	04.02.2008	70
6.	"LOK MKF" Sarajevo	<a href="http://www.lok.ba">www.lok.ba</a>	Elma Čardaklija - Bašić	04.02.2008	65
7.	MKF "MELAHA" Sarajevo	<a href="http://www.melaha.ba">www.melaha.ba</a>	Jakob Finci	09.10.2007	6
8.	MKF "MI-BOSPO" Tuzla	<a href="http://www.mi-bospo.org">www.mi-bospo.org</a>	Safet Husić	09.07.2007	192
9.	MKF "MIKRA" Sarajevo	<a href="http://www.mikra.ba">www.mikra.ba</a>	Sanin Čampara	19.03.2008	155
10.	MKF "MIKRO ALDI" Goražde	<a href="http://www.mikroaldi.org">www.mikroaldi.org</a>	Omar Softić	20.08.2007	35
11.	"PARTNER MKF" Tuzla	<a href="http://www.partner.ba">www.partner.ba</a>	Senad Sinanović	20.08.2007	297
12.	"PRVA ISLAMSKA MKF" Sarajevo	<a href="http://www.mfi.ba">www.mfi.ba</a>	Edina Hadžimurtezić	10.12.2007	8
13.	MKF "SANI" Zenica	-	Sulejman Haračić	09.10.2007	3
14.	MKF "SUNRISE" Sarajevo	<a href="http://www.microsunrise.ba">www.microsunrise.ba</a>	Samir Bajrović	20.08.2007	180
<b>TOTAL</b>					<b>1,394</b>

## Annex 9 - MCFs' aggregate balance sheet – 31/12/2020

- BAM 000 -

No.	Description	31.12.2019	%	31.12.2020	%	Index (5/3)
1	2	3	4	5	6	7
<b>ASSETS</b>						
1.	<b>Cash (1a+1b)</b>	35,594	7.6	42,575	8.6	120
1a)	Cash and non-interest bearing deposit accounts	22,842	4.9	28,525	5.8	125
1b)	Interest-bearing deposit accounts	12,752	2.7	14,050	2.8	110
2.	Placements to banks	2,150	0.5	110	0.0	5
3.	Loans	370,298	78.8	389,972	79.2	105
3a)	Loan loss reserves	2,759	0.6	4,108	0.8	149
3b)	<b>Net loans (3-3a)</b>	367,539	78.2	385,864	78.4	105
4.	Business premises and other fixed assets	28,231	6.0	26,764	5.5	95
5.	Long-term investments	33,061	7.0	33,061	6.7	100
6.	Other assets	3,415	0.7	3,565	0.8	104
7.	Minus: reserves on other asset items, except for loans	3	0.0	10	0.0	333
<b>8.</b>	<b>TOTAL ASSETS</b>	<b>469,987</b>	<b>100</b>	<b>491,929</b>	<b>100</b>	<b>105</b>
<b>LIABILITIES</b>						
9a)	Liabilities on short-term loans taken out	45,676	9.7	20,476	4.2	45
9b)	Liabilities on long-term loans taken out	150,186	32.0	186,128	37.8	124
9c)	Liabilities based on interest due	907	0.2	899	0.2	99
10.	Other liabilities	24,218	5.1	23,130	4.7	96
<b>11.</b>	<b>Total liabilities</b>	<b>220,987</b>	<b>47.0</b>	<b>230,633</b>	<b>46.9</b>	<b>104</b>
12.	Donated capital	48,076	10.2	48,076	9.8	100
13.	Tier 1 capital	3,868	0.8	3,868	0.8	100
14.	<b>Surplus of income over expenses</b>	252,273	53.7	264,873	53.8	105
14a)	for previous years	237,483		252,283		106
14b)	for current year	14,790		12,590		85
15.	<b>Shortfall of income over expenses</b>	55,335	11.7	55,625	11.3	101
15a)	for previous years	55,236		55,251		100
15b)	for current year	99		374		378
16.	Other reserves	118	0.0	104	0.0	88
<b>17.</b>	<b>TOTAL CAPITAL</b>	<b>249,000</b>	<b>53.0</b>	<b>261,296</b>	<b>53.1</b>	<b>105</b>
<b>18.</b>	<b>TOTAL LIABILITIES</b>	<b>469,987</b>	<b>100</b>	<b>491,929</b>	<b>100</b>	<b>105</b>
<b>OFF-BALANCE SHEET RECORDS</b>						
19.	Written-off loans	149,854		143,361		96
20.	Approved, but undrawn loan funds of creditors	11,649		6,373		55
21.	Commission operations	222		218		98
22.	Court disputes, orders by competent authorities posing contingent liability for MCO, but that have not yet been posted in balance sheet records, etc.	396		400		101
23.	Other (all other off-balance sheet items not covered above)	195,691		40,189		21



## Annex 10 - MCCs' aggregate balance sheet – 31/12/2020

- BAM 000 -

No.	Description	31.12.2019	%	31.12.2020	%	Index (5/3)
1	2	3	4	5	6	7
<b>ASSETS</b>						
1.	<b>Cash (1a+1b)</b>	13,281	8.3	12,356	7.4	93
1a)	Cash and non-interest bearing deposit accounts	12,781	8.0	12,106	7.3	95
1b)	Interest-bearing deposit accounts	500	0.3	250	0.1	50
2.	Placements to banks	0	0.0	0	0.0	-
3.	Loans	140,707	88.2	150,918	90.9	107
3a)	Loan loss reserves	1,411	0.9	2,936	1.8	208
3b)	<b>Net loans (3-3a)</b>	139,296	87.3	147,982	89.1	106
4.	Business premises and other fixed assets	5,747	3.6	4,540	2.7	79
5.	Long-term investments	0	0.0	0	0.0	-
6.	Other assets	1,304	0.8	1,248	0.8	96
7.	Minus: reserves on other asset items, except for loans	0	0.0	0	0.0	-
<b>8.</b>	<b>TOTAL ASSETS</b>	<b>159,628</b>	<b>100</b>	<b>166,126</b>	<b>100</b>	<b>104</b>
<b>LIABILITIES</b>						
9a)	Liabilities on short-term loans taken out	56,995	35.7	360	0.2	1
9b)	Liabilities on long-term loans taken out	48,888	30.6	106,468	64.1	218
9c)	Liabilities based on interest due	914	0.6	1,092	0.6	119
10.	Other liabilities	7,517	4.7	7,928	4.8	105
<b>11.</b>	<b>TOTAL LIABILITIES</b>	<b>114,314</b>	<b>71.6</b>	<b>115,848</b>	<b>69.7</b>	<b>101</b>
12.	Donated capital	0	0.0	0	0.0	-
13.	Tier 1 capital	31,600	19.8	33,100	19.9	105
14.	Issue premium	0	0.0	0	0.0	-
15.	<b>Unallocated profit (15a+15b)</b>	9,186	5.8	9,168	5.5	100
15a)	Previous year	5,976		10,124		169
15b)	Current year	3,210		-956		-30
16.	Legal reserves	2,528	1.6	3,568	2.2	141
17.	Other reserves	2,000	1.2	4,442	2.7	222
<b>18.</b>	<b>TOTAL CAPITAL</b>	<b>45,314</b>	<b>28.4</b>	<b>50,278</b>	<b>30.3</b>	<b>111</b>
<b>19.</b>	<b>TOTAL LIABILITIES</b>	<b>159,628</b>	<b>100</b>	<b>166,126</b>	<b>100</b>	<b>104</b>
<b>OFF-BALANCE SHEET RECORDS</b>						
20.	Written-off loans	2,738		6,181		226
21.	Approved, but undrawn loan funds of creditors	38,649		12,879		33
22.	Commission operations	0		0		-
23.	Court disputes, orders by competent authorities posing contingent liability for MCO, but that have not yet been posted in balance sheet records, etc.	0		0		-
24.	Other (all other off-balance sheet items not covered above)	21,268		16,741		79

Annex 11 - Overview of key indicators of MCOs in the FB&H – 31/12/2020

- BAM 000 -

No.	Name	Assets	Gross portfolio	Capital	Financial performance	Placements
1.	MKD „CREDO CENTAR“ d.o.o. Mostar	2,551	2,479	2,104	118	3,010
2.	MKD "EKI" d.o.o. Sarajevo	156,873	140,879	47,533	3,227	96,776
3.	MKF "EKI" Sarajevo	99,989	49,001	70,633	1,602	48,377
4.	MKD „IUTECREDIT BH“ d.o.o. Sarajevo	6,702	5,965	641	-4,301	9,091
5.	MKF "LIDER" Sarajevo	25,887	22,996	11,955	323	20,395
6.	"LOK MKF" Sarajevo	8,204	6,085	3,350	60	5,298
7.	MKF "MELAHA" Sarajevo	1,117	864	415	-108	640
8.	MKF "MI-BOSPO" Tuzla	75,352	68,613	28,464	2,437	65,129
9.	MKF "MIKRA" Sarajevo	52,553	39,924	11,273	1,176	38,870
10.	MKF "MIKRO ALDI" Goražde	8,661	7,625	5,232	92	5,983
11.	"PARTNER MKF" Tuzla	162,760	144,554	97,686	5,435	107,649
12.	"PRVA ISLAMSKA MKF" Sarajevo	2,305	1,564	2,028	-165	2,076
13.	MKF "SANI" Zenica	93	98	71	-101	100
14.	MKF "SUNRISE" Sarajevo	55,008	44,506	30,189	1,451	50,730
<b>TOTAL</b>		<b>658,055</b>	<b>535,153</b>	<b>311,574</b>	<b>11,246</b>	<b>454,124</b>

## Annex 12 - Overview of average weighted NIR and EIR for MCOs – 31/12/2020

No.	Description	MCOs seated in the FB&H - period 01.01.-31.12.2020			
		Number of concluded contracts	Microloans disbursement (in BAM 000)	Weighted NIR (average) %	Weighted EIR (average) %
1	2	3		4	5
<b>1.</b>	<b>Short term microloans for:</b>	<b>47,026</b>	<b>63,022</b>	<b>20.29</b>	<b>30.69</b>
1.1.	service activities	3,384	6,515	20.66	27.04
1.2.	trade	749	1,735	20.47	27.27
1.3.	agriculture	6,934	10,972	20.12	25.66
1.4.	manufacturing	409	914	19.37	25.36
1.5.	housing needs	3,244	5,945	20.59	25.56
1.6.	general-basic needs	24,650	28,078	21.05	37.74
1.7.	other	7,656	8,863	17.52	21.79
<b>2.</b>	<b>Long term microloans for:</b>	<b>85,168</b>	<b>391,102</b>	<b>18.90</b>	<b>22.90</b>
2.1.	service activities	14,766	73,125	18.23	20.96
2.2.	trade	2,459	12,129	17.96	20.96
2.3.	agriculture	23,343	121,828	17.68	20.38
2.4.	manufacturing	2,211	12,279	17.90	20.37
2.5.	housing needs	13,973	81,474	19.27	22.38
2.6.	general-basic needs	16,579	54,244	22.25	26.99
2.7.	other	11,837	36,023	19.06	31.71
<b>3.</b>	<b>Total microloans</b>	<b>132,194</b>	<b>454,124</b>	<b>19.10</b>	<b>23.98</b>

## Annex 12a - Comparative overview of average weighted NIR and EIR for MCOs

- % -

Average weighted NIR on:	01.01.-31.12.2016	01.01.-31.12.2017	01.01.-31.12.2018	01.01.-31.12.2019	01.01.-31.12.2020
Short-term microloans	17.46	20.11	21.40	20.80	20.29
Long-term microloans	20.81	20.38	19.63	19.29	18.90
<b>Total microloans</b>	<b>20.18</b>	<b>20.34</b>	<b>19.89</b>	<b>19.51</b>	<b>19.10</b>
Average weighted EIR on:	01.01.-31.12.2016	01.01.-31.12.2017	01.01.-31.12.2018	01.01.-31.12.2019	01.01.-31.12.2020
Short-term microloans	26.71	28.29	29.11	31.85	30.69
Long-term microloans	24.75	24.22	23.27	23.09	22.90
<b>Total microloans</b>	<b>25.12</b>	<b>24.86</b>	<b>24.13</b>	<b>24.38</b>	<b>23.98</b>

## Annex 13 - MCFs aggregate income statement – 31/12/2020

- BAM 000 -

No.	Description	For the period 01.01. - 31.12.2019	%	For the period 01.01. - 31.12.2020	%	Index (5/3)
1	2	3	4	5	6	7
	<b>INTEREST INCOME AND EXPENSES</b>					
1.	Interest and similar income	73,976	87.0	76,228	90.4	103
2.	Interest and similar expenses	8,360	11.9	7,893	11.0	94
<b>3.</b>	<b>Net interest and similar income (1. - 2.)</b>	<b>65,616</b>		<b>68,335</b>		<b>104</b>
	<b>OPERATING INCOME AND EXPENSES</b>					
4.	Operating income	8,756	10.3	7,058	8.4	81
5.	Operating expenses	55,846	79.4	57,042	79.1	102
	<b>OTHER OPERATING INCOME AND EXPENSES</b>					
6.	Other operating income	2,285	2.7	987	1.2	43
7.	Other operating expenses	587	0.8	615	0.9	105
8.	Costs of provisions for loan and other losses	3,965	5.6	5,283	7.3	133
<b>9.</b>	<b>Surplus/shortfall of income over expenses before taxes (3.+4.-5.+6.-7.-8.)</b>	<b>16,259</b>		<b>13,440</b>		<b>83</b>
10.	Tax on surplus income over expenses	1,581	2.3	1,238	1.7	78
<b>11.</b>	<b>Net surplus/shortfall of income over expenses (9.-10.)</b>	<b>14,678</b>		<b>12,202</b>		<b>83</b>

## Annex 14 - MCCs aggregate income statement – 31/12/2020

- BAM 000 -

No.	Description	For the period 01.01. - 31.12.2019	%	For the period 01.01. - 31.12.2020	%	Index (5/3)
1	2	3	4	5	6	7
	<b>INTEREST INCOME AND EXPENSES</b>					
1.	Interest and similar income	26,127	99.0	26,725	98.6	102
2.	Interest and similar expenses	4,655	20.1	5,798	20.7	125
<b>3.</b>	<b>Net interest and similar income (1. - 2.)</b>	<b>21,472</b>		<b>20,927</b>		<b>97</b>
	<b>OPERATING INCOME AND EXPENSES</b>					
4.	Operating income	134	0.5	206	0.8	154
5.	Operating expenses	15,896	68.6	16,655	59.4	105
	<b>OTHER OPERATING INCOME AND EXPENSES</b>					
6.	Other operating income	132	0.5	160	0.6	121
7.	Other operating expenses	72	0.3	357	1.3	496
8.	Costs of provisions for loan and other losses	1,928	8.3	4,826	17.2	250
<b>9.</b>	<b>Profit/loss before taxes (3.+4.-5.+6.-7.-8.)</b>	<b>3,842</b>		<b>-545</b>		<b>-14</b>
10.	Income tax	630	2.7	411	1.4	65
<b>11.</b>	<b>Net profit/loss (9.-10.)</b>	<b>3,212</b>		<b>-956</b>		<b>-30</b>

**ANNEXES – LEASING SECTOR**

Annex 15 - Basic information on leasing companies in the FB&H – 31/12/2020

No.	Leasing company name	Web address	Director	License issuance date	No. of employees
1.	MOGO d.o.o. Sarajevo	<a href="http://www.mogo.ba">www.mogo.ba</a>	Marina Samuilova	01.06.2018.	15
2.	PORSCHE LEASING d.o.o. Sarajevo	<a href="http://www.porscheleasing.ba">www.porscheleasing.ba</a>	Dejan Stupar	28.05.2015.	21
3.	RAIFFEISEN LEASING d.o.o. Sarajevo	<a href="http://www.rlbh.ba">www.rlbh.ba</a>	Maja Jurčević	19.01.2010.	41
4.	SPARKASSE LEASING d.o.o. Sarajevo	<a href="http://www.s-leasing.ba">www.s-leasing.ba</a>	Elma Hošo	11.02.2010.	24
<b>TOTAL</b>					<b>101</b>

Annex 16 - Leasing companies' aggregate balance sheet<sup>29</sup> – 31/12/2020

- BAM 000 -

No.	Description	31.12.2019	%	31.12.2020	%	Index (5/3)
1	2	3	4	5	6	7
	<b>ASSETS</b>					
1.	Cash and cash equivalents	5,530	1.7	6,548	1.9	118
2.	Placements to banks	13,572	4.2	12,113	3.5	89
3.	Financial leasing type receivables, net (3a-3b-3c-3d)	241,078	74.5	256,770	74.7	107
3a)	Financial leasing type receivables, gross	269,053	83.2	280,723	81.7	104
3b)	Loss reserves	2,665	0.8	2,126	0.6	80
3c)	Deferred interest income	25,095	7.8	21,584	6.3	86
3d)	Deferred fee income	215	0.1	243	0.1	113
4.	Receivables from subsidiaries	2	0.0	0	0.0	0
5.	Tangible and intangible assets, net (5a+5b-5c-5d)	50,371	15.6	55,565	16.2	110
5a)	Tangible and intangible assets –own funds	4,810	1.5	3,562	1.0	74
5b)	Tangible and intangible assets –of operational leasing	65,083	20.1	73,103	21.3	112
5c)	Impairment -own resources	3,605	1.1	1,961	0.6	54
5d)	Impairment-operating leasing	15,917	4.9	19,139	5.5	120
6.	Long-term investments	248	0.1	309	0.1	125
7.	Other assets (7a+7b)	12,486	3.9	12,521	3.6	100
7a)	Loans, net (7a1-7a2)	5,331	1.6	4,982	1.4	93
7a1)	Loans (past-due receivables+outstanding principal)	5,334	1.6	4,984	1.4	93
7a2)	Loan reserves	3	0.0	2	0.0	67
7b)	Inventory	1,474	0.5	912	0.3	62
7c)	Other assets	5,681	1.8	6,627	1.9	117
	<b>TOTAL ASSETS</b>	<b>323,287</b>	<b>100</b>	<b>343,826</b>	<b>100</b>	<b>106</b>
	<b>LIABILITIES</b>					
8.	<b>Liabilities on loans, net (8a+8b-8c)</b>	286,281	88.5	307,877	89.5	108
8a)	Liabilities on short-term loans	0	0.0	1,956	0.5	-
8b)	Liabilities on long-term loans	286,526	88.6	306,085	89.0	107
8c)	Advanced costs and fees	245	0.1	164	0.0	67
9.	Other liabilities	7,936	2.5	8,174	2.4	103
	<b>TOTAL LIABILITIES</b>	<b>294,217</b>	<b>91.0</b>	<b>316,051</b>	<b>91.9</b>	<b>107</b>
10.	Tier 1 capital	23,472	7.3	16,458	4.8	70
11.	Reserves	7,950	2.4	7,060	2.1	89
12.	Accumulated profit/loss	-2,352	-0.7	4,257	1.2	-181
	<b>TOTAL CAPITAL</b>	<b>29,070</b>	<b>9.0</b>	<b>27,775</b>	<b>8.1</b>	<b>96</b>
	<b>TOTAL LIABILITIES</b>	<b>323,287</b>	<b>100</b>	<b>343,826</b>	<b>100</b>	<b>106</b>
	Written off receivables (opening balance)	21,749		19,880		91
	New write off (+)	6,471		2,115		33
	Recovery (-)	1,039		61		6
	Permanent write off (-)	3,713		914		25
	Written off receivables (closing balance)	23,468		21,020		90
	Other off-balance sheet records	84,300		68,554		81

<sup>29</sup> Leasing sector data for 2019 have been adjusted by an amount of BAM 407 ths with one leasing company that changed its 2019 financial statements as instructed by an external auditor.

Annex 17 - Basic indicators of leasing companies in the FB&H – 31/12/2020

- BAM 000 -

No.	Name	Balance sheet total	Financial leasing receivables	Net balance of funds granted under operational leasing	Total capital	Financial performance	Placements
1.	MOGO d.o.o. Sarajevo	2,828	1,920	0	899	-725	0
2.	PORSCHE LEASING d.o.o. Sarajevo	135,935	88,106	40,366	6,650	3,016	71,548
3.	RAIFFEISEN LEASING d.o.o. Sarajevo	118,905	88,489	10,004	12,478	1,028	39,719
4.	SPARKASSE LEASING d.o.o. Sarajevo	86,158	78,255	3,594	7,748	938	40,962
<b>TOTAL</b>		<b>343,826</b>	<b>256,770</b>	<b>53,964</b>	<b>27,775</b>	<b>4,257</b>	<b>152,229</b>



Annex 18 - Leasing companies' aggregate income statement<sup>30</sup> – 31/12/2020

- BAM 000 -

No.	Description	01.01.- 31.12.2019	%	01.01.- 31.12.2020	%	Index (5/3)
1	2	3	4	5	6	7
	<b>Financial income and expenses</b>					
1.	<b>Interest income</b>	13,787	42.7	12,702	35.5	92
1a)	Interest on financial leasing	392	1.2	324	1.0	83
1b)	Interest on placements to banks	11,794	36.5	10,465	29.2	89
1c)	Fees (for leasing application processing, etc.)	852	2.7	840	2.3	99
1d)	Other interest income	749	2.3	1,073	3.0	143
2.	<b>Interest expenses</b>	4,406	13.1	4,274	13.5	97
2a)	Interest on borrowed funds	4,307	12.8	4,171	13.2	97
2b)	Loan processing fees	97	0.3	101	0.3	104
2c)	Other interest expenses	2	0.0	2	0.0	100
3.	<b>Net interest income</b>	<b>9,381</b>	<b>29.1</b>	<b>8,428</b>	<b>23.5</b>	<b>90</b>
	<b>Operating income and expenses</b>					
4.	<b>Operating income</b>	<b>18,484</b>	<b>57.3</b>	<b>23,102</b>	<b>64.5</b>	<b>125</b>
4a)	Service fees	2	0.0	1	0.0	50
4b)	Operating lease fee	14,943	46.3	17,484	48.8	117
4c)	Income from sale of leasing object	109	0.4	0	0.0	0
4d)	Other operating income	3,430	10.6	5,617	15.7	164
4d)1	Income from recovered written off receivables	879	2.7	357	1.0	41
4d)2	Income from collection letters	27	0.1	12	0.0	44
4d)3	Other	2,524	7.8	5,248	14.7	208
5.	<b>Operating expenses</b>	<b>25,978</b>	<b>77.2</b>	<b>25,038</b>	<b>79.4</b>	<b>96</b>
5a)	Salary and contribution costs	5,702	16.9	4,442	14.1	78
5b)	Business premises costs	9,741	29.0	11,558	36.6	119
5c)	Other costs	10,535	31.3	9,038	28.7	86
6.	Costs of loss reserves	2,142	6.4	1,582	5.0	74
7.	Profit before tax	-255		4,910		-1,925
8.	Corporate income tax	1,106	3.3	653	2.1	59
9.	<b>Net profit/loss</b>	<b>-1,361</b>		<b>4,257</b>		<b>-313</b>

<sup>30</sup> Leasing sector data for 2019 have been adjusted by an amount of BAM 407 ths with one leasing company that changed its 2019 financial statements as instructed by an external auditor..

## Annex 19 - Overview of weighted NIR and EIR for financial leasing contracts – 31/12/2020

No.	Description	For the period 01.01.-31.12.2020			
		Number of contracts	Financing amount (BAM 000)	Weighted NIR %	Weighted EIR %
1	2	3	4	5	6
<b>1.</b>	<b>Short-term leasing contract by leasing objects:</b>	<b>25</b>	<b>729</b>	<b>3.74</b>	<b>6.94</b>
a.	Passenger vehicles	18	255	4.15	7.67
b.	Vehicles for performing business activity (cargo and passenger vehicles)	7	474	3.52	6.55
c.	Machines and equipment	0	0	0.00	0.00
d.	Real estate	0	0	0.00	0.00
e.	Other	0	0	0.00	0.00
<b>1.1.</b>	<b>Short-term leasing contract by lessees:</b>	<b>25</b>	<b>729</b>	<b>3.74</b>	<b>6.94</b>
a.	Corporate	25	729	3.74	6.94
b.	Entrepreneurs	0	0	0.00	0.00
c.	Retail	0	0	0.00	0.00
<b>2.</b>	<b>Long-term leasing contract by leasing objects:</b>	<b>2,717</b>	<b>131,746</b>	<b>3.96</b>	<b>7.06</b>
a.	Passenger vehicles	1,617	69,198	4.04	7.72
b.	Vehicles for performing business activity (cargo and passenger vehicles)	943	40,538	4.01	7.15
c.	Machines and equipment	157	22,010	3.58	4.86
d.	Real estate	0	0	0.00	0.00
e.	Other	0	0	0.00	0.00
<b>2.1.</b>	<b>Long-term leasing contract by lessees:</b>	<b>2,717</b>	<b>131,746</b>	<b>3.96</b>	<b>7.07</b>
a.	Corporate	2,306	118,304	3.87	6.17
b.	Entrepreneurs	123	4,048	4.74	7.46
c.	Retail	288	9,394	4.68	18.18
	<b>Total (1+2)</b>	<b>2,742</b>	<b>132,475</b>	<b>3.96</b>	<b>7.06</b>

## Annex 19a - Comparative overview of average weighted NIR and EIR for financial leasing contracts

-%-

No.	Description	31.12.2016		31.12.2017		31.12.2018		31.12.2019		31.12.2020	
		NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	2	3	4	5	6	7	8	9	10	11	12
<b>1.</b>	<b>Short-term leasing contracts:</b>	<b>3.83</b>	<b>6.74</b>	<b>3.69</b>	<b>6.43</b>	<b>5.96</b>	<b>12.30</b>	<b>6.12</b>	<b>12.36</b>	<b>3.74</b>	<b>6.94</b>
1.1.	Corporate	3.73	5.71	3.63	6.02	4.12	7.34	3.26	6.27	3.74	6.94
1.2.	Entrepreneurs	5.95	11.70	5.50	12.75	0.00	0.00	0.00	0.00	0.00	0.00
1.3.	Retail	5.85	37.44	6.52	30.21	1.56	43.62	33.04	69.75	0.00	0.00
<b>2.</b>	<b>Long-term leasing contracts:</b>	<b>5.08</b>	<b>7.97</b>	<b>4.67</b>	<b>7.17</b>	<b>4.30</b>	<b>6.81</b>	<b>5.52</b>	<b>8.86</b>	<b>3.96</b>	<b>7.07</b>
2.1.	Corporate	5.07	7.19	4.61	6.63	4.06	5.94	4.04	6.08	3.87	6.17
2.2.	Entrepreneurs	6.29	8.66	5.79	8.95	5.07	7.23	5.04	7.57	4.74	7.46
2.3.	Retail	4.98	20.26	5.33	17.94	8.12	21.82	19.69	35.50	4.68	18.18
	<b>Total</b>	<b>5.06</b>	<b>7.95</b>	<b>4.66</b>	<b>7.17</b>	<b>4.31</b>	<b>6.85</b>	<b>5.52</b>	<b>8.88</b>	<b>3.96</b>	<b>7.06</b>



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