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 30/06/2020

Sarajevo, September 2020

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 (US Central Bank)
FMF	FB&H Ministry of Finance
FID	Financial Intelligence Department
FSAP	Financial Sector Assessment Program
FX risk	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
NIR	Nominal Interest Rate
NPL	Non-performing loans
LLP	Loan Loss Provisions
RS	Republic of Srpska
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 Combating 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 FINRA Project	United States Agency for International Development - Financial Reform Agenda 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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EXECUTIVE SUMMARY

FB&H Banking Sector's Key Performance Indicators

15 commercial banks, with 544 organisational units employing a total of 6,549 persons, operated in the FB&H as at 30/06/2020.

The total net assets across the FB&H banking sector as of 30/06/2020 were BAM 23.5 billion and were lower by BAM 692.7 million or 2.9% compared to 31/12/2019.

The FB&H banks' total capital amounted to BAM 3 billion as at 30/06/2019, which was lower by BAM 151.3 million or 4.8% 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 12.7%.

The own funds amounted to BAM 2.7 billion and increased by BAM 16.4 million or 0.6% compared to the end of 2019. Tier 1 capital decreased by BAM 74.1 million or 2.8%, while Tier 2 capital increased by BAM 90.4 million or 267.8%. 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 and cancellation of LLP shortfall as an offset item to Tier 2 capital[1] and cancellation of LLP shortfall as an offset item to Tier 2 capital.

The FB&H banking sector's own funds ratio was 18.2% as at 30/06/2020 and was higher by 0.3 percentage points compared to the end of 2019. It is higher by 6.2 percentage points than the statutory minimum of 12%. Other capital ratios (Common Equity Tier 1 capital ratio and Tier 1 capital ratio) at the FB&H banking sector level were also higher compared to the regulatory minimums.

The financial leverage ratio (i.e. the ratio of Tier 1 capital and total exposure of banks) across the FB&H banking sector was 10.5% as at 30/06/2020, thus being the same as at the end of 2019. It is higher by 4.5 percentage points compared to the regulatory minimum of 6%.

Total exposure of banks as of 30/06/2020 stood at BAM 27.8 billion, of which BAM 24.1 billion refers to on-balance exposures and BAM 3.7 billion to off-balance items.

Over the first six months of 2020, balance sheet total decreased against YE2019 by an amount of BAM 602.4 million or 2.4%. This was caused by a cash decrease and an accounting write-off performed in line with the new regulatory framework. Over the same period, off-balance sheet items rose by BAM 159.4 million or 4.5%, as largely attributable to an increase of irrevocably approved, but undrawn loans with one bank.

For purpose of standardisation of credit risk management and ECL valuation, as well as for purpose of ensuring alignment with IFRS 9, in 2019, FBA has adopted the Decision on Credit Risk Management and Determination of Expected Credit Losses (effective as of 01/01/2020). The decision introduces a concept of exposure allocation to one of three credit risk grades and ECL determination. This includes credit risk grade 1 (exposures with low risk level and no material defaults of over 30 days), credit risk grade 2 (increased credit risk level, defaults over 30 days) and credit risk grade 3 (exposures are in default status, over 90 dpd). As of 30/06/2020, balance sheet exposures within the credit risk grade 1 amounted to BAM 21.3 billion, thus constituting 88.3% of

[1] FB&H Official Gazette Nos. 44/19 and 37/20

total balance sheet exposures. Balance sheet exposures within the credit risk grade 2 stood at BAM 1.7 billion as of 30/06/2020 and represented 7.1% of the total amount of such exposures, while balance sheet exposures in the credit risk grade 3 amount to BAM 1.1 billion and make up for 4.6% of the said total amount.

As of 30/06/2020, off-balance sheet exposures in the credit risk grade 1 amounted to BAM 3.3 billion and constituted 89.6% of total off-balance sheet exposures. As for credit risk grade 2 exposures, they amount to BAM 368.6 million and hold a share of 10.1% of total off-balance sheet exposures, while credit risk grade 3 includes BAM 12.6 million or 0.3% 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 0.9%, in credit risk grade 2 from 6.9% to 8.5% and in credit risk grade 3 from 72.7% to 80.9%.

The total ECL coverage for off-balance sheet exposures rose from 1.2% to 1.3%. The coverage increase was noted with the credit risk grades 1 and 2, while the credit risk grade 3 saw a coverage rate reduction, mostly caused by the accounting write off performed in two banks.

As of 30/06/2020, loans amounted to BAM 15.2 billion, down by BAM 30.2 million or 0.2% vs. YE2019. Retail loans hold a share of 48.1% in total loans, down by 1.4% to BAM 7.3 billion. Corporate loans participate in total loans with 51.9% share, which is an increase by 0.9% to BAM 7.9 billion.

As of 30/06/2020, the loan portfolio within the credit risk grade 3 (NPL) stood at BAM 1.1 billion, thus constituting 7.1% of the total loan portfolio (down by 13% compared to the end of the previous year, as mostly caused by the accounting write off). ECL coverage rate for the credit risk grade 3 is 80.6% (corporate 78.4% and retail 84%), which is higher by 8.7 percentage points vs. 31/12/2019. Over the following period, we can expect an increase of the loan portfolio within the credit risk grade 3 following the expiry of measures prescribed by the FBA aimed at temporary mitigation of negative economic consequences caused by COVID-19 (hereinafter: the pandemic) as related to consequences of the pandemic effects on the operations of bank customers.

Out of total corporate loans, BAM 647.6 million or 8.2% refers to NPLs, which is by 1.6 percentage points lower than at YE2019. As for the retail segment, NPLs amount to BAM 437.6 million or 6%, down by 0.5 percentage points vs. YE2019.

Until 30/06/2020, total amount of retail loans being approved with a moratorium/special measures equalled BAM 826.6 million (11.3% of the retail loan portfolio) and the total amount of corporate loans with the moratorium/special measures was BAM 2 billion (25.3% of the corporate loan portfolio), i.e. the total amount of loans subjected to the moratorium was BAM 2.8 billion or 18.6% of the total loan portfolio as of 30/06/2020.

Cash funds equal BAM 7 billion and hold a share of 29.6% in total assets, thus being by BAM 684.4 million or 9% lower than at the end of 2019 (as a result of the deposit decrease).

As of 30/06/2020, investments in securities equalled BAM 1.6 billion holding a share in assets of 6.9%, thus increasing against the YE2019 by BAM 158 million or 10.9%.

Deposits, being the key source of funding for banks, reached an amount of BAM 18.9 billion, down by BAM 521.5 million or 2.7% and with a share of 80.3% in total liabilities. Savings deposits as the most significant and the biggest segment of deposit and financial potential of banks, decreased by BAM 71.9 million or 0.8% to BAM 9.5 billion.

The loans taken amounted to BAM 833.3 million with a share of 3.5% in total liabilities, thus going down by BAM 23.4 million or 2.7% 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 30/06/2020 despite negative effects to the economy caused by the pandemic.

According to reporting data as of 30/06/2020, the FB&H banking sector posted a positive financial result, but this is being by 41.9% lower than in the same period last year. One bank posted operating loss in the 1st half of 2020.

FB&H Micro Credit Sector's Key Performance Indicators

In the FB&H, as of 30/06/2020, 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). At the end of 1H 2020, the number of organisational parts of MCOs seated in the FB&H was 382 employing 1,354 persons. This is higher by 0.8% vs. 31/12/2019.

Total assets of the FB&H micro credit sector as of 30/06/2020 were BAM 641 million, which is by BAM 11.4 million or 1.8% lower than as at 31.12.2019. Over the observed period, the rate of total assets increase of MCCs was 2.2% and 1.6% in MCFs.

Total net micro loans were BAM 507.2 million, thus constituting 79.1% of total assets of the FB&H micro credit sector. This is by BAM 0.4 million or 0.1% higher than as of 31/12/2019. The net MCCs' micro loans increased by 0.7%, while the total decrease reported at the MCFs' level was 0.2% compared to 31/12/2019.

Until 30/06/2020, total amount of microloans being approved with the moratorium/special measures was BAM 121.3 million, of which BAM 114.4 million or 94.3% refers to private individuals and BAM 6.9 million or 5.7% to legal entities.

The FB&H micro credit sector's total liabilities under loans taken were BAM 312.5 million as of 30/06/2020, with a share of 48.7% in total liabilities and increasing by BAM 9 million or 2.9% compared to 31.12.2019. In the reporting period, MCCs' credit obligations increased by 3.5%, while MCFs' credit obligations decreased by 2.6%.

The total capital across the FB&H micro credit sector was BAM 301.2 million or 47% of total liabilities as of 30/06/2020 and was higher by BAM 6.8 million or 2.3% compared to the end of 2019, where the total capital of MCCs rose by 3.8% and the total capital of MCFs by 2%.

Across the FB&H micro credit sector, in the period from 01/01/2020 to 30/06/2020, positive financial performance (before taxation) of BAM 3 million was reported, which is 71.7% 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 net loss of BAM 2.6 million, while MCFs reported a surplus of revenues over expenses of altogether BAM 5.6 million.

Operational efficiency of the FB&H micro credit sector was 19.82% as of 30/06/2020, which was within the regulatory indicator of up to 45%, while reported return on assets, adjusted by the inflation rate, market price of capital and donations, was positive and amounted to 1.69%, which was in compliance with the regulatory limit.

FB&H microcredit sector's key performance indicators show an increase of total assets, micro credit portfolio, loan obligations, total capital and headcount level. The sector's operations with a positive financial performance continued, although being much lower than the figure posted in the same period the year before. The micro credit portfolio quality indicators across the sector (portfolio at risk over 30 days – 1.95% and write offs - 1.14%) were within the regulatory limits and showed slight increases vs. YE2019.

FB&H Leasing Sector's Key Performance Indicators

The FB&H leasing system comprised, as of 30/06/2020, five leasing companies (leasing sector) and one commercial bank performing financial leasing operations. The FB&H leasing sector employed a total of 112 persons (full-time employees) as of 30/06/2020, thus being the same as at the end of the previous year.

The FB&H leasing sector's total assets were BAM 331.6 million as at 30/06/2020 and were higher by BAM 8.3 million or 2.5% compared to 31/12/2019.

The net receivables under financial leasing, as the most significant item in the composition of total assets, were BAM 246.8 million or 74.4% of the total assets and were higher by BAM 5.7 million or 2.4% compared to 31/12/2019. With respect to the FB&H leasing sector's asset quality in 1H 2020, an increase in overdue receivables of 100.6% was seen with respect to 31/12/2019, as largely caused by an increase of this item with one leasing company where overdue receivables rose by 12.3 times. The financial leasing loss reserves dropped by 25.1% 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 46.9% and 28.9% respectively.

Until 30/06/2020, the total number of loans being approved with the moratorium/special measures was BAM 98.2 million, of which BAM 4.4 million or 4.5% refers to private individuals and BAM 93.8 million or 95.5% to legal entities.

The largest item in the composition of the FB&H leasing sector's total liabilities constituted, as of 30/06/2020, liabilities of BAM 293 million under loans taken and accounted for 88.4% of total liabilities. Compared to 31/12/2019, these liabilities increased by BAM 6.7 million or 2.3%. If observed from the perspective of contractual maturity, long term loan obligations make up for the entire amount of total loan obligations.

The FB&H leasing sector's total capital was BAM 31.2 million as at 30/06/2020, comprising 9.4% of the FB&H leasing sector's total liabilities and increasing by BAM 2.1 million or 7.4% compared to December 31st, 2019.

Across the FB&H leasing sector, in the January 1 - June 30, 2020 period, a profit of BAM 1.8 million was reported, which is an increase by BAM 0.8 million compared to the same period of the preceding financial year. This increase of the leasing sector's business result largely refers to the improved business result with one leasing company that has posted a major operating loss figure over the same period the year before. Three leasing companies posted a positive financial result of BAM 2.2 million, while two leasing companies recognized a negative financial result of BAM 0.4 million.

FB&H Factoring Sector's Key Indicators

As of 30/06/2020, 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, 191 factoring contracts were concluded with the total value of purchased monetary claims as of 30/06/2020 was BAM 56.7 million. Compared to the total number of concluded factoring contracts in the same period last year, this number increased in 1H 2020 by 50.4%, while the nominal value of purchased monetary claims and settled payables saw a decrease by 36% vs. the same period the year before.

The factoring service providers' total income in the FB&H for the January 1 – June 30, 2020 period was BAM 0.5 million, which is lower by BAM 0.5 million or 49.3% 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 and 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 30/06/2020 was drawn up using processed reporting data provided by the BSEs to the FBA in the prescribed formats and within the prescribed timelines, and other data and information provided by the FB&H BSEs to the FBA and used in regular supervision of the BSEs. Certain reporting forms were temporarily modified due to the emergency situation caused by the virus pandemic.

Content-wise, this Information is divided into four sections. The first section covers a macroeconomic environment in which credit institutions operated on a global level. The second section represents 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 third section relates to a detailed analysis of non-deposit financial institutions, 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 fourth section entails banks’ compliance in the payments segment, as well as BSEs compliance, with AML/CTF standards.

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.

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.

On 16/03/2020, FB&H Government has issued a decision declaring a state of natural disaster caused by the Corona virus (COVID-19) outbreak in the Federation of B&H considering therein also the global emergence of this virus. FBA has continued with the series of activities to prepare relevant regulations – temporary measures, recommendations and public announcements aimed at mitigating economic consequences caused by this virus disease and at maintaining stability of BSE's operations. For purpose of ensuring dynamics growth and recovery after the pandemic, FBA continued working on drafting regulations aimed at creating conditions to stimulate lending activities of BSEs, industry growth and employment rate during and after the pandemic.

1. MACROECONOMIC FRAMEWORK OF OPERATIONS OF CREDIT INSTITUTIONS

After a slight slowdown of the global economic activity in 2019, the first half of 2020 was marked by the biggest economic shock insofar caused by the pandemic. In June 2020, IMF updated its Outlook paper it publishes in Spring by adding a new title „A Crisis Like No Other“ and announced a global economic downturn in 2020 by 4.9%. Such a downturn was not seen ever since World War II.

The table below shows selected macroeconomic indicators across periods:

Table 1: Selected macroeconomic indicators

No.	Area/interest rates	2016	2017	2018	2019	2020[2]
	GDP growth in %					
1.	USA	1.5	2.2	2.9	2.3	-5.9
2.	Euroarea	1.9	2.5	1.9	1.3	-8.7
3.	EU	2.1	2.7	2.1	1.5	-8.3
4.	Slovenia	3.1	4.8	4.1	2.4	-7.0
5.	Croatia	3.5	3.1	2.7	2.9	-10.8
6.	Serbia	3.3	2.1	4.4	4.2	-3.0
7.	B&H	3.2	3.1	3.6	2.7	-5.0
	Consumer price change (CPI), annual average in %					
1.	USA	1.3	2.1	2.4	1.8	0.6
2.	Euroarea	0.2	1.5	1.8	1.2	0.3
3.	B&H	-1.6	0.8	1.4	0.7	-0.6
	Key interest rates					
1.	6-month euribor[3]	-0.22	-0.27	-0.25	-0.33	-0.31
2.	Yield to 10-year German government bonds[4]	0.25	0.30	0.19	-0.37	-0.47
3.	Yield to 10-year Italian government bonds	1.89	1.80	2.98	1.21	1.67

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

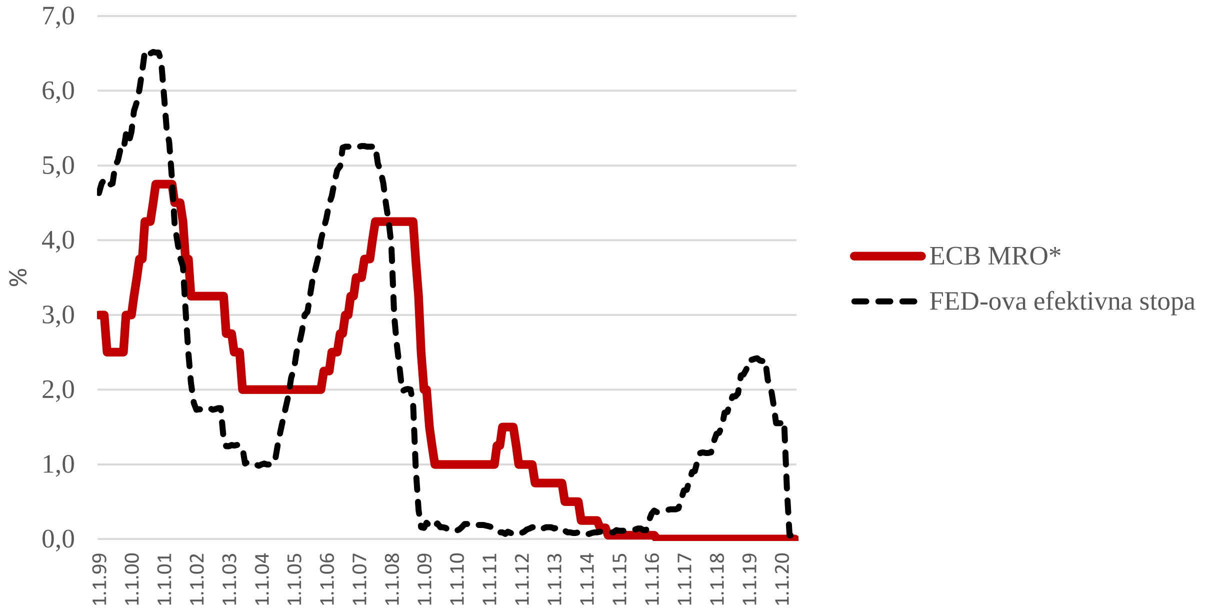
Expected GDP decrease in the world's biggest economy in the U.S. was 5.9% p.a. A preliminary assessment for the critical period of the second quarter, at the time of the strictest lockdown, was -9.5% vs. the first quarter[5], thus attesting to reasonableness of the said expectation. EU is expected to see greater economic downturn of 8.3% p.a. Preliminary assessments for the second quarter speaks in favour of a decrease of 11.9% compared to the previous quarter (Germany -10.1%, Italy -12.4%)[6]. Data attest to a possibility that the EU economy will post a greater downturn than the one in the U.S.

Inflatory pressures have ceased altogether. This allowed room to central banks to have an unprecedented monetary expansion. For the fifth year in a row, the key interest rate of ECB (MRO - marginal refinancing operations) is zero and the U.S. FED introduced series of key interest rate reductions in March and April 2020, leading the interest rate to zero (the spread ranges from 0% to 0.25%).

Chart 1 provides an overview of key interest rates of leading central banks:

[2] Expected values for 2020 (IMF, World Economic Outlook for USA, B&H and Serbia and Summer Forecasts of the European Commission); for interest rates – data for June 2020.
[3] Data for this period refer to euribor on the first working day of the last month of the reporting period.
[4] Eurostat for EU-member states, 10-year yield used in calculating the criteria from Maastricht: data for the last month of the reporting period.
[5] U.S. Bureau of Economic Analysis
[6] Eurostat

Chart 1: Key interest rates of leading central banks



* Marginal Refinancing Operations
Source: ECB, FED
FED-ova efektivna stopa – FED's effective rate

It is under such extraordinary recession conditions that interest rates did not pose a sufficiently strong monetary instrument. It was for this reason that central banks initiated additional measures of quantitative relaxation of their monetary policies. In general, they expanded options for purchase of other, not just government bonds, subject to more favourable requirements regarding the collateral value. This also meant relaxation of conditions for direct refinancing of banks (ECB's TLTROs[7] program has a potential greater than EUR 1 billion) and introduction of new instruments as well. FED added an option of share purchase from certain investment funds (ETFs - exchange traded funds) and direct lending of large corporations, thus ECB has abandoned the capital key principle. With respect to bond purchases, this means that a euroarea member country may flexibly interpret national quotations resulting from shares certain countries hold in the central bank's capital.

ECB has expanded its asset purchase program twice as a part of the pandemic emergency purchase programme. The program was initiated in March 2020 in an amount of EUR 750 billion and got expanded by EUR 600 billion in June 2020. At the time, the earlier closing date of the programme was announced to be December 2021, whereas ECB kept an option open as to its prolongation depending on the economy's condition. Total amount of the pandemic monetary intervention accounts for app. 11.3% of the Euroarea's GDP.

Such extensive monetary interventions have produced stable interest rates. Even much milder crisis than this one often leads to an escalation of risk and disruptions in financial markets.

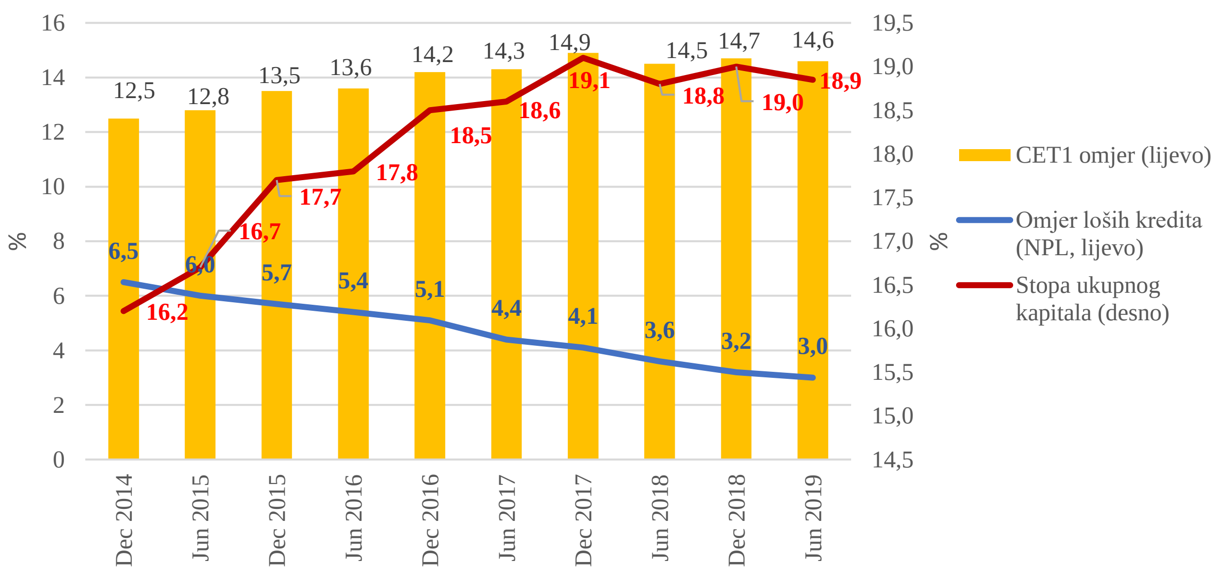
[7] Targeted longer-term refinancing operations Programme

However, the force of the ECB's intervention is the one that now ensured continued period of low interest rates without any major disruptions. Although risks vary in certain countries (e.g. difference in yields between Italian and German 10-year bonds presented in Table 1), the situation with interest rates remains generally favourable. It continues to spill over the banks in B&H. It is thanks to the Currency Board and integration with banking groups seated in the euroarea that banks in the local market have managed to keep high liquidity during this crisis. This reduced or eliminates major pressures regarding interest rate increase.

At the very beginning of the pandemic, a prevailing opinion was that monetary policy measures alone would not be enough to overcome the expected depth of the recession. Most countries also use flexible expansion and financial policy measures. There are two instruments applied within the financial policy: (1) adjustment of bank regulations and supervision to ensure liquidity accessibility and normal operations of customers experiencing temporary repayment difficulties due to a one-off effect of the corona crisis; (2) introduction of government guarantee schemes to boost lending during the period of crisis.

EBA has postponed stress testing in EU banks and called national regulators to exercise a more flexible implementation of regulations, especially in relation to implementation of IFRS 9. EBA announced an interpretation that revoked a requirement of reclassification of formerly performing loans, but only if a creditor deems that an intervention regarding a loan agreement (e.g. moratorium, loan restructuring) was only temporarily caused by the corona crisis. One of reasons for having such a flexible supervisory approach, besides actual gravity of the crisis, is a belief that European banks are stable and strong enough to respond to the crisis. Capital ratios before the crisis maintained relatively high average level of app. 19% and the NPL ratio continued to improve, thus reaching a floor of mere 3% in mid-2019.

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



Source: EBA

Under such a strong crisis, bank's capital guarantees preservation of savings and value of receivables of other creditors. However, capitalisation alone cannot ensure continuance of the loan cycle. New lending depends on risk assessments and they are very difficult if not sometimes impossible to form under the crisis conditions. It is for this reason that many countries opted for introduction of special state guarantee schemes. It is based on this that governments assumed a major part of the risk inherent with new loans and banks get exposed to lower credit risk levels mostly ranging between 10% and 50% depending on the loan type. These guarantee schemes are in most cases being approved on a portfolio principle, meaning that public interest of maintaining a loan course is being directed towards targeted segments of the market, while banks chose a final debtor in line with their own criteria. These are most frequently micro, small and medium enterprises as they are the first ones to be deprived of the loan support under the times of crisis due to higher risk inherent with this segment. Some countries also introduced sector-level guarantee schemes, as well as guarantee schemes dependant on loan purpose (e.g. for liquidity, for investments, etc.). The value of these schemes varies considerably among countries, depending on fiscal capacity for risk-taking, as some of them are not firmly predetermined but get adjusted as necessary. Also, there is no universal approach to organising a guarantee scheme. The most frequent form are guarantee schemes being managed by public development banks. The biggest value of state support for loans for liquidity and guarantee schemes in the EU was approved by Italy (app. 32% of GDP) and Germany (app. 27% of GDP). On the other hand, much lower amount, i.e. between 2% and 4% of GDP, was approved by Greece, Denmark and Netherlands.[8]

Effects of monetary interventions in the EU may impact the B&H market via interest rate trends, bank activities and effect on major commercial entities linked with the EU market.

[8] Anderson, Julia and others (2020): The fiscal response to the economic fallout from the coronavirus, Bruegel Datasets

2. BANKING SECTOR

2.1. FB&H BANKING SECTOR'S STRUCTURE

2.1.1. Status, Number and Business Network

As of 30/06/2020, 15 commercial banks had banking license in the FB&H. Number of banks remained the same as on December 31st, 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 30/06/2020.

The FB&H banks had, as of 30/06/2020, a total of 544 organizational units, which was fewer by 11 organisational parts or 2.1% compared to December 31st, 2019. In the territory of the FB&H there are 481 organizational units of banks. Seven banks from the FB&H had 53 organizational units in the RS, while nine banks had ten organizational units in the BD.

Three banks from the RS have 27 organisational parts in the FB&H, being the same as at December 31st, 2019.

The table below shows organisational structure of banks in the FB&H as of 30/06/2020:

Table 2: Banks in the FB&H, organisational parts of RS banks doing business in the FB&H and network of ATMs and POS devices

No.	Bank name	Business unit/ branch	Other organisational parts	POS devices	ATMs
I Banks seated in the FB&H (in the territory of B&H)					
1.	Addiko Bank d.d. Sarajevo	35	-	-	81
2.	ASA Banka d.d. Sarajevo	13	7	-	26
3.	Bosna Bank International d.d. Sarajevo	34	1	-	55
4.	Intesa Sanpaolo Banka d.d. BiH Sarajevo	5	48	2,892	116
5.	Komercijalno-investiciona banka d.d. V. Kladuša	5	7	-	4
6.	NLB Banka d.d. Sarajevo	6	36	1,786	82
7.	Privredna banka Sarajevo d.d. Sarajevo	7	7	-	23
8.	ProCredit Bank d.d. Sarajevo	3	3	-	14
9.	Raiffeisen Bank d.d. BiH Sarajevo	38	68	8,728	282
10.	Sberbank BH d.d. Sarajevo	32	-	33	66
11.	Sparkasse Bank d.d. BiH Sarajevo	9	40	-	107
12.	UniCredit Bank d.d. Mostar	74	-	8,989	276
13.	Union Banka d.d. Sarajevo	4	9	-	15
14.	Vakufska banka d.d. Sarajevo	3	18	-	22
15.	ZiraatBank BH d.d. Sarajevo	18	14	789	65
	Total I	**286**	**258**	**23,217**	**1,234**
II Organisational parts of banks from the RS doing business in the FB&H					
1.	Komercijalna banka a.d. Banja Luka	2		1	2
2.	Nova banka a.d. Banja Luka	3	11	538	26
3.	MF banka a.d. Banja Luka	6	5	62	10
	Total II	**11**	**16**	**601**	**38**

2.1.2. Ownership Structure and Market Share

Ownership structure of the FB&H banks[9] as of 30/06/2020 is the following:

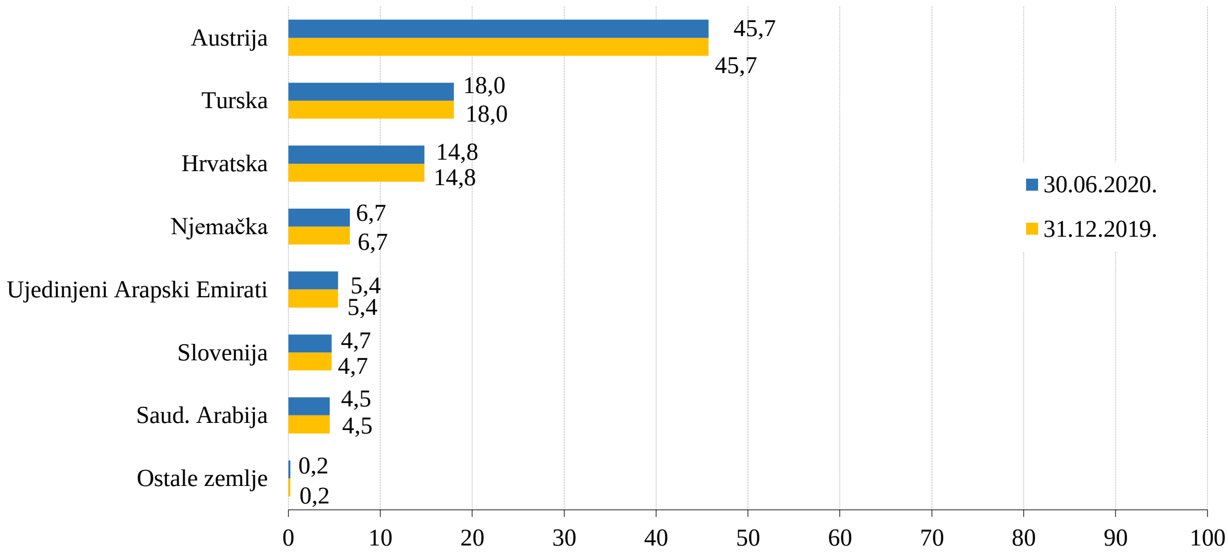
- privately owned and predominantly privately owned - 14 banks,
- state-owned and predominantly state-owned[10] - one bank.

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 30/06/2020, 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.

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

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



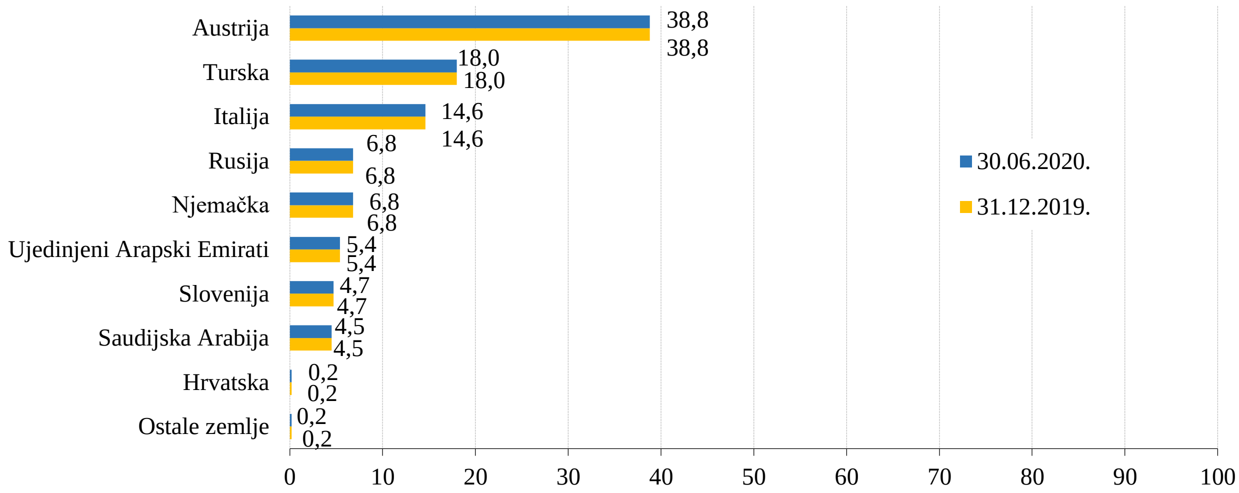
If the capital ties are considered, the foreign capital structure can also be viewed according to the criterion of the country of residence of the parent, i.e. the banking group that majority-owns (directly or indirectly through the members from the banking group) the FB&H banks.

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

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

Graph 4: Structure of foreign capital by countries – residence of the group[11], share in %

[9] Criteria here was the ownership over shareholder capital in banks.
[10] State ownership refers to the capital of the FB&H Government.



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 Amount	31.12.2018 % share	31.12.2019 Amount	31.12.2019 % share	30.06.2020 Amount	30.06.2020 % share	Index (5/3)	Index (7/5)
1	2	3	4	5	6	7	8	9	10
1.	State-owned banks	61,488	2.1	68,881	2.2	66,650	2.2	112	97
2.	Private banks	2,909,598	97.9	3,062,473	97.8	2,913,419	97.8	105	95
	Total	**2,971,086**	**100**	**3,131,354**	**100**	**2,980,069**	**100**	**105**	**95**

The total capital of the FB&H banking sector with the balance as at 30/06/2020 decreased by BAM 151.3 million or 4.8% compared to the end of 2019, amounting to BAM 3 billion.

The decrease of total capital by BAM 151.3 million was realized as a net effect of: increase on the basis of the current financial result for the 1H 2020 of BAM 105.5 million and a decrease of accumulated other comprehensive income of BAM 8.5 million, decrease based on initial implementation of the Decision on Credit Risk Management and Determination of Expected Credit Losses of BAM 244 million and decrease based on transfers to the accrued tax liabilities on the transferred loan loss reserves created from the profits in Tier 1 capital of BAM 4.3 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 Amount	31.12.2018 % share	31.12.2019 Amount	31.12.2019 % share	30.06.2020 Amount	30.06.2020 % share	Index (5/3)	Index (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	139,367	10.7	100	100
3.	Foreign capital (non-residents)	1,118,444	86.1	1,118,725	86.1	1,118,714	86.1	100	100
	Total	**1,299,700**	**100**	**1,299,699**	**100**	**1,299,700**	**100**	**100**	**100**

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

The shares of the state-owned capital, private capital (residents) and foreign capital (non-residents) as of 30/06/2020, remained at the same level compared to the end of 2019. This may be a result of difficulties in operations of the FB&H Securities Commission over the reporting period.

2.1.3. Staff Structure

The number of employees across the banking sector as at 30/06/2020 is 6,549, which is lower by 110 employees or 1.7% compared to the end of 2019. A decrease in the number of employees is present in 11 banks, while the number of employees increased in three banks and this number remained the same with one bank compared to YE2019.

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

Table 5: Qualification structure of employees in FB&H banks

No.	Qualification level	31.12.2018		31.12.2019		30.06.2020		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	4,067	62.1	101	99
2.	Two-year post-secondary school degree	520	7.7	485	7.3	468	7.1	93	96
3.	Secondary school degree	2,108	31.3	2,041	30.7	2,007	30.7	97	98
4.	Others	9	0.1	8	0.1	7	0.1	89	88
	Total	**6,739**	**100**	**6,659**	**100**	**6,549**	**100**	**99**	**98**

A decrease in the number of employees in the FB&H banking sector as of 30/06/2020 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 -

Table 6: Total assets per employee

31.12.2018			31.12.2019			30.06.2020		
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**	**6,549**	**23,517,864**	**3,591**

2.2. FINANCIAL PERFORMANCE INDICATORS

2.2.1. 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[12], 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.

[12] The majority state-owned banks report in the "total" balance sheet passive and neutral items.

In that respect, the data are reported in Annex 2 of this Information - Balance Sheet of FB&H Banks According to the FBA Scheme (Active Sub-Balance Sheet). Annex 3 provides an overview of assets, loans, deposits and financial performance of the FB&H banks as at 30/06/2020.

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

- BAM 000 -

Table 7: Balance sheet

No.	Description	31.12.2018		31.12.2019		30.06.2020		Index	
		Amount	% share	Amount	% share	Amount	% share	(5/3)	(7/5)
1	2	3	4	5	6	7	8	9	10
	ASSETS								
1.	Cash	6,591,117	29.8	7,641,570	31.6	6,957,158	29.6	116	91
2.	Securities	1,304,626	5.9	1,456,321	6.0	1,614,359	6.9	112	111
3.	Placements to other banks	270,604	1.2	149,197	0.6	86,951	0.4	55	58
4.	Loans	14,325,634	64.8	15,220,759	62.8	15,190,555	64.6	106	100
5.	Impairments	1,190,760	5.4	1,120,940	4.6	1,183,415	5.0	94	106
6.	Net loans (loans minus impairments)	13,134,874	59.5	14,099,819	58.2	14,007,140	59.6	107	99
7.	Business premises and other fixed assets	531,767	2.4	600,684	2.5	555,547	2.3	113	92
8.	Other assets	261,147	1.2	262,976	1.1	296,709	1.2	101	113
	TOTAL ASSETS	**22,094,135**	**100**	**24,210,567**	**100**	**23,517,864**	**100**	**110**	**97**
	LIABILITIES								
9.	Deposits	17,604,487	79.7	19,414,294	80.2	18,892,746	80.3	110	97
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	833,255	3.5	99	97
12.	Other liabilities	655,631	3.0	808,293	3.3	811,794	3.5	123	100
	CAPITAL								
13.	Capital	2,971,086	13.4	3,131,354	13.0	2,980,069	12.7	105	95
	TOTAL LIABILITIES (LIABILITIES AND CAPITAL)	**22,094,135**	**100**	**24,210,567**	**100**	**23,517,864**	**100**	**110**	**97**

The total net assets across the FB&H banking sector as of 30/06/2020 are BAM 23.5 billion, which is by BAM 692.7 million or 2.9% lower compared to the end of 2019. The banks' net loans have the highest share (59.6%) within the assets in the banks' balance sheet, followed by cash (29.6%), securities (6.9%), fixed assets (2.3%), other assets (1.2%), and placements to other banks (0.4%). The deposits (80.3%) have the highest share within the liabilities in the banks' balance sheet, followed by capital (12.7%), liabilities based on loans (3.5%) and other liabilities (3.5%).

As of 30/06/2020, compared to the end of 2019, securities and other assets increased, while decrease was evident with cash, placements with other banks, loans and business premises and other fixed assets.

Over the observed period, the liabilities side of the balance sheet displayed an increase of other liabilities, as well as an increase of deposits, loan obligations and total capital.

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

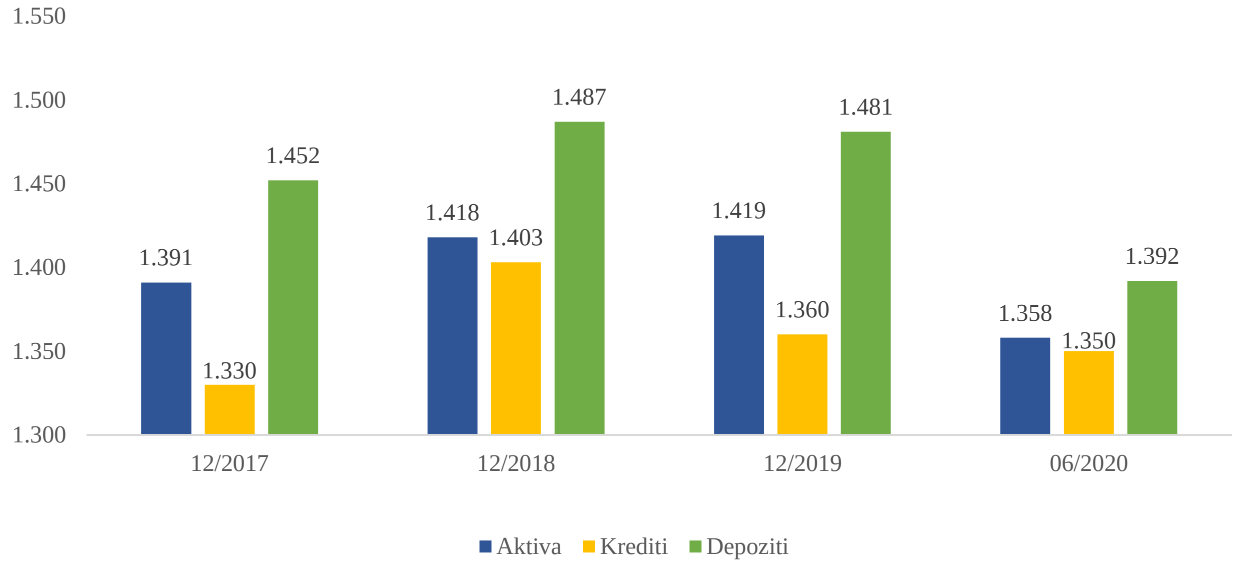
- BAM 000 -

Table 8: Banks' assets according to ownership structure

No.	Banks	31.12.2018			31.12.2019			30.06.2020			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	935,233	4.0	103	117
2.	Private	14	21,318,645	96.5	14	23,409,306	96.7	14	22,582,631	96.0	110	96
	Total	**15**	**22,094,135**	**100**	**15**	**24,210,567**	**100**	**15**	**23,517,864**	**100**	**100**	**97**

An indicator of the concentrations in the three most important segments of the banking business: in the assets, loans, and deposits is the value of the Herfindahl index[13]. Its overview by periods is provided in the following chart:

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



The Herfindahl index of concentration as of 30/06/2020, compared to the end of 2019, dropped for assets by 61 units, for loans by 10 units and for deposits by 89 units. The Herfindahl index of concentration for the reporting period shows a moderate concentration[14] in all three relevant categories (assets, loans, and deposits).

Another indicator of the banking sector concentration is the market concentration ratio, i.e. the concentration ratio[15] (hereinafter: CR), showing a total share of the biggest banks in the sector in the selected relevant categories: assets, loans, and deposits.

If a total share of the five biggest banks in the sector - CR5 as of 30/06/2020 is viewed compared to the end of 2019, there is a decrease with all selected relevant categories: market share by 0.7 percentage points, loans by 0.2 percentage points and deposits by 1.2 percentage points. The two biggest banks in the sector account for 45.5% of the market (assets 45.7%, loans 44.1% and deposits 46.6%).

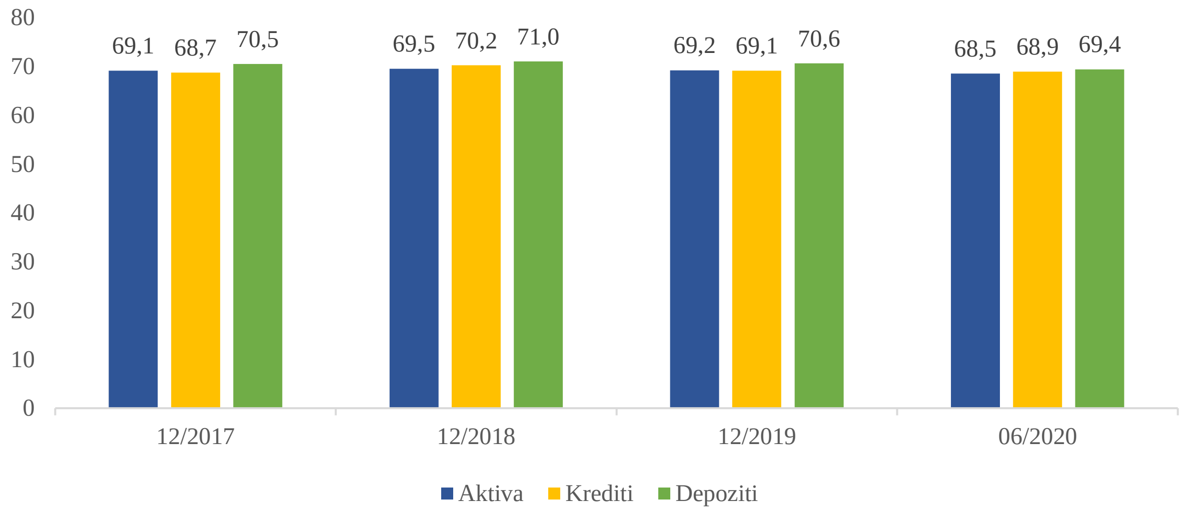
An overview of the concentration ratios for the five biggest banks in the sector is provided in the following chart:

[13] It is also called Hirschmann-Herfindahl index or HHI and it is calculated according to the formula $HI = \sum_{j=1}^{n} (S)_j^2$, representing the sum of the squares of the percentage shares of a specific size (e.g. assets, deposits, loans) of all market participants in the system. It should be noted that the index does not increase linearly and that the value of e.g. 3000 does not mean that the concentration in the system is 30%. In a hypothetical case of there being only one bank in the system, the HHI would be maximum 10000.

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

[15] Concentration Ratio (CR), designated according to the number of banks included in the calculation.

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[16]. As of 30/06/2020, three banks in the FB&H banking sector with a 55.1% 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 -

Table 9: Share of groups of banks in total assets through periods

No.	Amount of assets	31.12.2018			31.12.2019			30.06.2020		
		Amount	**% share**	**Number of banks**	**Amount**	**% share**	**Number of banks**	**Amount**	**% share**	**Number of banks**
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**
1.	I (over BAM 2 billion)	12,456,111	56.4	3	13,686,527	56.5	3	12,954,063	55.1	3
2.	II (BAM 1-2 billion)	6,075,531	27.5	5	6,645,925	27.5	5	5,607,991	23.9	4
3.	III (BAM 0.5-1 billion)	2,168,293	9.8	3	3,451,044	14.2	5	4,566,480	19.4	6
4.	IV (BAM 0.1-0.5 billion)	1,394,200	6.3	4	427,071	1.8	2	290,165	1.2	1
5.	V (below BAM 0.1 billion)	0	0.0	0	0	0.0	0	99,165	0.4	1
	Total	**22,094,135**	**100**	**15**	**24,210,567**	**100**	**15**	**23,517,864**	**100**	**15**

A change in the structure, i.e. share of groups in total assets of the FB&H banking sector as of 30/06/2020 vs. YE2019 occurred with regards to the group III (share increase by 5.2 percentage points) due to a transition of one bank from the group II to the group III. At the banking sector level as at 30/06/2020, there was one bank with assets below BAM 0.1 billion (transition from group IV to group V of banks).

Cash across the FB&H banking sector as of 30/06/2020 amounted to BAM 7 billion, down by BAM 684.4 million or 9% vs. YE2019 (as a result of the deposit reduction). Its overview through the periods is provided in the following table:

[16] Banks are divided into five groups depending on the size of assets.

- BAM 000 -

Table 10: Banks' cash										
No	Cash	31.12.2018		31.12.2019		30.06.2020		Index	
		Amount	% share	Amount	Amount	% share	Amount	(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	1,235,728	17.8	110	123
2.	Reserve account with CBB&H	4,002,281	60.7	4,329,659	56.7	4,079,533	58.6	108	94
3.	Accounts with deposit institutions in B&H	38,746	0.6	48,611	0.6	38,896	0.6	125	80
4.	Accounts with deposit institutions abroad	1,639,544	24.9	2,258,758	29.6	1,602,996	23.0	138	71
5.	Cash in process of collection	65	0.0	97	0.0	5	0.0	149	5
	Total	**6,591,117**	**100**	**7,641,570**	**100**	**6,957,158**	**100**	**116**	**91**

As of 30/06/2020, compared to the end of 2019, there was a decrease of the banks' cash funds across all accounts, except for cash that posted an increase by BAM 231.3 million or 23%, whereas the biggest increase refers to one bank (53.5%).

In the currency structure of cash funds as of 30/06/2020 (compared to the end of 2019), the share of local currency rose from 66.7% to 70.7%, along with a simultaneous decrease of the share in foreign currency from 33.3% to 29.3%.

The portfolio of securities as at 30/06/2020 amounted to BAM 1.6 billion, which was higher by BAM 158 million or 10.9% compared to the end of 2019. The following table provide an overview of the portfolio according to the type of instruments and issuer:

- BAM 000 -

Table 11: Investments in securities according to type of instrument									
No.	Investments in securities	31.12.2018		31.12.2019		30.06.2020		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	5,380	0.3	101	101
2.	Debt securities:	1,299,345	99.6	1,451,008	99.6	1,608,979	99.7	112	111
2.1.	- Securities of all levels of governments in B&H	619,536	47.5	747,632	51.3	904,137	56.0	121	121
2.2.	- Government securities (other countries)	533,666	40.9	549,649	37.7	529,255	32.8	103	96
2.3.	- Corporate bonds[17]	146,143	11.2	153,727	10.6	175,587	10.9	105	114
	Total	**1,304,626**	**100**	**1,456,321**	**100**	**1,614,359**	**100**	**112**	**111**

The most significant item within the investments in debt securities are the securities of entity governments, namely the securities issued by the FB&H [18] of the total value of BAM 614.4 million, and the securities of the RS as the issuer of BAM 240.1 million.

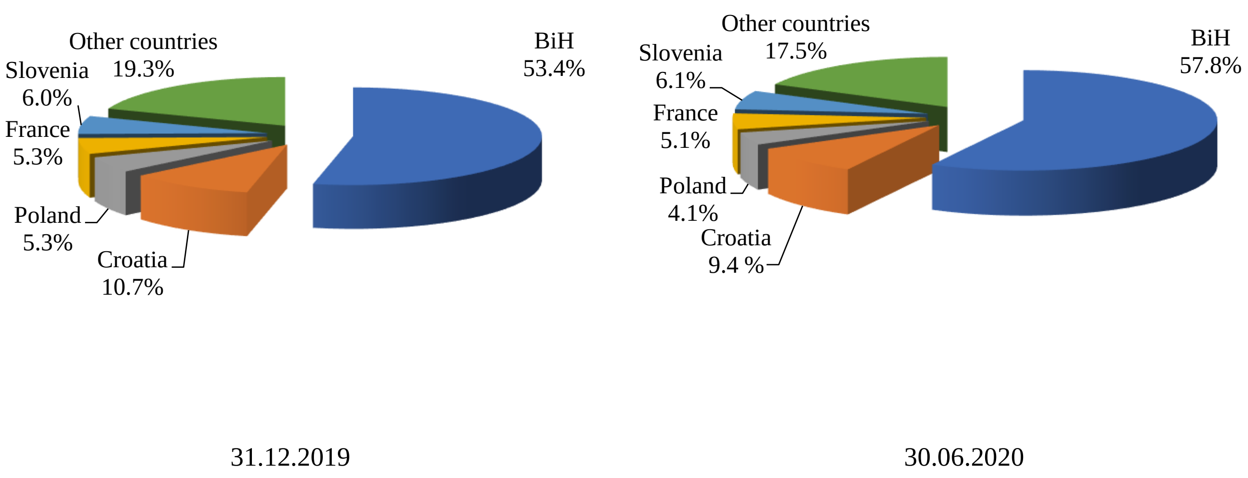
- BAM 000 -

Table 12: Securities of B&H entity governments									
No.	Investments in securities	31.12.2018		31.12.2019		30.06.2020		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	614,383	71.9	122	115
1.1.	- Treasury bills	35,179	5.7	18,921	2.6	44,891	5.3	54	237
1.2.	- Bonds	400,985	65.6	513,226	70.0	569,492	66.6	128	111
2.	Debt securities of RS:	175,395	28.7	201,089	27.4	240,075	28.1	115	119
2.1.	- Treasury bills	0	0.0	0	0.0	39,500	4.6	-	-
2.2.	- Bonds	175,395	28.7	201,089	27.4	200,575	23.5	115	100
	Total	**611,559**	**100**	**733,236**	**100**	**854,458**	**100**	**120**	**117**

[17] Majority, i.e. app. 73%, relates to the EU and US banks' bonds, while the remainder relates to the EU and B&H companies' bonds
[18] All types of securities of the FB&H as the issuer.

If total investments in securities are analysed according to the exposures by countries, the highest share of 57.8% is to the issuers from B&H, followed by Croatia with a 9.4% share, Slovenia with 6.1% share, France with a 5.1% share and other countries with individual shares below 5%.

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



2.2.2. Liabilities

As of 30/06/2020, the share of deposits, as the most significant source of the banks' funding, increased slightly by 0.1 percentage point (80.3%), while the share of loan obligations remained the same as the YE2019 (3.5%).

The banks' loan obligations with the amount of BAM 833.3 million have decreased by BAM 23.4 million or 2.7% compared to the end of 2019. If subordinated loans of BAM 194.3 million are also added to the loan obligations, total loans have a 4.4% share in the funding sources.

The deposits recorded a decrease of BAM 521.5 million or 2.7% compared to the end of 2019, amounting to BAM 18.9 billion as at 30/06/2020. According to the data reported by banks, out of the total amount of deposits at the end of the reporting period, BAM 1.2 billion or 6.4% 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)

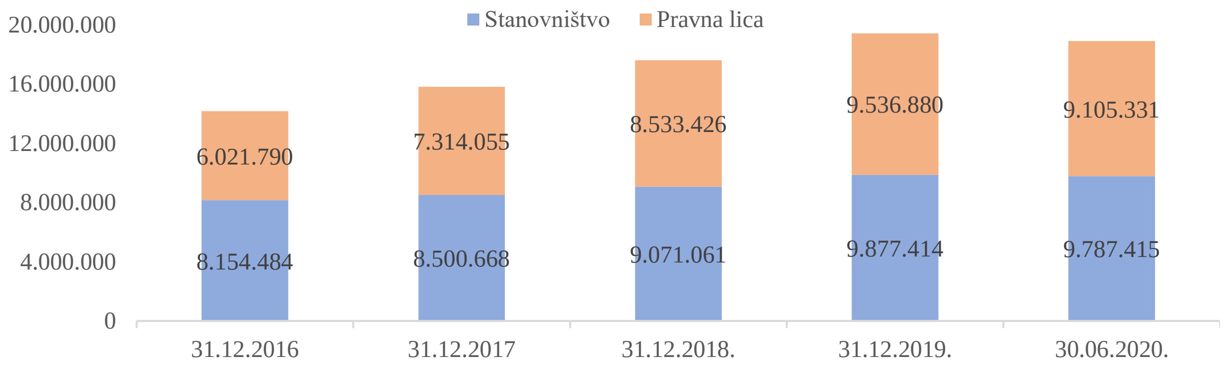
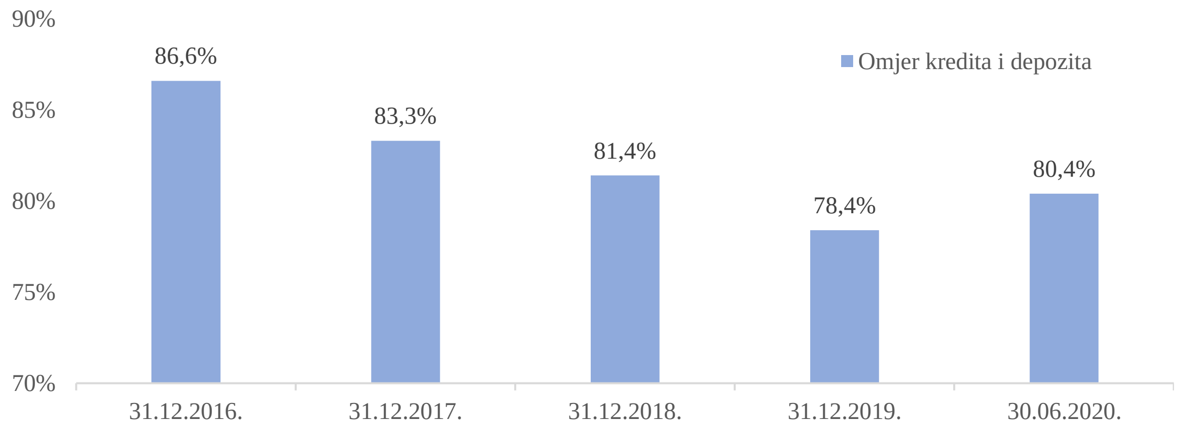


Chart 9: Loan-to-deposit ratio



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

- BAM 000 -

Table 13: Sector structure of deposits

No.	Sectors	31.12.2018		31.12.2019		30.06.2020		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	2,321,696	12.3	121	108
2.	Public enterprises	1,538,501	8.7	1,651,976	8.5	1,418,673	7.5	107	86
3.	Priv.enterp. and companies	2,834,717	16.1	3,236,224	16.7	3,369,699	17.8	114	104
4.	Banking institutions	1,215,334	6.9	1,208,613	6.2	710,532	3.8	99	59
5.	Non-bank fin. institutions	746,690	4.3	803,516	4.1	794,858	4.2	108	99
6.	Retail	9,071,061	51.5	9,877,414	50.9	9,787,415	51.8	109	99
7.	Other	419,349	2.4	479,404	2.5	489,873	2.6	114	102
	Total	**17,604,487**	**100**	**19,414,294**	**100**	**18,892,746**	**100**	**110**	**97**

The largest share in the sector structure of deposits refers to retail loans with 51.8% and this share rose against YE2019 by 0.9 percentage points. As of 30/06/2020, retail deposits stood at BAM 9.8 billion.

An increase in deposits as of 30/06/2020, compared to the end of 2019, was realized in relation to the government institutions' deposits by BAM 164.5 million or 7.6%, deposits of private companies by BAM 133.5 million or 4.1% and other deposits by BAM 10.5 million or 2.2%.

A decrease of deposits as of 30/06/2020, compared to the end of 2019, was recorded in relation to public companies' deposits by BAM 233.3 million or 14.1%, banking institutions' deposits by BAM 498.1 million or 41.2%, deposits by non-banking financial institutions by BAM 8.7 million or 1.1% and retail deposits by BAM 90 million or 0.9%.

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 80.9% of total deposits of banking institutions relates to financing by banking groups.

The currency structure of deposits as at 30/06/2020 changed compared to the end of 2019, i.e. the share of deposits in domestic currency increased from 61.2% to 63.8%, while the share of deposits in foreign currency decreased from 38.8% to 36.2%. Deposits in BAM rose by an amount of BAM 157.3 million or 1.3%, while deposits in foreign currencies dropped by BAM 678.9 million or 9%.

The structure of deposits according to the origin of depositors as of 30/06/2020, compared to the end of 2019, has the following structure: residents' deposits of BAM 17.9 billion have a 94.5% share (+2.6 percentage points), while non-residents' deposits are BAM 1 billion, which was 5.5% of total deposits (-2.6 percentage points).

As of 30/06/2020, savings deposits amounted to BAM 9.5 billion, down by BAM 71.9 million or 0.8% compared to the end of 2019. The retail savings trend is shown in the following table and chart:

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Table 14: Retail savings

No.	Banks	Amount			Index	
		31.12.2018	31.12.2019	30.06.2020	(4/3)	(5/4)
1	2	3	4	5	6	7
1.	State-owned	91,645	96,979	96,940	106	100
2.	Private	8,712,454	9,476,470	9,404,651	109	99
	Total	**8,804,099**	**9,573,449**	**9,501,591**	**109**	**99**

Chart 10: Retail savings by periods

54.5% of savings are concentrated in two biggest banks, while five banks have the individual shares of less than 2%, amounting to 5.2% of the total savings in the sector. Of the total amount of the savings, 49.3% relate to savings deposits in domestic currency, while 50.7% relate to savings deposits in foreign currency.

As of 30/06/2020 vs. YE2019, short term retail deposits rose by BAM 81.3 million or 1.4% (while their share rose by 1.3 percentage points) and long term retail deposits dropped by BAM 153.1 million or 3.9% (while their share rose by 1.3 percentage points).

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

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Table 15: Maturity structure of retail savings deposits by periods

No.	Savings deposits	31.12.2018		31.12.2019		30.06.2020		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	5,715,684	60.2	113	101
2.	Long term savings deposits	3,826,898	43.5	3,939,023	41.1	3,785,907	39.8	103	96
	Total	**8,804,099**	**100**	**9,573,449**	**100**	**9,501,591**	**100**	**109**	**99**

Retail loans as of 30/06/2020 amounted to BAM 7.3 billion, down by 1.4% vs. YE2019. At the same time, retail deposits went down by 0.9% to BAM 9.8 billion as of 30/06/2020.

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Table 16: Retail loans, savings and deposits

No.	Description	31.12.2018	31.12.2019	30.06.2020	Index	
		Amount	Amount	Amount	(4/3)	(5/4)
1	2	3	4	5	6	7
1.	Retail loans	6,853,979	7,400,278	7,299,805	108	99
2.	Retail savings	8,804,099	9,573,449	9,501,591	109	99
2.1.	Term deposits	4,126,382	4,280,620	4,130,184	104	96
2.2.	Demand deposits	4,677,717	5,292,829	5,371,407	113	101
3.	**Loans/savings**	**78%**	**77%**	**77%**	-	-
4.	Retail deposits	9,071,061	9,877,414	9,787,415	109	99
5.	**loans/Retail deposits**	**76%**	**75%**	**75%**	-	-

2.2.3. Capital and Capital Adequacy

In the process of harmonizing the FBA's regulations with the new laws, a new Decision on Capital Calculation in Banks came to effect in late 2017[19].

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

In 2019, FBA has issued the Decision on Credit Risk Management and Determination of Expected Credit Losses with the implementation date of 01/01/2020. Accordingly, banks are required to calculate effects of implementation of this new decision as of 31/12/2019, i.e. with the initial balance sheet dd 01/01/2020, post them among capital accounts and recognise them under common equity tier 1.

[19] FB&H Official Gazette Nos. 81/17, 50/19 and 37/20

As of 30/06/2020, total banks' capital was BAM 3 billion, decreasing by BAM 151.3 million or 4.8% compared to the end of 2019 (more details are provided under Subheading 1.1.2 - Ownership Structure and Market Share).

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

- BAM 000 -

Table 17: Report on the balance of own funds

No.	Description	31.12.2018	31.12.2019	30.06.2020	Index (4/3)	Index (5/4)
1	2	3	4	5	6	7
1.	**Own funds**	**2,478,985**	**2,690,298**	**2,706,661**	**109**	**101**
1.1.	**Tier 1 capital**	**2,351,425**	**2,656,534**	**2,582,469**	**113**	**97**
1.1.1.	**Common Equity Tier 1**	**2,351,425**	**2,656,534**	**2,582,469**	**113**	**97**
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	-215	100	100
1.1.1.4.	Previous year retained profit	238,344	403,027	338,145	169	84
1.1.1.5.	Recognized gain or loss	-34,743	-36,302	-137,400	104	378
1.1.1.6.	Accumulated other comprehensive income	10,296	26,630	18,139	259	68
1.1.1.7.	Other reserves	876,626	970,088	999,897	111	103
1.1.1.8.	(–) Other intangible assets	-56,116	-57,589	-54,421	103	94
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	-40	14	286
1.1.1.10.	(–) Deduction from Addition 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	-2,007	83	149
1.1.1.12.	(–) Financial sector entities' Common Equity Tier 1 instruments if bank has material investment	-12,118	-15,950	-16,254	132	102
1.1.1.13.	Elements or deductions from Common Equity Tier 1 – other	-97,091	-67,162	0	69	0
1.1.2.	**Additional Tier 1**	**0**	**0**	**0**	**-**	**-**
1.2.	**Tier 2 capital**	**127,560**	**33,764**	**124,192**	**26**	**368**
1.2.1.	Paid-up capital instruments and subordinated debts	105,592	170,158	124,206	161	73
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 30/06/2020 were BAM 2.7 billion and, compared to the end of 2019, it increased by BAM 16.4 million or 0.6%. The banks' T1 and CET1 capital as at the reporting period is BAM 2.6 billion, with a realized decrease of BAM 74.1 million or 2.8%, while Tier 2 capital is BAM 124.2 million, with a realized increase of BAM 90.4 million or 267.8% compared to the end of 2019.

The own funds' structure of the FB&H banking sector includes a share of Tier 1 capital of 95.4% (12/2019: 98.7%), while Tier 2 capital participates with 4.6% (12/2019: 1.3%). During the reporting period, the own funds' structure has changed via decreased share of Tier 1 capital, as referring to implementation of the Decision on Credit Risk Management and Determination of Expected Credit Losses and posting of its implementation effects under CET1. The increased share of T2 capital is a result of implementation of the same decision, as well as cancellation of a LLP shortfall as a deductible item from T2 capital.

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

- decrease of BAM 244.1 million based on the initial implementation of the Decision on Credit Risk Management and Determination of Expected Credit Losses that came into force on 01/01/2020,
- reduction of accumulated other comprehensive income of BAM 8.5 million,
- decrease based on a loss figure posted by one bank in the 1H 2020 in an amount of BAM 0.5 million,
- 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 based on reduction of deductible items (provisioning shortfall) of BAM 68 million related to initial implementation of the Decision on Credit Risk Management and Determination of Expected Credit Losses and decrease of intangible assets of BAM 4 million,
- increase based on included profit from 2019 of BAM 91 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 30/06/2020 was BAM 14.9 billion, whose structure is provided in the following table:

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Table 18: Risk exposure structure

No.	Risk exposure	31.12.2018		31.12.2019		30.06.2020		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	12,963,194	87.1	106	99
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	201,700	1.4	102	88
4.	Risk exposures for operational risk	1,657,561	11.7	1,705,834	11.4	1,724,151	11.5	103	101
	Total risk exposure amount	**14,177,631**	**100**	**15,019,405**	**100**	**14,889,045**	**100**	**106**	**99**

The total risk exposure amount across the FB&H banking sector decreased in the 1H 2020 by BAM 130.4 million or 0.9%. Over the reporting period, there was an increase of operational risk weighted exposures by BAM 18.3 million or 1.1%, while the credit risk weighted exposures dropped by BAM 122.4 million or 0.9% and market risk weighted exposures posted a drop of BAM 26.3 million or 11.5%. There were three banks in the sector that have not posted currency risk exposures since their net open currency position did not exceed 2% of the own funds.

As of 30/06/2020, banks were most exposed to the credit risk (87.1% share), which is dominant in the FB&H banking sector. Compared to the end of the previous year, there were major changes in the structure of shares by individual risk types in the total exposure, i.e. the share of the credit risk remained with 87.1%, while the share of the market risk exposure dropped by 0.1 percentage point, while operational risk exposure has risen.

The banking sector's capital adequacy has continuously been maintained above 15% in the last few years, which is satisfactory capitalization across the sector. The Decision on Capital

Calculation in Banks provides that banks must at all times meet the capital requirements with respect to Common Equity Tier 1 capital ratio of 6.75%, Tier 1 capital ratio of 9% and own funds ratio of 12%. Also, it sets a requirement for banks to maintain capital buffer in the form of Common Equity Tier 1 capital in the amount of 2.5% of the total risk exposure amount.

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

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Table 19: Capital adequacy indicators

No.	Capital ratios	% and amount of regulatory minimum surplus or deficit		
		31.12.2018	**31.12.2019**	**30.06.2020**
1	2	3	4	5
1.	**Common Equity Tier 1 capital ratio**	**16.6%**	**17.7%**	**17.3%**
2.	Surplus (+) / Deficit (–) of Common Equity Tier 1 capital	1,394,434	1,642,724	1,577,459
3.	**Tier 1 capital ratio**	**16.6%**	**17.7%**	**17.3%**
4.	Surplus (+) / Deficit (–) of Tier 1 capital	1,075,438	1,304,787	1,242,455
5.	**Own funds ratio**	**17.5%**	**17.9%**	**18.2%**
6.	Surplus (+) / Deficit (–) of own funds	777,668	887,971	919,978

The own funds rate as at 30/06/2020 is 18.2% and it is considerably higher compared to the statutory minimum of 12%. At the FB&H banking sector level, other capital ratios were also much higher compared to regulatory minimums (Common Equity Tier 1 capital and Tier 1 capital ratios).

Compared to YE2019, own funds ratio rose by 0.3 percentage points, while T1 ratio decreased by 0.4 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 and cancellation of LLP shortfall as an offset item to supplementary capital).

The Decision on Capital Calculation in Banks also provides for a new calculation methodology and regulatory framework for monitoring of financial leverage levels. Banks are required to ensure and maintain the financial leverage ratio, as Tier 1 capital to total exposure measure ratio of minimum 6%. The following table provides an overview of the FB&H banking sector's financial leverage ratio across periods:

- BAM 000 -

Table 20: Financial leverage ratio

No.	Exposure values	31.12.2018	31.12.2019	30.06.2020
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	24,575,224
2.	Tier 1 capital - under Article 37(3) of Decision on Capital Calculation in Banks	2,351,425	2,656,534	2,582,469
	Leverage ratio - under Article 37(2) of Decision on Capital Calculation in Banks	**10.1%**	**10.5%**	**10.5%**

The leverage ratio across the banking sector as at 30/06/2020 is 10.5% and is the same as at the end of 2019. As of 30/06/2020, eight banks had their leverage ratios above the FB&H banking sector average and seven banks had their leverage ratios below this average, while all banks meet the prescribed minimum rate.

2.2.4. Credit Risk

Starting from 01/01/2018, banks are required to apply a new standard of financial reporting IFRS 9 – financial instruments (thus replacing IAS 39).

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 -

Table 21: Financial assets, off-balance sheet items and ECL

No	Description	31.12.2018			31.12.2019			30.06.2020		
		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	7,051,724	10,731	0.2
2	Financial assets at amortised cost	14,598,680	1,238,638	8.5	15,417,105	1,150,848	7.5	15,398,002	1,195,211	7.8
3.	Financial assets at fair value	1,167,107	0	0.0	1,318,635	0	0.0	1,460,383	0	0.0
4.	Other financial receivables	154,014	20,060	13.0	224,665	36,030	16.0	244,149	31,885	13.1
I Total balance sheet exposure		**22,669,238**	**1,269,658**	**5.6%**	**24,756,646**	**1,194,574**	**4.8**	**24,154,258**	**1,237,827**	**5.1**
5.	Issued guarantees	1,199,603	19,197	1.6	1,350,083	21,488	1.6	1,354,943	23,823	1.8
6.	Uncovered letters of credit	55,676	781	1.4	48,255	554	1.1	48,411	700	1.4
7.	Irrevocably approved, but undrawn loans	2,058,020	20,741	1.0	2,058,199	19,685	1.0	2,251,483	24,594	1.1
8.	Other contingent liabil.	16,707	143	0.9	54,122	310	0.6	15,241	319	2.1
II Total off-bal.sheet items		**3,330,006**	**40,862**	**1.2**	**3,510,659**	**42,037**	**1.2**	**3,670,078**	**49,436**	**1.3**

Total exposure (I+II)	**25,999,244**	**1,310,520**	**5.0**	**28,267,305**	**1,236,611**	**4.4**	**27,824,336**	**1,287,263**	**4.6**

Total exposure of banks as of 30/06/2020 stood at BAM 27.8 billion, thereof BAM 24.1 billion referring to balance sheet exposures and BAM 3.7 billion to off-balance sheet items.

Over the first half of 2020, there was a decrease of balance sheet exposures compared to the YE2019 by BAM 602.4 million or 2.4%, as caused by reduced cash volume and accounting write off as per the new regulation. Over the same period, there was an increase of off-balance sheet items by BAM 159.4 billion or 4.5%, as being largely a result of an increase of irrevocably approved, but undrawn loans with one bank.

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:

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Table 22: Exposures by credit risk grades

No.	Description	31.12.2018			31.12.2019			30.06.2020		
		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	21,317,507	182,013	0.9
2.	Credit risk grade 2	1,899,346	115,699	6.1	1,652,439	113,839	6.9	1,711,923	145,982	8.5
3.	Credit risk grade 3	1,376,399	1,021,741	74.2	1,316,790	957,177	72.7	1,124,828	909,832	80.9
I Total balance sheet exposure		**22,669,238**	**1,269,658**	**5.6**	**24,756,646**	**1,194,574**	**4.8**	**24,154,258**	**1,237,827**	**5.1**
4.	Credit risk grade 1	2,908,560	21,387	0.7	3,027,094	20,431	0.7	3,288,924	25,106	0.8
5.	Credit risk grade 2	410,239	12,629	3.1	474,159	15,610	3.3	368,597	20,640	5.6
6.	Credit risk grade 3	11,207	6,846	61.1	9,406	5,996	63.7	12,557	3,690	29.4
II Total off-bal.sheet items		**3,330,006**	**40,862**	**1.2**	**3,510,659**	**42,037**	**1.2**	**3,670,078**	**49,436**	**1.3**
Total exposure (I+II)		**25,999,244**	**1,310,520**	**5.0**	**28,267,305**	**1,236,611**	**4.4**	**27,824,336**	**1,287,263**	**4.6**

As of 30/06/2020, balance sheet exposures within the credit risk grade 1 amounted to BAM 21.3 billion and make up for 88.3% of the total balance sheet exposures. Compared to YE2019, they have dropped by BAM 469.9 million or 2.2%. The reduction mostly came as a net effect of: decreased cash funds and cash receivables of BAM 745.9 million and increased securities by BAM 106.3 million loan portfolio within this credit risk grade by BAM 143.9 million and other financial receivables by BAM 23.9 million.

As of 30/06/2020, balance sheet exposures within the credit risk grade 2 stood at BAM 1.7 billion, representing 7.1% of the total balance sheet exposures. Compared to YE2019, they have risen by BAM 59.5 million or 3.6%. The biggest effect to the increase of total balance sheet exposures within this credit risk grade came from an increase of securities allocated to the credit risk grade 2 by BAM 52 million and other assets valued at amortised cost by BAM 87 million. Over the observed period, the loan portfolio allocated to the credit risk grade 2 dropped by BAM 2.9 million.

As of 30/06/2020, balance sheet exposures within the credit risk grade 3 equalled BAM 1.1 billion, representing 4.6% of the total balance sheet exposures. If observed against YE2019, they have dropped by BAM 192 million or 14.6%, as largely resulting from the accounting write-off of balance sheet exposures.

Over the first half of 2020, ECLs at the credit risk grades 1 and 2 for the balance sheet exposures had a total increase of BAM 90.6 million (ECL for credit risk grade 1 rose by BAM 58.5 million and at the credit risk grade 2 by BAM 32.1 million). ECL at the credit risk grade 3 went down by

BAM 47.3 million. The ECL level for balance sheet exposures at the FB&H banking sector level as at 30/06/2020 is lower than the value adjustment posted in the Form BS by an amount of BAM 518 ths. This is a result of a methodological approach with three banks forming also value adjustments for assets items that are not financial assets.

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. Exposure coverage at the credit risk grade 1 rose from 0.6% to 0.9%, at the credit risk grade 2 from 6.9% to 8.5% and at the credit risk grade 3 from 72.7% to 80.9%.

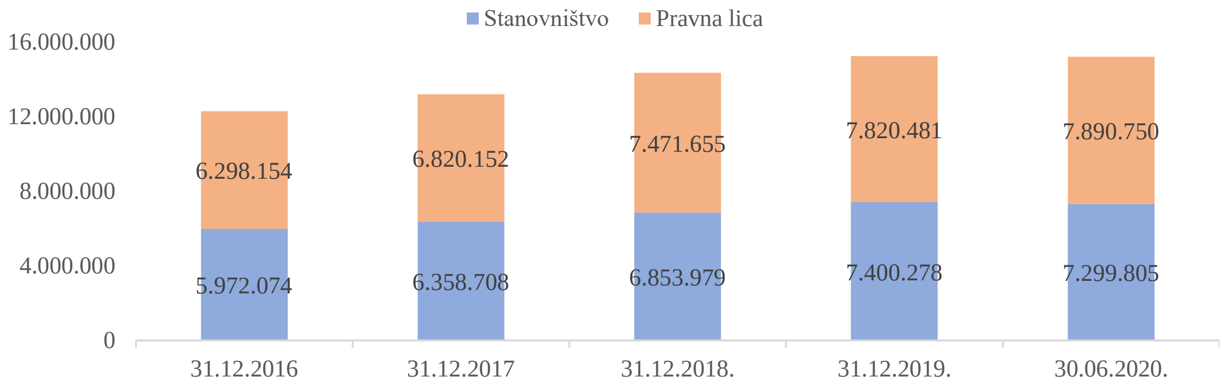
As of 30/06/2020, off-balance sheet exposures at the credit risk grade 1 stood at BAM 3.3 billion, thus representing 89.6% of the total off-balance sheet exposures. Exposures at the credit risk grade 2 amount to BAM 368.6 million or 10.1% of the total off-balance sheet exposures, while the credit risk grade 3 includes exposures of BAM 12.6 million or 0.3% of the total off-balance sheet exposures.
Total ECL coverage for off-balance sheet exposures rose from 1.2% to 1.3%. The increase of coverage rate was noted with the credit risk grades 1 and 2, while the credit risk grade 3 shows a drop in the coverage rate, as mostly resulting from the accounting write off performed with two banks.

As of 30/06/2020, loans stood at BAM 15.2 billion, down by BAM 30.2 million or 0.2% vs. YE2019. However, the nominal loan growth was higher considering the accounting write-off of the loan portfolio in an amount of BAM 191.2 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 48.1%. Over the 1H 2020 they have declined by 1.4%, while corporate loans (amounting to BM 7.9 billion and representing 51.9% of total loans) have risen by 0.9%.

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 30/06/2020:

Chart 11: Loans (BAM 000)



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

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Table 23: Loan structure by sectors

No.	Sectors	31.12.2018		31.12.2019		30.06.2020		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	166,120	1.1	87	88
2.	Public sector enterprises	321,493	2.3	359,635	2.4	409,652	2.7	112	114
3.	Private companies	6,625,641	46.3	6,922,742	45.5	6,653,819	43.7	104	96
4.	Banking institutions	217,706	1.5	247,501	1.6	564,917	3.7	114	228
5.	Non-banking financial instit.	75,804	0.5	86,902	0.6	83,638	0.6	115	96
6.	Retail	6,853,979	47.8	7,400,278	48.6	7,299,805	48.1	108	99
7.	Other	14,415	0.1	14,341	0.1	12,604	0.1	99	88
	Total	**14,325,634**	**100**	**15,220,759**	**100**	**15,190,555**	**100**	**106**	**100**

The loan increase as of 30/06/2020 vs. YE2019 relates to loans approved to public companies (by BAM 50 million or 13.9%) and to loans approved to banking institutions (by BAM 317.4 million or 128.2%) (one bank posted a rise by 92.6%), while other segments saw a decrease.

A reduction of loans approved to government institutions equals BAM 23.2 million or 12.3%, to private companies BAM 268.9 million or 3.9%, to non-banking financial institutions BAM 3.3 million or 3.8%, to retail BAM 100.5 million or 1.4% and to other sectors BAM 1.7 million or 12.1%.

The following table shows the maturity structure of loans by sectors – loan users as of 30/06/2020:

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Table 24: Maturity structure of loans

No	Sectors	31.12.2019			30.06.2020			Index		
		ST loans (up to 1Y)	LT loans (over 1Y)	Receivables due	ST loans (up to 1Y)	LT loans (over 1Y)	Receivables 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	837	165,139	144	2,093	87	137
2.	Public companies	39,363	307,603	12,668	42,672	360,697	6,283	108	117	50
3.	Private companies	2,414,723	3,897,580	610,440	2,401,163	3,718,293	534,363	99	95	88
4.	Banking institutions	247,491	0	10	564,913	0	4	228	0	40
5.	Non-bank. financial institutions	26,103	55,779	5,020	18,982	63,649	1,007	73	114	20
6.	Retail	423,373	6,651,895	325,010	402,453	6,630,251	267,101	95	100	82
7.	Other	7,772	5,686	883	7,080	5,291	233	91	93	26
	Total	**3,158,865**	**11,107,758**	**954,136**	**3,438,100**	**10,943,320**	**809,135**	**109**	**99**	**85**

As of 30/06/2020, compared to the end of 2019, short term loans in the FB&H banking sector have risen by BAM 279.2 million or 8.89% and long term loans went down by BAM 164.4 million or 1.5%.

Receivables due amount to BAM 809.1 million, down by BAM 145 million or 15.2% 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 49.3% or BAM 7.5 billion in the loans' currency structure, followed by loans approved with a currency clause with a share of 46.5% or BAM 7.1 billion (EUR: BAM 7.1 billion or 99.8%, CHF: BAM 16 million or 0.2%), while loans approved in foreign currency have the lowest share of 4.2% or BAM 640.3 million (of which BAM 639.6 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:

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Table 25: Loans by credit risk grades

No.	Description	31.12.2018			31.12.2019			30.06.2020		
		Amount	ECL	% ECL	Amount	ECL	% ECL	Amount	ECL	% ECL
1	2	3	4	5	6	7	8	9	10	11
I Corporate loans										
1.	Credit risk grade 1	5,624,867	59,945	1.1	6,146,371	51,146	0.8	6,300,484	83,891	1.3
2.	Credit risk grade 2	1,017,975	57,914	5.7	904,039	55,828	6.2	942,678	85,423	9.1
3.	Credit risk grade 3	828,813	572,989	69.1	770,071	516,128	67.0	647,588	507,721	78.4
	Total I	**7,471,655**	**690,848**	**9.2**	**7,820,481**	**623,102**	**8.0**	**7,890,750**	**677,035**	**8.6**
II Retail loans										
4.	Credit risk grade 1	5,814,039	59,449	1.0	6,451,878	59,562	0.9	6,441,511	81,417	1.3
5.	Credit risk grade 2	572,455	56,327	9.8	471,019	57,081	12.1	420,679	57,502	13.7
6.	Credit risk grade 3	467,485	384,481	82.2	477,381	381,194	79.9	437,615	367,461	84.0
	Total II	**6,853,979**	**500,257**	**7.3**	**7,400,278**	**497,837**	**6.7**	**7,299,805**	**506,380**	**6.9**
Total loans:										
7.	Credit risk grade 1	11,438,906	119,394	1.0	12,598,249	110,708	0.9	12,741,995	165,308	1.3
8.	Credit risk grade 2	1,590,430	114,241	7.2	1,375,058	112,909	8.2	1,363,357	142,925	10.5
9.	Credit risk grade 3	1,296,298	957,470	73.9	1,247,452	897,322	71.9	1,085,203	875,182	80.6
	Total loans (I+II)	**14,325,634**	**1,191,105**	**8.3**	**15,220,759**	**1,120,939**	**7.4**	**15,190,555**	**1,183,415**	**7.8**

The loan portfolio allocated to the credit risk grade 1 as of 30/06/2020 stood at BAM 12.7 billion, representing 83.9% of the total loan portfolio. This represents an increase against YE2019 by BAM 143.7 million or 1.1%. The ECL coverage rate for the credit risk grade 1 is 1.3% (corporate and retail), up by 0.5 percentage points vs. 31/12/2019.

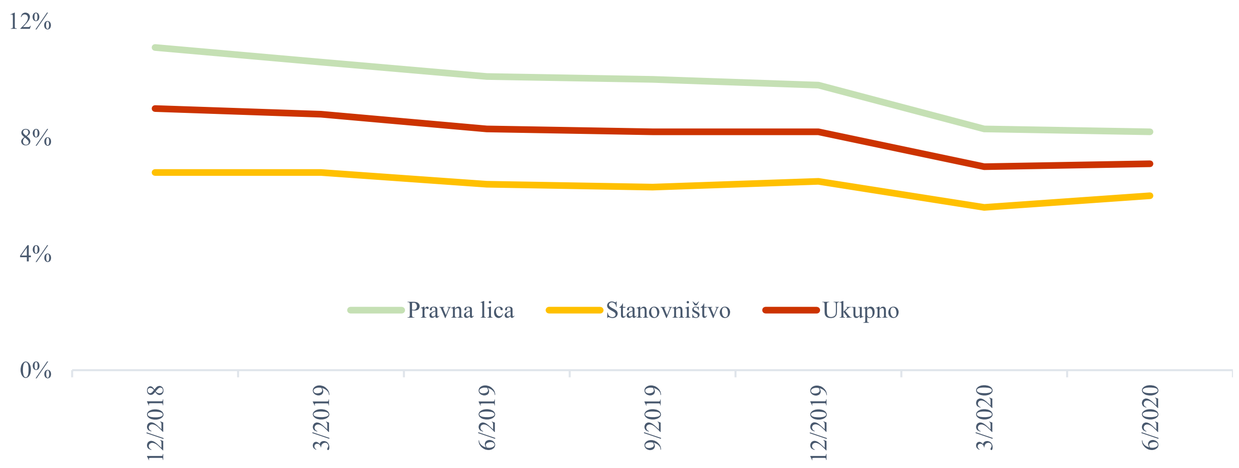
The loan portfolio in the credit risk grade 2 as of 30/06/2020 stood at BAM 1.4 billion, thus making up for 9% of the total loan portfolio. Compared to YE2019, it is by BAM 11.7 million or 0.9% lower. The ECL coverage rate for this credit risk grade is 10.2% (corporate 9.1% and retail 13.7%), up by 2.3 percentage points compared to 31/12/2019.

The loan portfolio in the credit risk grade 3 (NPL) as of 30/06/2020 amounted 1.1 billion, thus constituting 7.1% of the total loan portfolio, as 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 80.6% (corporate 78.4% and retail 84%), up by 8.7 percentage points vs. 31/12/2019.

Out of total corporate loans, BAM 647.6 million or 8.2% refers to the NPL segment, down by 1.6 percentage points vs. YE2019. As for the retail segment, NPLs stood at BAM 437.6 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 4 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 2.9 billion or 36.1% of corporate loans, i.e. 18.8% of the total loan portfolio), processing industry (BAM 1.6 billion or 20.6% of corporate loans, i.e. 10.7% of the total loans) and financial industry (BAM 668.4 million or 8.5% of corporate loans, i.e. 4.4% of the total loans). The share of NPLs in loans to the trade sector is 7.9%, to the processing industry 7.6% and to the financial industry 0.2%.
With regards to corporate loans, the biggest share of NPLs as of 30/06/2020 referred to loans approved to education (32.9%), production and supply of electricity and gas (21.1%) and agriculture (20.3%).

As far as retail loans are concerned, the largest share is with general consumption loans (BAM 5.9 billion or 80.5% of retail loans, i.e. 38.7% of the total loan portfolio) and housing loans (BAM 1.3 billion or 18.2% of retail loans, i.e. 8.8% of the total loan portfolio). The share of NPLs in general consumption loans is 6.4% and with housing loans 3.9%. 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.

1H 2020 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.

Upholding stable share of NPLs in the total loan portfolio is a result of measures prescribed by the FBA for temporary mitigation of negative economic consequences caused by the pandemic, so in the upcoming period we can expect to see an increase in the NPLs' share in total loans.

In order to mitigate negative economic consequences caused by the pandemic and maintain stability of the FB&H banking sector, in March 2020, FBA has adopted the Decision on Temporary Measures of Banks to Mitigate Negative Economic Consequences Caused by COVID-19[20]. Is defines temporary measures related to approval of relief measures for bank customers being either directly or indirectly affected by the negative effects, all for purpose of overcoming difficulties they are facing and introduce relaxations ensuring due settlement of obligations to the bank by these customers. Also, the said Decision defines special rules for credit risk management that banks apply in cases of approval of special measures to their customers, as well as preventive measures aimed to preserve banks' capital.

In the period until 30/06/2020, total number of applications for approval of a moratorium, i.e. special measures, in banks reached 47,729, of which 44,487 refer to the retail segment and 3,242 to the corporate segment. Out of the total number of applications, 39,302 applications was approved, of which 36,462 in the retail segment and 2,840 in the corporate segment. Total amount of retail loans being approved with the moratorium/special measures was BAM 826.6 million (11.3% of the retail loan portfolio) and the total amount of corporate loans with the moratorium/special measures is BAM 2 billion (25.3% of the corporate loan portfolio), i.e. total amount of loans with implemented moratorium is BAM 2.8 billion or 18.6% of the total loan portfolio as of 30/06/2020.

2.2.5. 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 105.5 million across the FB&H banking sector was reported for the January 1 – June 30, 2020 period, which was lower by BAM 76.2 million or 41.9% compared to the same period of 2019. Consequences caused by the COVID-19 pandemic had significant influence over the financial result of the FB&H banking sector during 1H 2020, and this will be visible over the following period. The total net profit was BAM 106 million (14 banks), with a BAM 0.5 million loss reported by one bank.

Annex 5 shows the FB&H banks' income statement for the January 1 – June 30, 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:

[20] FB&H Official Gazette Nos. 22/20 and 37/20

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Table 26: Actual financial performance: profit/loss

No.	Description	30.06.2018		30.06.2019		30.06.2020	
		Amount	Number of banks	Amount	Number of banks	Amount	Number of banks
1	2	3	4	5	6	7	8
1.	Profit	174,820	15	182,231	14	105,962	14
2.	Loss	0	0	550	1	474	1
	Total	**174,820**	**15**	**181,681**	**15**	**105,488**	**15**

Looking into figures from the table above, evidently after the profit increase posted in 1H 2019, there was a major decrease of this item during 2020 (by 41.9%).

FB&H Banking Sector's Total Income

According to the banks' reporting data as of 30/06/2020, the total income across the FB&H banking sector is BAM 577.9 million and, compared to the same period last year, it decreased by BAM 11.7 million or 2%.

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Table 27: Structure of total income

No.	Structure of total income	30.06.2019		30.06.2020		Index
		Amount	%	Amount	%	(5/3)
1	2	3	4	5	6	7
I Interest income and similar income						
1.	Interest-bearing deposit accounts with deposit institutions	2,582	0.4	1,638	0.3	63
2.	Loans and leasing operations	324,284	55.0	313,259	54.2	97
3.	Other interest income	38,755	6.6	34,744	6.0	90
	Total I	**365,621**	**62.0**	**349,641**	**60.5**	**96**
II Operating income						
4.	Service fees	152,085	25.8	147,046	25.4	97
5.	Income from FX operations	28,732	4.9	25,496	4.4	89
6.	Other operating income	43,166	7.3	55,678	9.7	129
	Total II	**223,983**	**38.0**	**228,220**	**39.5**	**102**
	Total income (I+II)	**589,604**	**100**	**577,861**	**100**	**98**

In the total income structure, interest income and similar income hold a share of 60.5%, while operating income participate with 39.5%. Compared to the same period the year before, there was a decrease of share of interest and similar income by 1.5 percentage points, while share of operating income has increased.

Total interest and similar income reported a decrease in the reporting period by BAM 16 million or 4.4%. A dominant item among these income categories was income from interest on loans and leasing facilities with a share in total income dropping by 0.8 percentage points. At the same time, the share of loans and leasing type receivables in total assets decreased by 0.1 percentage point (from 64.7% to 64.6%), while average interest receivables related to loans went down from 3.34% to 3.09% (by 0.25percentage points).

Within other interest income, there was a decrease across all positions of interest income (interest income on securities held to maturity by 7.3%, interest income on facilities to other banks by 35.1% and other interest income by 9.1%). Out of total interest income on facilities to other banks (participating in total interest income with a share of less than 1%), the biggest part (93.7%) refers to two banks. Also, most of interest income on securities (82%) relates to one bank, and the biggest bank in the system achieved 36.2% of total other interest income.

Looking into the sector structure of interest income, most of this refers to income from the retail segment (62.2%), although retail loans make up for 48.1% of the total loan portfolio of the FB&H banking sector due to higher average NIR of the Retail segment of 5.26% compared to the corporate segment's NIR of 2.49%. Out of total interest income, the part that refers to private companies is 29.2% and 4.2% refers to government institutions and 1.5% to public companies.

The total operating income recorded an increase of BAM 4.2 million or 1.9% 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 5 million or 3.3%. There was also a decrease in the income from foreign exchange operations by BAM 3.2 million or 11.3%, while other operating income rose by BAM 12.5 million or 29%.

FB&H Banking Sector's Total Expenses

According to the banks' reporting data as of 30/06/2020, total expenses across the FB&H banking sector are BAM 472.4 million, which increased by BAM 65.5 million or 16.1% compared to 30/06/2019. The structure of the FB&H banking sector's total expenses in the reporting period is provided in the following table:

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Table 28: Structure of total expenses

No.	Structure of total expenses	30.06.2019		30.06.2020		Index
		Amount	%	Amount	%	(5/3)
1	2	3	4	5	6	7
I Interest expenses and similar expenses						
1.	Deposits	47,091	11.6	46,650	9.9	99
2.	Liabilities on loans and other borrowings	4,544	1.1	4,505	1.0	99
3.	Other interest expenses	10,934	2.7	15,615	3.3	143
	Total I	**62,569**	**15.4**	**66,770**	**14.2**	**107**
II Total non-interest expenses						
4.	Costs of impairments of assets at risk, provisions on contingent liabilities and other value adjustments	22,432	5.5	82,714	17.5	369
5.	Salary and contribution costs	129,746	31.9	128,211	27.1	99
6.	Business premises costs and depreciation	75,722	18.6	78,778	16.7	104
7.	Other operating and direct costs	63,937	15.7	65,320	13.8	102
8.	Other operating costs	52,460	12.9	50,605	10.7	96
	Total II	**344,297**	**84.6**	**405,628**	**85.8**	**118**
	Total expenses (I+II)	**406,866**	**100**	**472,398**	**100**	**116**

The total expenses structure is dominated by non-interest expenses with a share of 85.8%, while interest expenses and similar expenses account for 14.2%.

In the reporting period, interest and similar expenses increased by BAM 4.2 million or 6.7%, whereas interest expenses on deposits, which are the FB&H banking sector's dominant funding source, dropped by BAM 0.4 million or 0.9%, despite higher level of deposits compared to the end of the 1H 2019. The deposit potential at the end of June 2020 stood at BAM 18.9 billion, up by BAM 586.4 million compared to the same period last year. Interest-bearing deposits participate in total deposit potential as of 30/06/2020 with a share of 71.2%, thus their share has dropped since as at end of June 2019 they participated with 71.9%. This reduction of interest expenses on deposits came as a result of reduced share of interest-bearing deposits and lower average NIR going from 0.82% as of 30/06/2019 to 0.67% at the end of the 1H 2020.

Other interest expenses increased during the observed period by BAM 4.7 million or 42.8%, as largely based on negative interest on deposits with foreign banks and negative fee on banks' funds in excess of the legal reserves with CBBH.

Over the observed period, interest expenses on loans and other borrowings dropped slightly by 0.9%, while the FB&H banking sector's level of indebtedness on loans and other borrowings rose by BAM 29.3 million or 3.6%.

Across the FB&H banking sector, there was an increase by BAM 61.3 million or 17.8% in the total non-interest expenses in the reporting period, where the most significant structural change relates to an increase in the costs of impairments of risk assets and provisions for contingent liabilities and other value adjustments by BAM 60.3 million or 268.7%. This major increase of impairment costs resulted from implementation of the Decision on Credit Risk Management and Determination of Expected Credit Losses, as well as from worsened quality of the loan portfolio due to negative effects of the pandemic to the FB&H economy.

FB&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 % -

Table 29: Profitability, productivity, and efficiency ratios by periods

No.	Description	30.06.2018	30.06.2019	30.06.2020
1	2	3	4	5
1.	Net profit	174,820	181,681	105,488
2.	Average net assets	20,541,772	22,617,958	23,741,273
3.	Average total capital	2.858,998	3,069,157	2,950,906
4.	Total income	519,894	527,035	511,091
5.	Net interest income	302,750	303,052	282,871
6.	Operating income	217,144	223,983	228,220
7.	Operating expenses	255,606	257,928	257,594
8.	Operating and direct expenses	89,468	86,369	148,034
9.	Other operating and direct expenses	57,171	63,937	65,320
10.	Return on average assets (ROAA)	0.9	0.8	0.4
11.	Return on average equity (ROAE)	6.1	5.9	3.6
12.	Total income/average assets	2.5	2.3	2.2
13.	Net interest income/average assets (NIM)*	1.5	1.3	1.2
14.	Net interest margin (interest income /average interest-bearing assets – interest expenses/average interest-based liabilities)	1.5	1.4	1.3
15.	Operating expenses/total income minus other operating and direct expenses (CIR)**	55.2	55.7	57.8

* NIM - Net Income Margin
** CIR - Cost-income Ratio

During 1H 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 and measures taken by competent institutions to prevent further spreading of the pandemic.

Looking into the net interest income, there is a decrease vs. the same period in 2019 by BAM 20.2 million or 6.7%. This item constitutes 55.3% of total income, while in the same period in 2019 its share was 57.5%.

2.2.6. 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[21].

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).

Annex 6 provides weighted average NIR and EIR on loans and deposits as of 30/06/2020, while Annex 6a 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 30/06/2020 is 3.59% and is lower by 0.27 percentage points compared to the end of 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 (0.1 percentage point, decrease from 5.49% to 5.39%) and in short-term loans (0.17 percentage points, from 2.67% to 2.50%). Viewed in the aforementioned period according to the sector structure, EIR on total corporate loans decreased by 0.1 percentage point (from 2.81% to 2.71), while on retail loans it decreased by 0.11 percentage points (from 6.89% to 7.00%).

The total weighted average EIR on deposits in the FB&H banking sector as of 30/06/2020 is 0.67% and is lower by 0.08 percentage points compared to the end of 2019, when it was 0.75%. Viewed according to the deposit maturity, the weighted average EIR on short-term deposits recorded an increase of 0.02 percentage points (from 0.33% to 0.35%), while it decreased by 0.22 percentage points (from 1.19% to 0.97%) on long-term deposits.

On the overall level in the reporting period, the decrease in EIR on loans (0.27 percentage points) was more pronounced compared to the increase in EIR on deposits (0.08percentage points).

2.2.7. 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 Decision on Liquidity Risk Management in Banks provides for the minimum qualitative requirements for liquidity risk management in banks, starting from the regulatory standards for risk management in banks, quantitative requirements for banks in respect of LCR (min. 100%) and ensuring stable funding, as well as using additional mechanisms for liquidity risk monitoring and assessment.
The following table provides the trend of LCR performance in the FB&H banking sector:

[21] 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

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Table 30: LCR

No.	Description	31.12.2018	31.12.2019	30.06.2020	Index (4/3)	Index (5/4)
1	2	3	4	5	6	7
1.	Liquidity buffer	4,325,281	4,727,454	5,140,068	109	109
2.	Net liquidity outflows	1,392,629	1,628,421	2,379,321	117	146
	LCR	**311%**	**290%**	**216%**	**93**	**74**

As of 30/06/2020, LCR across the FB&H banking sector was 216%. All banks in the FB&H banking sector with the balance as at 30/06/2020 meet the requirements in respect of LCR, while the majority of banks are significantly above the regulatory minimum.

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

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Table 31: Maturity structure of deposits by residual maturity

No.	Deposits	31.12.2018 Amount	31.12.2018 % share	31.12.2019 Amount	31.12.2019 % share	30.06.2020 Amount	30.06.2020 % share	Index (5/3)	Index (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	12,002,226	63.5	106	107
2.	7-90 days	1,058,414	6.0	855,191	4.4	789,695	4.2	81	92
3.	91 days to one year	2,616,873	14.9	3,175,998	16.4	2,578,118	13.7	121	81
	I Total short-term	**14,237,895**	**80.9**	**15,227,322**	**78.5**	**15,370,039**	**81.4**	**107**	**101**
4.	Up to 5 years	3,193,809	18.1	3,983,643	20.5	3,350,102	17.7	125	84
5.	Over 5 years	172,783	1.0	203,329	1.0	172,605	0.9	118	85
	II Total long-term	**3,366,592**	**19.1**	**4,186,972**	**21.5**	**3,522,707**	**18.6**	**124**	**84**
	Total (I + II)	**17,604,487**	**100**	**19,414,294**	**100**	**18,892,746**	**100**	**110**	**97**

As of 30/06/2020, short-term deposits had a 81.4% share, while long-term ones had a 18.6% share, with the share of the short-term deposits increasing, i.e. the share of the long-term ones decreasing by 2.9 percentage points compared to the end of 2019.
In the reporting period, an increase of BAM 142.7 million or 0.9% was recorded in relation to short-term deposits and a decrease of BAM 664.3 million or 15.9% 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 633.5 million or 15.9%) and in deposits of over 5 years (by BAM 30.7 million or 15.1%).

Looking into the structure of long term deposits with residual maturity, evidently they are dominated by deposits with residual maturity of up to 5 years (95.1%).

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

- % -

Table 32: Liquidity ratios

No.	Ratios	31.12.2018	31.12.2019	30.06.2020
1	2	3	4	5
1.	Liquid assets[22]/net assets	30,8	31,9	29,7
2.	Liquid assets/ short-term financial liabilities	46,3	49,2	43,9
3.	Short-term financial liabilities/ total financial liabilities	77,7	75,4	78,2
4.	Loans/deposits and loans taken[23]	77,6	75,1	77,0
5.	Loans/ deposits, loans taken and subordinated debts[24]	77,1	74,4	76,3

[22] Liquid assets in narrow sense: cash and deposits and other financial assets with residual maturity period of less than three months, excluding interbank deposits.
[23]Empirical standards are: less than 70% - very solid, 71%-75% - satisfactory, 76%-80% - borderline satisfactory, 81%-85% - insufficient, over 85% - critical
[24] Previous ratio is expanded, the funding also includes subordinated debts, which is a more realistic indicator.

The loans to deposits and loans taken ratio as at 30/06/2020 was 77%, which was higher by 1.9 percentage points compared to the end of 2019 (located in the marginally satisfactory zone). With three banks, this indicator was higher than 85%.

As of 1H 2020, 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 total assets ratio is still satisfactory.

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[25].

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 Decision on Liquidity Risk Management in Banks so to stimulate lending activity of banks in a way to have changed provisions of the Decision and 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 under circumstances of the declared state of natural disaster. The said Decision prescribes that min. 65% of the funding sources with maturity of up to 30 days must be engaged in facilities with maturity up to 30 days, min. 60% of funding sources with maturity up to 90 days to be engaged in facilities with maturity up to 90 days and min. 55% of the funding sources with maturity up to 180 days to be engaged with facilities whose maturity is up to 180 days.

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

- BAM 000 -

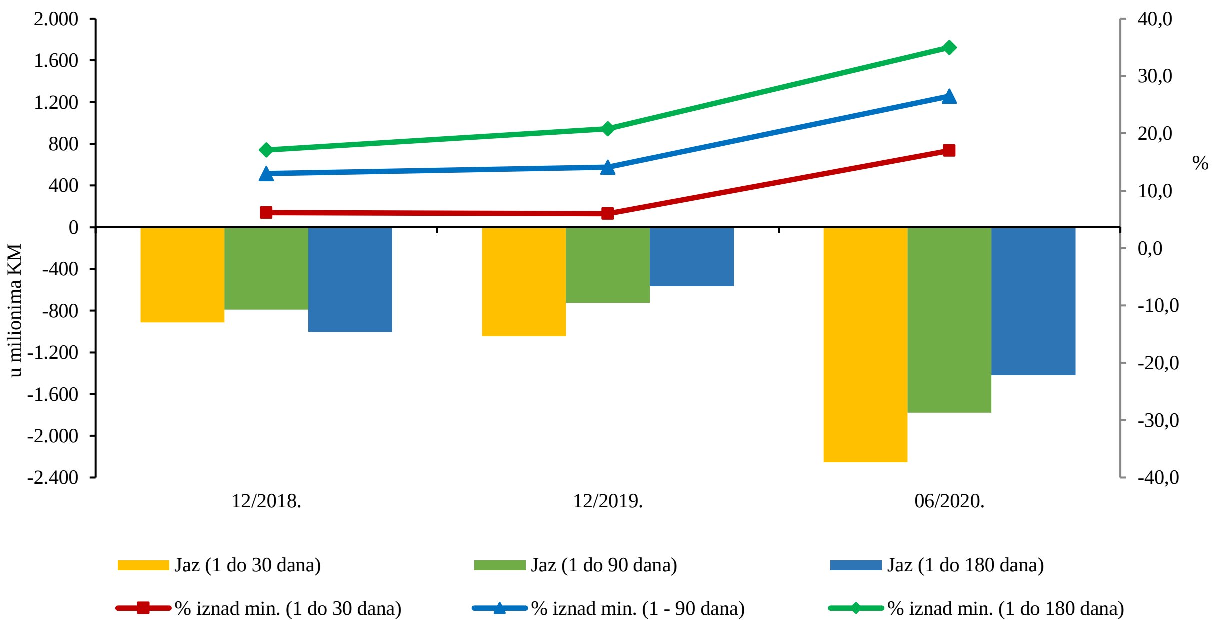
Table 33: Maturity matching of financial assets and financial liabilities of up to 180 days

No.	Description	31.12.2018	31.12.2019	30.06.2020	Index	
		Amount	Amount	Amount	(4/3)	(5/4)
1	2	3	4	5	6	7
I 1-30 days						
1.	Amount of financial assets	9,513,412	10,579,834	10,257,463	111	97
2.	Amount of financial liabilities	10,425,706	11,624,766	12,512,019	112	108
3.	Balance (+ or -) = 1-2	-912,294	-1,044,932	-2,254,556	-	-
Calculation of compliance with regulatory requirements in %						
a)	Actual %= no. 1 / no. 2	91.2%	91.0%	82.0%		
b)	Regulatory minimum %	85.0%	85.0%	65.0%		
	More (+) or less (-) = a - b	**6.2%**	**6.0%**	**17.0%**		
II 1-90 days						
1.	Amount of financial assets	10,556,830	11,641,857	11,351,939	110	98

[25] Decision on Liquidity Risk Management (FB&H Official Gazette Nos. 81/17 and 37/20)

2.	Amount of financial liabilities	11,345,741	12,367,913	13,129,150	109	106
3.	Balance (+ or -) = 1-2	-788,911	-726,056	-1,777,211	-	-
Calculation of compliance with regulatory requirements in %						
a)	Actual %= no. 1 / no. 2	93.0%	94.1%	86.5%		
b)	Regulatory minimum %	80.0%	80.0%	60.0%		
	More (+) or less (-) = a - b	**13.0%**	**14.1%**	**26.5%**		
III 1-180 days						
1.	Amount of financial assets	11,640,075	12,985,569	12,689,854	112	98
2.	Amount of financial liabilities	12,644,902	13,550,664	14,107,647	107	104
3.	Balance (+ or -) = 1-2	-1,004,827	-565,095	-1,417,793	-	-
Calculation of compliance with regulatory requirements in %						
a)	Actual %= no. 1 / no. 2	92.1%	95.8%	90.0%		
b)	Regulatory minimum %	75.0%	75.0%	55.0%		
	More (+) or less (-) = a - b	**17.1%**	**20.8%**	**35.0%**		

Chart 13: Maturity matching of financial assets and financial liabilities of up to 180 days



As of 30/06/2020, 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 17%, in the second one by 26.5& and in the third time bucket by 35%.

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 30/06/2020 is satisfactory despite negative effects to the economy caused by the pandemic and considering high level of liquidity posted over the previous period.

2.2.8. 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[26], 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[27].

In order for the FBA to monitor banks' compliance with the regulatory limits and FX risk exposure level, banks are required to report to the FBA on a daily basis. Based on the control, monitoring and analysis of reports, it could be inferred that banks comply with the regulatory limits and perform their FX activities within such limits.

According to the balance as at 30/06/2020, the items in foreign currencies amounted to BAM 3.5 billion, with a 14.9% 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 7.9 billion or 33.7% (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 -

Table 34: Foreign exchange matching of financial assets and financial liabilities (EUR and total)

No.	Description	31.12.2019				30.06.2020				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
I Financial assets											
1.	Cash	2,065	20.6	2,543	23.8	1,510	15.9	2,028	20.0	73	80
2.	Loans	336	3.4	337	3.2	625	6.6	626	6.1	186	186
3.	Loans with currency clause	6,651	66.3	6,655	62.2	6,413	67.8	6,415	63.2	96	96
4.	Other	727	7.2	911	8.5	672	7.1	846	8.3	92	93
5.	Other financial assets with currency clause	251	2.5	251	2.3	243	2.6	243	2.4	97	97
Total I (1+2+3+4+5)		**10,030**	**100**	**10,697**	**100**	**9,463**	**100**	**10,158**	**100**	**94**	**95**
II Financial liabilities											
6.	Deposits	6,841	73.8	7,529	75.6	6,138	71.9	6,845	74.0	90	91
7.	Loans	850	9.2	850	8.5	828	9.7	828	9.0	97	97
						1,337	15.7	1,337	14.4	98	98
8.	Deposits and loans with currency clause	1,363	14.7	1,364	13.7						
9.	Other	213	2.3	221	2.2	233	2.7	243	2.6	109	110
Total II (1+2+3+4)		**9,268**	**100**	**9,964**	**100**	**8,536**	**100**	**9,253**	**100**	**92**	**93**
III Off-balance sheet											
10.	Assets	37		79		32		66			
11.	Liabilities	764		771		897		900			
IV Position											
Long (amount)		35		41		62		71			
%		1.3%		1.5%		2.3%		2.6%			
Short											

[26] FB&H Official Gazette Nos. 81/17 and 37/20

[27] Article 3 of the Decision on Foreign Exchange Risk Management in Banks provides for the limits: maximum of up to 40% for individual foreign exchange position for EUR, up to 20% for other currencies, and maximum of up to 40% of the bank's eligible capital for the bank's foreign exchange position.

%				
Permitted	30.0%	30.0%	40.0%	40.0%
Less than permitted	**28.7%**	**28.5%**	37.7%	37.4%

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 30/06/2020 ranged within the regulatory limits. As of 30/06/2020, seven banks had long foreign exchange positions, while eight banks had short positions. A long foreign exchange position of 2.6% of the banks' total eligible capital was reported across the sector, which was lower by 37.4 percentage points than the permitted one. The individual foreign exchange position for EUR was 2.3%, which was lower by 37.7 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[28] , the EUR's 80.2% share is dominant (82.5% as at December 31st, 2019), with a decrease in the nominal amount by BAM 320.3 million or 10.2%. The EUR's share in financial liabilities is 90.9% and, compared to the end of 2019, it decreased by BAM 704.8 million or 8.9%. The calculation basis for EUR's share in financial assets and financial liabilities does not include the items with a currency clause.

2.3. 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 above measures and activities will especially focus on continuation of ongoing supervision of the banks, with an emphasis on:

- monitoring consequences caused by the pandemic and measures taken by Crisis Headquarters on operations of legal entities and on financial capacity of citizens, as well as ensuring timely intervention within the regulatory framework for purpose of enabling support to the banking sector, legal entities and citizens (as customers), thus preserving stability of the banking sector;
- monitoring effects of FBA's special measures to mitigate 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;
- 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

[28] 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.

- 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.

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 mitigating negative consequences of the COVID-19 pandemic;
- corporate and retail credit support, with implementation of the regulatory requirements in respect of credit risk management and maintenance of adequate capitalization against banks' risk profiles;
- efficiency of an integrated risk management system and improvement of a system for early increased credit risk identification, i.e. deterioration in the loan portfolio's quality, as well as more efficient NPL management measures;
- bringing operations in compliance with the new regulatory requirements for banks' operations and supervision, including also the requirements related to recovery and resolution planning in banks;
- consistent and full implementation of the IAS/IFRS;
- 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.

3. NON-DEPOSIT FINANCIAL INSTITUTIONS SECTOR

This section of the Information provides an overview of the structure and financial indicators of operations of the non-deposit financial institutions in the FB&H (MCOs, leasing companies and factoring business) in the Q2 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[29] 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[30].

3.1. MICROCREDITNI SECTOR

3.1.1. MICROCREDIT SECTOR STRUCTURE IN THE FB&H

3.1.1.1. Status, Number and Business Network

In the FB&H as of 30/06/2020, 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 three 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 30/06/2020, operates through the total of 382 organizational parts of MCOs seated in the FB&H, which, compared to data as of December 31, 2019 represents an increase by 8 organizational parts or 2.1%. As of 30/06/2020, four MCCs with headquarters in the RS operate in the FB&H through 49 organizational units, which is an increase by one organizational part of 2.1% compared to December 31, 2019.

Annex 7 provides basic information on MCFs and MCCs which, as of 30/06/2020 held the FBA's license for performing the micro lending activity.

3.1.1.2. 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 ownership of one non-resident legal entity and one MCC is in 100% ownership of one resident legal entity.

3.1.1.3. Staff Structure

The microcredit sector in the FB&H, as of 30/06/2020, had a total of 1,354 employees, which is higher by 11 employees, i.e. 0.8%, compared to December 31, 2019. More precisely, in five MCFs and one MCC 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 three MCFs and one MCC the number of employees remained unchanged. Out of the total number of employees in the microcredit sector in the FB&H, MCFs employ 1,099 persons or 81.2% %, while MCCs employ 255 persons or 18.8%.

[29] Manner and methodology of preparing reports of MCOsis prescribed in the Reporting Instructions for Micro Credit Organisations No. 01-56/20 of 15.01.2020.

[30] FB&H Official Gazette No. 87/19

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

Table 35: Qualification structure of employees in MCOs in the FB&H

No.	Qualification	31.12.2019		30.06.2020		Index
		No. of employees	% share	No. of employees	% share	(5/3)
1	2	3	4	5	6	7
1.	University qualifications	702	52.3	714	52.7	102
2.	Two-year post-secondary school qualifications	102	7.6	103	7.6	101
3.	Secondary school qualifications	529	39.4	527	39.0	100
4.	Other	10	0.7	10	0.7	100
	Total	**1,343[31]**	**100**	**1,354**	**100**	**101**

An analysis of data on staff efficiency in the FB&H microcredit sector as of 30/06/2020 shows that assets per MCO employee amounted BAM 0.5 million, up by 1% vs. 31/12/2019.

3.1.2. FINANCIAL INDICATORS OF PERFORMANCE

3.1.2.1. Balance Sheet

Total assets of the FB&H microcredit sector as of 30/06/2020 amounted to BAM 641 million and are higher by BAM 11.4 million, i.e. 1.8% compared to December 31, 2019. The increase in balance sheet total vs. end of the previous year was seen with six MCFs and three MCCs, while a decrease was evident with five MCFs. The biggest share in the total balance sheet of MCOs is with five MCFs and one MCC with assets amounting to BAM 586.9 million or 91.5% of total assets of the microcredit sector.

Annexes 8 and 9 provide a summary overview of balance sheets of MCFs and MCCs, while Annex 10 shows basic financial indicators of MCOs based on reporting data as of 30/06/2020.

The aggregate balance sheet of the FB&H microcredit sector as of 30/06/2020 and comparative data with December 31, 2019 are shown in the following table:

- BAM 000 -

Table 36: Microcredit sector's balance sheet

No	Description	31.12.2019				30.06.2020				Index
		Balance for MCFs	Balance for MCCs	Total	%	Balance for MCFs	Balance for MCCs	Total	%	(9/5)
1	2	3	4	5=3+4	6	7	8	9=7+8	10	11
	ASSETS									
1.	Cash	35,594	13,281	48,875	7.8	44,033	16,569	60,602	9.5	124
2.	Placements to banks	2,150	0	2,150	0.3	2,140	0	2,140	0.3	100
3.	Microloans	370,298	140,707	511,005	81.2	371,709	145,513	517,222	80.7	101
4.	Loan loss provisions	2,759	1,411	4,170	0.7	4,822	5,159	9,981	1.6	239
5.	Net microloans	367,539	139,296	506,835	80.5	366,887	140,354	507,241	79.1	100
6.	Premises and other fixed assets	28,231	5,747	33,978	5.4	28,282	4,981	33,263	5.2	98
7.	Long-term investments	33,061	0	33,061	5.3	33,081	0	33,081	5.2	100
8.	Other assets	3,415	1,304	4,719	0.7	3,359	1,343	4,702	0.7	100
9.	Reserves on other items in assets, apart from loans	3	0	3	0.0	3	0	3	0.0	100
	Total assets	**469,987**	**159,628**	**629,615**	**100**	**477,779**	**163,247**	**641,026**	**100**	**102**
	LIABILITIES									
10.	Liabilities on loans	196,769	106,797	303,566	48.2	201,971	110,573	312,544	48.7	103
11.	Other liabilities	24,218	7,517	31,735	5.0	21,690	5,635	27,325	4.3	86
12.	Capital	249,000	45,314	294,314	46.8	254,118	47,039	301,157	47.0	102

[31] Correction of data consolidation

Total liabilities		**469,987**	**159,628**	**629,615**	**100**	**477,779**	**163,247**	**641,026**	**100**	**102**
13.	Off-bal.sheet records	357,812	62,655	420,467		343,494	36,453	379,947		90

In the structure of assets of the FB&H microcredit sector as of 30/06/2020, the level and the share of net tangible and intangible assets are reduced. Placements to banks, long term investments and other assets are nearly the same as at the end of the previous year, i.e. there was just a slight increase, while other assets positions posted a rise vs. end of the previous year.

The rate of fixed assets compared to total assets (reduced by donated capital across the FB&H microcredit sector) as of 30/06/3030 amounts to 5.6%, which is within the prescribed limit (up to 10.0%). Therein, one MCF and one MCC reported a rate outside the prescribed limit, while one MCF is bordering on the prescribed business standard.

The net microloan portfolio, as a dominant assets item in the microcredit sector amounts to BAM 507.2 million with a share of 79.1% in total assets, hence it recorded a slight increase in absolute amount of BAM 0.4 million, i.e. 0.1%, of which BAM 0.6 million, i.e. 0.2% relate to a decrease in net microloans in MCFs, and BAM 1 million, i.e. 0.7% relate to a slight 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 5.8 million, i.e. 139.3%, as mostly caused by negative effects of the pandemic. LLP for MCFs went up by BAM 2 million with a growth rate of 74.8% and with MCCs this amount is BAM 3.7 million or higher by 265.6%. One MCC had a share of 79.3% in total LLPs of MCCs, i.e. 41% of total LLPs of the microcredit sector.

Total off-balance sheet records as of 30/06/2020 amounted to BAM 379.9 million and compared to December 31, 2019 they are lower by BAM 40.5 million, i.e. 9.6%, where in MCFs they were lower by BAM 14.3 million, i.e. 4%, while in MCCs they decreased by BAM 26.2 million, i.e. 41.8%. The most significant reduction of the off-balance sheet records was posted with one MCC where the total off-balance sheet records dropped by BAM 26.8 million or 75.1% since the off-balance sheet item of approved, but undrawn loans from creditors went down by BAM 27.1 million or 76.2%. One MCF has 53.7% share in total off-balance sheet records of the microcredit sector since its other off-balance sheet items include an amount of BAM 150.3 million that relates to promissory notes as loan security instruments, thus constituting 71.8% of the total amount posted under the item other off-balance sheet items (BAM 209.3 million).

Of the total amount in off-balance sheet records as of 30/06/2020, written off loans make up for BAM 149.6 million, i.e. 39.4% (write-off under the principal and regular interest – BAM 99.9 million or 66.8%, write offs under default interest – BAM 43.2 million or 28.9% and write offs of court expenses – BAM 6.5 million or 4.3%), thus being lower by BAM 2.9 million or 1.9% vs. end of the previous year. The total number of written off microloans as of 30/06/2020 was 36,737, down by a total of 535 microloans (1.4%) vs. 31/12/2019. This came as a net effect of new write offs, permanent write offs and fully collected microloans.

3.1.2.2. Capital and Liabilities

The biggest items in liabilities in the FB&H microcredit sector as of 30/06/2020 relate to: liabilities on loans taken, which amount to BAM 312.5 million, i.e. 48.7% of the total liabilities and capital, amounting to BAM 301.2 million and representing 47% of total liabilities. The remaining amount of BAM 27.3 million, i.e. 4.3% relates to other liabilities. Compared to December 31, 2019, in the 1H 2020 there is an evident increase in liabilities for loans taken by BAM 9 million, i.e. 2.9%.

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

- BAM 000-

Table 37: Maturity structure of loans taken

No.	Description	31.12.2019				30.06.2020				Index
		MCF	MCC	Total	%	MCF	MCC	Total	%	(9/5)
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	59,784	47,484	107,268	34.3	104
2.	Liabilities on long-term loans taken	150,186	48,888	199,074	65.6	141,381	61,997	203,378	65.1	102
3.	Liabilities based on interest due	907	914	1,821	0.6	806	1,092	1,898	0.6	104
	Total	**196,769**	**106,797**	**303,566**	**100**	**201,971**	**110,573**	**312,544**	**100**	**103**

In the structure of total liabilities on loans taken as of 30/06/2020, loan obligations of MCFs represent 64.6%, while loan obligations of MCCs represent 35.4%. In respect of the maturity structure of loan obligations in 1H 2020 compared to December 31, 2019, there is an increased share of short term liabilities by 4.5% with an increase of long term liabilities by 2.1%. Liabilities related to interest due have also risen by 4.2%. The largest creditors of the FB&H microcredit sector, according to their share in total loan obligations of MCOs as of 30/06/2020, are EFSE Luxembourg with 9.9%, Blue Orchard - Switzerland with 5.2% 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 6.8 million, i.e. 2.3%, of which the amount of BAM of 5.1 million, i.e. 2% relates to the capital increase in MCFs, while the capital of all the MCCs in the reporting period increased by BAM 1.7 million, i.e. 3.8%.

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

- BAM 000 –

Table 38: Microcredit sector's capital structure

No.	Description	31.12.2019				30.06.2020				Index
		Balance for MCF	Balance for MCC	Total	%	Balance for MCF	Balance for MCC	Total	%	(9/5)
1	2	3	4	5=3+4	6	7	8	9=7+8	11	12
1.	Donated capital	48,076	0	48,076	16.3	48,076	0	48,076	15.9	100
2.	Tier 1 capital	3,868	31,600	35,468	12.1	3,868	33,100	36,968	12.3	104
3.	Surplus & deficit of revenue over expense	196,938	0	196,938	66.9	202,064	0	202,064	67.1	103
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	7,529	7,529	2.5	82
6.	Regulatory reserves	0	2,528	2,528	0.9	0	3,568	3,568	1.2	141
7.	Other reserves	118	2,000	2,118	0.7	110	2,842	2,952	1.0	139
	Total capital	**249,000**	**45,319**	**294,319**	**100**	**254,118**	**47,039**	**301,157**	**100**	**102**

Out of the total capital of the FB&H microcredit sector which, as of 30/06/2020 amounted to BAM 301.2 million, the total capital of MCFs amounted to BAM 254.1 million, i.e. 84.4%, and the biggest items are the surplus of revenues over expenses, amounting to BAM 202.1 million and representing 79.5% of total capital of MCFs, and donated capital, amounting to BAM 48.1 million, i.e. 18.9%. Out of the total amount of donated capital, donations for 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, i.e. 21.0% of the total donated capital in one MCF.

Total capital of MCCs amounts to BAM 47.1 million, comprising 15.6% of the total capital of the microcredit sector. Its structure includes these key items: Tier 1 capital of BAM 33.1 million, i.e. 70.4%, and unallocated profit of BAM 7.5 million, i.e. 16%. The remaining BAM 6.5 million, i.e. 13.6% of MCC capital relate to statutory and other reserves. Looking into the capital rate reduced by donated capital vs. assets, as of 30/06/2020, it amounted 39.5% at the microcredit sector level. Thus, we find that it is in line with the prescribed limit (more than 10%).

Other liabilities across the FB&H microcredit sector as of 30/06/2020 amounted to BAM 27.3 million, i.e. 4.3% of total liabilities, and compared to December 31, 2019 they have decreased by BAM 4.4 million, i.e. 13.9%.

3.1.2.3. Assets and Asset Quality

The microloan portfolio reported in gross amount in the balance sheet total of the FB&H microcredit sector as of 30/06/2020 amounted to BAM 517.2 million, i.e. 80.7% of total assets of the microcredit sector, i.e. with a reduction for the corresponding LLR in the total amount of BAM 10 million, the net microloan portfolio amounts to BAM 507.2 million, i.e. 79.1% of total assets of the FB&H microcredit sector. Compared to December 31, 2019, the gross microloan portfolio rose by BAM 6.2 million, i.e. by 1.2%, while the net microloan portfolio rose slightly by the amount of BAM 0.4 million, i.e. 0.1%.

In the same period, the level of LLR increased by BAM 5.8 million, i.e. 139.3%. The LLR to total gross microloan portfolio as of 30/06/2020 amounted to 1.9%, which, compared to the same ratio as of December 31, 2019, when it amounted to 0.8%, represents an increase by 1.1 percentage points. In the structure of total net portfolio of the microcredit sector in the FB&H as of 30/06/2020, the net microloans of MCFs amounted to BAM 366.9 million and represent 72.3% of the total net microloans across the sector, while the amount of BAM 140.3 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 decreased slightly by BAM 0.6 million, i.e. 0.2%, while the net microloans of MCCs increased slightly by BAM 1 million, i.e. 0.7%.

Net microloans as of 30/06/2020 are shown in the following table:

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Table 39: Net microloans

No.	Description	31.12.2019			30.06.2020			Index
		MCF	MCC	Total	MCF	MCC	Total	(8/5)
1	2	3	4	5=3+4	6	7	8=6+7	9
1.	Microloans (gross)	370,298	140,707	511,005	371,709	145,513	517,222	101
2.	LLP	2,759	1,411	4,170	4,822	5,159	9,981	239
3.	**Net microloans (1.-2.)**	**367,539**	**139,296**	**506,835**	**366,887**	**140,354**	**507,241**	**100**

Detailed data on the sector and the maturity structure of the microloan portfolio (reduced by deferred fee income) as of 30/06/2020 are shown in the following table:

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Table 40: Sector and maturity structure of microloans

No.	Microloans	ST micro loans	LT micro loans	Receivables due	Total	%
1	2	3	4	5	6=3+4+5	7
1.	**Corporate**					
a)	Services	213	7,713	68	7,994	55.2
b)	Trade	150	2,806	20	2,976	20.5
c)	Agriculture	30	1,092	1	1,123	7.7

d)	Manufacturing	126	2,135	6	2,267	15.6
e)	Other	23	107	5	135	1.0
	Total 1	**542**	**13,853**	**100**	**14,495**	**100**
2.	**Retail**					
a)	Services	3,427	91,070	299	94,796	19.1
b)	Trade	911	13,264	58	14,233	2.9
c)	Agriculture	5,460	159,689	475	165,624	33.3
d)	Manufacturing	369	10,888	24	11,281	2.3
e)	Housing needs	2,197	108,062	331	110,590	22.2
f)	Other	13,824	85,439	1,037	100,300	20.2
	Total 2	**26,188**	**468,412**	**2,224**	**496,824**	**100**
	Total (1+2)	**26,730**	**482,265**	**2,324**	**511,319**	**-**

In the maturity structure of total microloan portfolio as of 30/06/2020 shown in the table above, the highest share is the share of long-term micro loans with 94.3%, while short-term micro loans have a 5.2% share and receivables due on micro loans have a 0.5% share.

Upon observing the sector structure, the dominant share is the share of retail microloans, with 97.2%, while the remaining 2.8% relate to corporate microloans. Within the retail microloan portfolio, the biggest is the share of microloans approved for agriculture, which amounts to 33.3% and for housing needs, at 22.2%. By share levels, other sectors follow with 20.2% and services with 19.1%. The share of microloans for trade is 2.9% and for manufacturing 2.3%. In the structure of corporate microloans, the dominant share is the share of microloans for services – 55.2%.

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 30/06/2020:

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Table 41: 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%	478,034	92.6	0%	373	390	0	0	0	296	296
2.	1–15	2%	16,254	3.2	2%	191	0	326	4	0	3	333
3.	16–30	15%	11,658	2.3	100%	59	0	1,749	59	0	43	1,851
4.	31–60	50%	5,337	1.0	100%	44	0	2,669	44	0	52	2,765
5.	61–90	80%	1,768	0.3	100%	59	0	1,414	59	0	59	1,532
6.	91–180	100%	2,959	0.6	100%	216	0	2,959	216	0	29	3,204
	Total		**516,010**	**100**		**942**	**390**	**9,117**	**382**	**0**	**482**	**9,981**
7.	over 180	Write off	1,525	-	100%	190	0	0	0	0	0	0

In the total microloan portfolio at the sector level, 92.6% relate to microloans without defaults, while in the remaining 7.4% microloans there are defaults, of which defaults up to 30 days represent 5.5% of micro loans, while 1.9% are defaults of 31 to 180 days. Out of the total amount of due interest (BAM 0.9 million), defaults up to 30 days represent 26.5%, while defaults of 31 to 180 days represent 33.9%. For due interest that has not been collected within the deadline of up to 15 days, MCOs are required to form loan loss provisions in 100% amount of receivables. During Q2 2020, MCOs have written off BAM 1.7 million of principal and interest.

Out of the total amount of provisions under microloans, interest and other asset items as of 30/06/2020 (BAM 10 million), the largest item corresponds to provisions formed for microloans in default of 91 to 180 days, which amount to BAM 3.2 million and represent 32.1% of the total amount of provisions.

For purpose of mitigating negative economic consequences of the pandemic and preserving stability of the FB&H financial sector, in March 2020, FBA has adopted the Decision on Temporary Measures of Leasing Companies and MicroCredit Organisations to Mitigate Negative Economic Consequences Caused by COVID-19.[32].

Until 30/06/2020, MCOs have received 27,968 requests for moratorium approval, i.e. approval of special measures, thereof 27,407 requests or 98% by private individuals and 561 requests or 2% by legal entities. Out of their total number, 26,230 requests were approved, thus constituting 93.8% of all filed requests for special measures, whereas 25,741 or 98.1% refer to private individuals and 489 requests or 1.9% to legal entities.

Total amount of microloans with approved moratorium/special measures is BAM 12.3 million, of which BAM 114.4 million 94.3% relates to private individuals and BAM 6.9 million or 5.7% to legal entities.

Key Indicators of Microcredit Portfolio Quality

The risk portfolio indicator for more than 30 days in default (PAR>30 days) as of 30/06/2020 amounts to 1.95% at the level the microcredit sector and it increased by 1.09 percentage points compared to December 31, 2019. This risk indicator of the microloan portfolio at the sector level is within the prescribed standard (below 5%).

At the microcredit sector level, the rate of write offs of microloans as of 30/06/2020 amounted to 1.14%, which is within FBA standards (below 3%). Compared to 31.12.2019, this rate rose by 0.27 percentage points.

Weighted NIR and EIR on micro loans

Over the 1H 2020, MCOs seated in the FB&H had disbursed a total of BAM 210.9 million of microloans, which is by BAM 26 million or 11% 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 19.22% and EIR of 24.23%, whereas NIR on short term microloans was 20.62% and on long term ones 19.02% and EIR on short term microloans was 31.87% and on long term ones 23.13%. Average weighted EIR on total microloans disbursed by MCOs seated in the FB&H posted a slight increase in 1H 2020 by 0.24 percentage points vs. the same period in 2019, whereas average weighted EIR on short term microloans posted a rise by 2.04 percentage points and on long term microloans a drop by 0.15 percentage points.

Annex 11 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 30.06.2020 by MCOs seated in the FB&H. In the FB&H MCOs, the position of short term non-purpose loans – basic needs shows a major difference between NIR (21.44%) and EIR (40.28%) resulting from a microcredit product of one MCC that does not arrange NIR, but charges high one-off fee that gets reflected in the EIR calculation.

Annex 11a. 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.

[32] FB&H Official Gazette Nos. 22/20 and 37/20

3.1.2.4. Financial Performance of the FB&H Microcredit Sector

According to reporting data for MCOs, in the period from 01.01.2020 to 30.06.2020, total financial performance at the level of the FB&H microcredit sector (before taxes) was positive and amounted to BAM 3 million, down by BAM 7.7 million or 71.7% 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 42: Aggregate income statement of the microcredit sector

No.	Description	For the period 01.01. - 30.06.2019				For the period 01.01. - 30.06.2020				Index
		MCF	MCC	Total	%	MCF	MCC	Total	%	(9/5)
1	2	3	4	5=(3+4)	6	7	8	9=(7+8)	10	11
1. INCOME										
1.1.	Interest income and similar income	35,603	12,936	48,539	90.2	37,303	12,949	50,252	92.7	104
1.2.	Operating income	5,177	101	5,278	9.8	3,413	55	3,468	6.4	66
1.3.	Other operating income	0	0	0	0.0	392	103	495	0.9	-
2.	**Total income (1.1.+1.2.+1.3.)**	**40,780**	**13,037**	**53,817**	**100**	**41,108**	**13,107**	**54,215**	**100**	**101**
3. EXPENSES										
3.1.	Interest income and similar income	4,055	2,265	6,320	14.7	3,864	2,780	6,644	13.0	105
3.2.	Operating income	27,224	6,578	33,802	78.5	27,304	7,983	35,287	68.9	104
3.3.	Other operating income	216	28	244	0.6	296	257	553	1.1	227
3.4.	Interest income and similar income	1,950	722	2,672	6.2	4,001	4,682	8,683	17.0	325
4.	**Total expenses (3.1.+3.2.+3.3.+3.4.)**	**33,445**	**9,593**	**43,038**	**100**	**35,465**	**15,702**	**51,167**	**100**	**119**
5.	**Profit/loss and excess/shortfall of income over expenses before taxation (2.-4.)**	**7,335**	**3,444**	**10,779**	-	**5,643**	**-2,595**	**3,048**	-	28
6.	Income tax and excess income over expenses	**0**	379	**379**	-	638	0	638	-	168
7.	**Net profit/loss and net excess/shortfall of income over expenses (5.-6.)**	**7,335**	**3,065**	**10,400**	-	**5,005**	**-2,595**	**2,410**	-	23

Over the 1H 2020, MCFs reported excess of income over expenses (before taxes) of BAM 5.6 million, which is by BAM 1.7 million, i.e. 23% lower compared to 30/06/2019. In analytical terms, as of 30/06/2020, four MCFs posted a shortage of income over expenses of BAM 0.3 million, while other MCFs posted excess income over expenses of BAM 5.9 million. In the reporting period, total income of MCFs stood at BAM 41.1 million, thus rising by BAM 0.3 million or 0.8%, whereas interest and similar income (as dominant item of total income of MCFs) went up by BAM 1.7 million or 4.8%. Over the 1H 2020, total expenses of MCFs amounted BAM 35.5 million, up by BAM 2 million or 6% vs. the same period last year. Operating expenses (as dominant item of total expenses) of MCFs rose slightly by 0.3%, while costs of provisions for loan and other losses of MCFs rose by BAM 2 million or 105.2%.

At the level of MCCs, total net loss was reported in an amount of BAM 2.6 million, which, compared to 30/06/2019 represents a decrease by BAM 6 million, i.e. 175.3%. Therein, during the reporting period, one MCC posted a net profit (before taxes) of BAM 2 ths, while two MCCs posted a net loss of BAM 2.6 million. During 1H 2020, MCCs posted BAM 13.1 million of total income, up by slight 0.5% 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 0.1% compared to the same period in 2019. In the 1H 2020, total expenses stood at BAM 15.7 million, up by BAM 6.1 million or 63.7% compared to the 1H 2019. Operating expenses of MCCs, as dominant item of total expenses, have climbed by BAM 1.4 million or 21.3%, while costs of reserves for loan and other losses of MCCs rose by BAM 3.9 million or 548.5%, as caused by the pandemic. The cost of reserves with one MCC rose by 443.9% and this MCC holds a share in total assets of MCCs of 95.1%.

Annexes 12 and 13 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 30/06/2020 amounted to 19.82%, which is within the prescribed range for the indicator of up to 45%.

According to reporting data at the FB&H microcredit sector as of 30/06/2020, the return on assets adjusted for inflation, market price of capital and donations (AROA) was positive at 1.69%. 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 105.96%.

3.1.3. 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, protecting rights of financial service users, especially in the context of approval of temporary measures to micro loan users whose credit standing has worsened due to the pandemic;
- timely and adequate undertaking of activities in MCOs according to the corrective measures imposed to eliminate irregularities and weaknesses in business operations.

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

The microcredit sector in the 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 rates policies on microloans with the prescribed micro lending goals, thus contributing to stability and sustainability of the FB&H microcredit sector;
- enabling customers impacted by the pandemic to postpone payment of their obligations, restructure their debts or ensure some other relief for purpose of their recovery from the consequences of the pandemic, along with taking all other measures to manage credit risk;
- 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.

3.2. LEASING SECTOR

3.2.1. FB&H LEASING SECTOR STRUCTURE

3.2.1.1. Number of Leasing Companies

The FBA license for leasing operations was, as of 30/06/2020, held by five leasing companies in the FB&H and there were no changes compared to 31/12/2019. Annex 14 provides basic information on leasing companies which, as of 30/06/2020, represented the leasing sector in the FB&H.

3.2.1.2. Ownership Structure

The ownership structure of leasing companies in the FB&H, according to data as of 30/06/2020, 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 two leasing companies are in 100% ownership of resident legal persons.

3.2.1.3. Staff Structure

As at 30/06/2020, there was a total of 112 employees in the leasing sector in the FB&H, which is the same as at the end of the previous year.
An overview of qualification structure of FTEs at the FB&H leasing sector level is provided in the table below:

Table 43: Qualification structure of employees in leasing companies in the FB&H

No.	Qualifications	31.12.2019		30.06.2020		Index
		No. of employees	% share	No. of employees	% share	(5/3)
1	2	3	4	5	6	7
1.	University qualifications	78	69,6	92	82,1	118
2.	Two-year post-secondary school qualifications	5	4,5	4	3,6	80
3.	Secondary school qualifications	20	17,9	16	14,3	80
4.	Other	9	8,0	0	0,0	0
	Total	**112**	**100**	**112**	**100**	**100**

Efficiency of employees in the course of performance assessment of leasing companies is based on the ratio of assets and number of employees (assets per employee). According to indicators as at 30/06/2020, at the level of the leasing sector in the FB&H, each employee corresponded to BAM 2.9 million in assets. This is by BAM 74 ths or 2.5 more than as at 31/12/2019.

3.2.2. FINANCIAL INDICATORS OF PERFORMANCE

3.2.2.1. Balance Sheet

Total assets of the FB&H leasing sector as at 30/06/2020 amounted to BAM 331.6 million and are higher by BAM 8.3 million, i.e. 2.5% compared to December 31, 2019. Two leasing companies, viewed on the basis of asset size, are responsible for 74.4% of total assets of the FB&H leasing sector.

Upon comparing the amount of assets of individual leasing companies as of 30/06/2020 with data as of December 31, 2019, it could be inferred that in three leasing companies an increase was reported of the balance sheet sum of BAM 10.9 million, while two leasing companies reported a decrease in balance sheet sum in the total amount of BAM 2.6 million.

Annex 15 provides an aggregate balance sheet of leasing companies in the FB&H as per reporting data of 30/06/2020, while Annex 16 provides an overview of basic indicators of leasing companies in the FB&H as of 30/06/2020.

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 246.8 million, i.e. 74.4% 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 2.5 million, i.e. 0.9%. As of 30/06/2020, one bank that performs also financial leasing deals posted net receivables under financial leasing of altogether BAM 55 million, thus indicating that net receivables under financial leasing at the leasing system level were equal to BAM 301.8 million and were by BAM 3.3 million or 1.1% lower than end of the previous year. Over the same period, reserves for losses based on financial leasing receivables dropped by BAM 0.7 million or 25.1%.

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 84.4%, contracts for equipment financing participate with 14.8%, while 0.8% relates to contracts under which real estate is financed. If viewed by lessees, 88.1% refers to contracts with legal entities, while the increase of financial leasing receivables was noted in the segment of legal entities and entrepreneurs (by 3.1% and 3.4% 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 30/06/2020 and a comparative overview of the structure of receivables as of December 31, 2019 and as of June 30, 2020:

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Table 44: Structure of financial leasing receivables

No.	Description	Short-term receivables	Long-term receivables	Due receivables	Total receivables	Share in total receivables
1	2	3	4	5	6	7
1.	**By leasing object**					
1.1.	Passenger vehicles	39,460	77,093	2,467	119,020	47.9
1.2.	Vehicles for performing business activity (cargo and passenger vehicles)	33,355	54,847	2,643	90,845	36.5
1.3.	Machines and equipment	12,450	23,464	971	36,885	14.8
1.4.	Real estate	259	1,765	19	2,043	0.8
1.5.	Other	11	19	0	30	0.0
	Total	**85,535**	**157,188**	**6,100**	**248,823**	**100**
2.	**By lessee**					
2.1.	Corporate	76,676	137,894	4,678	219,248	88.1
2.2.	Entrepreneurs	2,306	3,957	131	6,394	2.6
2.3.	Retail	4,694	13,176	1,263	19,133	7.7
2.4.	Other	1,859	2,161	28	4,048	1.6
	Total	**85,535**	**157,188**	**6,100**	**248,823**	**100**

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Table 45: Structure of financial leasing receivables – comparative overview

No.	Description	31.12.2019	30.06.2020	Index (4/3)
1	2	3	4	5
1.	**By leasing object**			
1.1.	Passenger vehicles	111,444	119,020	107
1.2.	Vehicles for performing business activity (cargo and passenger vehicles)	93,450	90,845	97
1.3.	Machines and equipment	36,588	36,885	101
1.4.	Real estate	2,240	2,043	91
1.5.	Other	21	30	143
	Total	**243,743**	**248,823**	**102**
2.	**By lessee**			
2.1.	Corporate	212,667	219,248	103
2.2.	Entrepreneurs	6,184	6,394	103
2.3.	Retail	20,057	19,133	95
2.4.	Other	4,835	4,048	84
	Total	**243,743**	**248,823**	**102**

Net receivables under loans as of 30/06/2020 amount to BAM 5.1 million, i.e. 1.5% of total assets of the FB&H leasing sector. Compared to December 31, 2019, net receivables under loans decreased by BAM 0.2 million, i.e. 3.2%. 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 30/06/2020 amounted to BAM 2.6 million (constituting 0.8% of total assets), which was by BAM 3 million, i.e. 53% lower compared to December 31, 2019. Placements to banks (posted by two leasing companies) as of 30/06/2020 amounted to BAM 16.9 million, comprising 5.1% of total assets the FB&H leasing sector, which was by BAM 3.3 million, i.e. 24.3% more compared to December 31, 2019. Out of the total amount of these placements, 88.1% relates to term deposits held by one leasing company with commercial banks.

Net value of fixed assets financed through operational leasing as of 30/06/2020 amounts to BAM 51.6 million and has increased by BAM 2.4 million, i.e. 4.9% 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 1.1 million, while one leasing company reported a decrease of BAM 3.5 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 46: Structure of net balance sheet assets positions

No.	Description	31.12.2019	% share	30.06.2020	% share	Index (5/3)
1	2	3	4	5	6	7
1.	Financial leasing	241,078	74.5	246,828	74.4	102
2.	Operational leasing	49,166	15.2	51,601	15.6	105
3.	Loan	5,331	1.6	5,157	1.6	97
4.	Other assets	27,712	8.7	27,987	8.4	101
	Total	**323,287**	**100**	**331,573**	**100**	**103**

3.2.2.2. Capital and Liabilities

Total capital of the FB&H leasing sector as of 30/06/2020 amounted to BAM 31.2 million, thus constituting 9.4% of total liabilities of the FB&H leasing sector. Compared to December 31, 2019, the aforementioned position increased by BAM 2.1 million, i.e. 7.4%. Observed individually, three leasing companies saw an increase of total capital compared to 31/12/2019 of BAM 2.5 million, while two leasing companies saw a decrease of total capital by BAM 0.4 million.

Total liabilities of the leasing sector in the FB&H amounted to BAM 300.3 million as at 30/06/2020, thus representing 90.6% of total liabilities of leasing companies in the FB&H. Compared to December 31, 2019, total liabilities at the sector level rose by BAM 6.1 million or 2.1%.

Liabilities of leasing companies in the FB&H under loans taken as of 30/06/2020 stood at BAM 293 million, thus posing a dominant source in the structure of total liabilities of the FB&H leasing sector since they account for 88.4% of total liabilities. Compared to 31/12/2019, the position of loan obligations is higher by BAM 6.7 million, i.e. 2.3%. If observed by contractual maturity, the entire amount of liabilities based on loans refers to long term loans.

3.2.2.3. 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 30/06/2020 amount to BAM 2 million and are lower compared to December 31, 2019 by BAM 0.7 million, i.e. 25.1%. A decrease of loss reserves for financial leasing was posted in all default categories. Out of the total amount of posted loss reserves, 53.2% relates to one leasing company (whose share in total reserves of the leasing sector dropped by 25.6 percentage points vs. end of the previous year) and which, compared to end of the previous year, posted a reduction of loan loss reserves by 49.5% due to a write off to off-balance sheet records. Viewed individually, three leasing companies posted a decrease of loan loss reserves in total amount of BAM 1.1 million vs. end of the previous year, while two leasing companies saw an increase of loan loss reserves by a total amount of BAM 0.4 million.

In the structure of receivables under financial leasing as of 30/06/2020, the total of BAM 6.1 million of overdue receivables were reported, which is by BAM 3.1 million, i.e. 100.6% higher compared to December 31, 2019. One leasing company accounts for 59.6% of the total overdue receivables, whereas this item rose 12.3 times against YE2019.

The table below provides a detailed overview of financial leasing reserves as of 30/06/2020:

- BAM 000 -

Table 47: 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			
								For movables	For immovables	Excess calculated and allocated reserves	Total 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%	240,474	2,071	40,257	880	201	4	245	450
2.	60-90	10%	10%	2,236	0	283	0	28	0	27	55
3.	90-180	50%	50%	3,172	0	503	0	252	0	397	649
4.	over 180	100%	75%	870	0	841	0	841	0	0	841
5.	over 360	100%	100%	0	0	0	0	0	0	0	0
Total				**246,752**	**2,071**	**41,884**	**880**	**1,322**	**4**	**669**	**1,995**

The total amount of written off receivables under financial leasing and loans as of 30/06/2020 amounted to BAM 24.5 million BAM and is higher compared to December 31, 2019, by BAM 1 million, i.e. 4.5%.

The appraised market value of foreclosed leasing objects, due to termination of leasing contracts with lessees as of 30/06/2020 at the level of the FB&H leasing sector, amounted to BAM 1.1 million, down by BAM 0.4 million or 24.4% compared to 31.12.2019. There was a total of 80 foreclosed objects, with a posted increase of the number of foreclosed objects by 2 objects or 2.5%. Out of the total reported amount of appraised market value of foreclosed items in the FB&H leasing sector as of 30/06/2020, 50.4% refers to passenger vehicles and business vehicles. In addition, 49.6% 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 30/06/2020, the market value of foreclosed leasing items amounted to BAM 7.4 million and it decreased by BAM 0.4 million or 5% 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 6.3 million, i.e. 85% of the total market value of foreclosed items reported at the level of the leasing system.

Until 30/06/2020, leasing companies have received 816 requests for approval of moratorium, i.e. special measures, of which 224 requests or 27.5% refers to private individuals and 592 requests or 72.5% to legal entities. Out of the total number of requests, there were 731 approved requests, thus constituting 89.6% of all requests filed for purpose of approval of special measures, of which 175 requests or 23.9% by private individuals and 556 requests or 76.1% from legal entities.

Total amount of loans being approved with the moratorium/special measure equals BAM 98.2 million, of which BAM 4.4 million or 4.5% goes down to private individuals and BAM 93.8 million or 95.5% to legal entities.

3.2.2.4. Profitability

According to the reporting data of leasing companies, across the FB&H leasing sector in the period from January 1 – June 30, 2020, a profit of BAM 1.8 million was reported, which represents an increase by BAM 0.8 million or 83.5% compared to the same period the year before. This increase of the business result of the leasing sector mostly results from an improved business result of one leasing company that posted a major loss over the same period the year before. Viewed individually, three leasing companies reported positive financial performance of BAM 2.2 million, while two leasing companies posted negative financial performance of BAM 0.4 million.

The aggregate income statement for leasing companies in the FB&H for the period 01/01/2020 to 30/06/2020 is provided in the Annex 17.

Total income of the FB&H leasing sector for the period 01/01/2020 to 30/06/2020 amounted to BAM 17.4 million. 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:

- BAM 000 -

Table 48: Structure of total income

No.	Structure of total income	01.01.-30.06.2019		01.01.-30.06.2020		Index
		Amount	% share	Amount	% share	(5/3)
1	2	3	4	5	6	7
1.	**Interest income and similar income**					
1.1.	Interest under financial leasing	5,622	35.9	5,158	29.7	92
1.2.	Interest on placements to banks	154	1.0	202	1.2	131
1.3.	Other interest income	785	5.0	843	4.8	107
	Total	**6,561**	**41.9**	**6,203**	**35.7**	**95**
2.	**Operating income**					
2.1.	Operating lease charges	6,867	43.8	8,442	48.6	123
2.2.	Service fees	1	0.0	1	0.0	100
2.3.	Other operating income	2,238	14.3	2,716	15.7	121
	Total	**9,106**	**58.1**	**11,159**	**64.3**	123
3.	**Income from release of reserves for losses**	**0**	**0.0**	**0**	**0**	-
	Total income (1+2+3)	**15,667**	**100**	**17,362**	**100**	**111**

The FB&H leasing sector’s interest income in the January 1 – June 30, 2020 period amounted to BAM 6.2 million, thus constituting 35.7% of total income of the leasing sector. It decreased by BAM 0.4 million, i.e. 5.4%, 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 5.1 million and it is by BAM 0.5 million, i.e. 8.2%, lower compared to the same period of the preceding financial year.
Operating income amounted to BAM 11.2 million with a share of 64.3% in total income of the leasing sector. Compared to the same period last year, it is higher by BAM 2 million, i.e. 22.5%, mostly due to an increase of the operational lease fee as a dominant item of operating income (by BAM 1.6 million or 22.9%, thus arriving to an amount of BAM 8.4 million).

Total expenses for the period 01/01/2020 to 30/06/2020 amounted to BAM 15.6 million, and the level and structure of total expenses compared to the same period of the preceding financial year are shown in the following table:

- BAM 000 -

Table 49: Structure of total expenses

No.	Structure of total expenses	01.01.-30.06.2019		01.01.-30.06.2020		Index
		Amount	% share	Amount	% share	(5/3)
1	2	3	4	5	6	7
1.	**Interest expenses and similar income**					
1.1.	Interest on borrowed funds	1,963	13.4	2,064	13.3	105
1.2.	Fees for processing loans	50	0.3	52	0.3	104
1.3.	Other interest expenses	6	0.0	1	0.0	17
	Total	**2,019**	**13.7**	**2,117**	**13.6**	**105**
2.	**Operating expenses**					
2.1.	Salary and contribution costs	2,677	18.2	2,506	16.1	94
2.2.	Business premises costs	4,653	31.7	5,656	36.3	122
2.3.	Other costs	4,641	31.6	4,751	30.4	102
	Total	**11,971**	**81.5**	**12,913**	**82.8**	**108**
3.	**Costs of reserves**	**711**	**4.8**	**559**	**3.6**	**79**
	Total expenses (1+2+3)	**14,701**	**100**	**15,589**	**100**	**106**

In the period from 01/01/2020 to 30/06/2020, interest expenses of the leasing sector amounted to BAM 2.1 million and represented 13.6% of total expenses of the leasing sector. This is higher by BAM 0.1 million or 4.8% vs. the same period of the previous financial year. Interest expenses under loans taken have risen by BAM 0.1 million or 5.1%.

Over the observed period, total operating expenses of the leasing sector stood at BAM 12.9 million with a share in total expenses of the leasing sector of 82.8%. This is higher by BAM 1 million or 7.9% compared to the same period of the year before, whereas their structure reflects reduced costs of salaries and contributions by 6.4%, increased costs of business premises by 21.6% and other costs by 2.4%. Total costs of loss reserves stood at BAM 0.6 million, constituting 3.6% of total expenses of the leasing sector. They saw a decrease by BAM 0.2 million or 21.4%.

3.2.2.5. 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 – June 30, 2020, amounts to BAM 76.2 million and is lower by BAM 31 million, i.e. 28.9%, compared to the same period of the preceding financial year. Thereof, BAM 70.8 million or 92.8% of the total value of newly concluded contracts at the leasing system level refers to the leasing sector (consisting of five leasing companies). The number of newly concluded leasing contracts at the leasing system level in the same period was 1,615, which was by 1,428 contracts or 46.9% lower compared to the same period last year. Thereof, 1,562 contracts or 96.7% 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 1H 2020 amounted to BAM 47.2 ths and it is higher by 33.9% compared to the same period last year, when it amounted to BAM 35.2 ths. Therein, the average value of contracts at the leasing sector level was BAM 45.3 ths, which is 37.3% more than in the same period in 2019 when it stood at BAM 33 ths.

Out of the total generated value of newly concluded contracts in the 1H 2020, the amount of BAM 60.4 million, i.e. 79.3% relates to financial leasing contracts and BAM 15.8 million or 20.7% 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 30/06/2020 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:

- BAM 000 -

Table 50: Structure of financing amount of the leasing system

No	Description	01.01.-30.06.2019						01.01.-30.06.2020					
		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	2.377	73.346	515	18.779	2.892	92.125	1.127	50.894	424	15.815	1.551	66.709
2.	Equipment	151	15.098	0	0	151	15.098	64	9.515	0	0	64	9.515
3.	Real estate	0	0	0	0	0	0	0	0	0	0	0	0
4.	Other	0	0	0	0	0	0	0	0	0	0	0	0
	Total	**2.528**	**88.444**	**515**	**18.779**	**3.043**	**107.223**	**1.191**	**60.409**	**424**	**15.815**	**1.615**	**76.224**

The total amount of new financing in the 1H 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 91.7% of the total amount of financing in the 1H 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 1H 2020 was 4.12.% for short term contracts and 4.05% for long term contracts, while EIR for short term contracts was 8.34% and 7.01% for long term contracts during the same period. Total average weighted NIR was 4.05% and EIR was 7.02%. Compared to the same period in 2019 when total average weighted NIR was 6.48% and EIR 10.01%, there is an evident decrease of NIR by 2.43 percentage points and EIR by 2.99 percentage points.

Annex 18 provides an overview of average weighted NIR and EIR on financial leasing contracts concluded in the 1H 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 18a 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.

3.2.3. 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, as well as through monitoring the consequences of the pandemic and temporary measures of the FBA;
- 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;
- improvement of cooperation with BiHALC, in terms of providing professional assistance in the application of laws and regulations for leasing companies, as well as cooperation with other supervisory and controlling institutions, and with the 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:

- compliance of business operations with the prescribed regulatory requirements, especially in the context of approval of temporary measures to lessees whose credit standing has worsened due to the COVID-19 pandemic;
- 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.

3.3. FACKTORING BUSINESS

3.3.1. 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 30/06/2020, 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.

3.3.2. Scope, Structure and Trend of Factoring Business in the FB&H

In the period from 01/01/2020 to 30/06/2020, entities providing factoring services in the FB&H have concluded 191 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 64 contracts or 50.4%. During 1H 2020, there was one concluded contract on factoring without recourse right and where were no contracts on reverse (supplier) factoring or contracts on foreign factoring over this reporting period.

In the period from 01/01/2020 to 30/06/2020, the total redeemed monetary claims and settled payables of buyers towards suppliers was BAM 56.7 million. Compared to the same period of the previous year, this represents a decrease by BAM 31.8 million or 36%.

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:

- BAM 000 -

Table 51: 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
	Factoring companies				Banks				Total				
	01.01. - 30.06.2019		01.01. - 30.06.2020		01.01. - 30.06.2019		01.01. - 30.06.2020		01.01. - 30.06.2019		01.01. - 30.06.2020		
	Amount	Share (in %)	Amount	Share (in %)	Amount	Share (in %)	Amount	Share (in %)	Amount	Share (in %)	Amount	Share (in %)	(12/10)
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**
Factoring with right to recourse	0	0,0	0	0	40,520	46.1	24,200	42.7	40,520	45.8	24,200	42.7	60
Factoring without right to recourse	659	100,0	0	0	45,871	52.2	32,480	57.3	46,530	52.5	32,480	57.3	70
Reversed (supplier) factoring	0	0,0	0	0	1,498	1.7	0	0.0	1,498	1.7	0	0.0	0
	659	**100**	**0**	**0**	**87,889**	**100**	**56,680**	**100**	**88,548**	**100**	**56,680**	**100**	**64**
Domestic factoring	659	100,0	0	0	87,889	100.0	56,680	100.0	88,548	100.0	56,680	100.0	64
Foreign factoring	0	0,0	0	0	0	0.0	0	0	0	0	0	0.0	0
Total	**659**	**100**	**0**	**0**	**87,889**	**100**	**56,680**	**100**	**88,548**	**100**	**56,680**	**100**	**64**

Total value of redeemed monetary claims and settled payables of buyers towards suppliers refers entirely to domestic factoring. According to factoring types, BAM 32.5 million or 57.3% refers to the factoring without recourse right and BAM 24.2 million or 42.7% to the factoring with recourse right.

According to contractual maturity, the highest share in the total volume (amount) of redeemed monetary claims and settled payables to suppliers in the 1H 2020 of BAM 45.4 million or 80% corresponds to redeemed monetary claims with contractual maturity of 60 days, followed by the share of BAM 6.9 million or 12.2% with contractual maturity of up to 91-180 days. Looking into the sector structure of buyers in the 1H 2020, a total of BAM 34.5 million of monetary claims was redeemed from public companies, thus constituting 60.9% of total turnover of the factoring business, while BAM 21.3 million or 37.6% was redeemed from private companies and enterprises, while BAM 0.9 million or 1.5% of monetary claims was redeemed from government institutions. During 1H 2020, none of the banks provided the reverse (supplier) factoring, while in the same period last year the turnover in this segment was BAM 1.5 million.

In the 1H 2020, total advances paid to suppliers equalled BAM 55.5 million; thereof BAM 32.5 million or 58.6% refers to factoring without recourse right and BAM 23 million or 41.4% to factoring with recourse right. In the segment of private enterprises and companies (sellers of claims), the suppliers received an amount of BAM 54.8 million or 98.9% of total paid advances.

On the basis of redeemed monetary claims as of 30/06/2020, banks claimed the total of BAM 11.8 million, fully in domestic factoring, of which BAM 6.7 million or 57% relates to factoring without right to recourse, while BAM 5.1 million or 43% relate to factoring with 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 – 44.7%, of 61 to 90 days – 21.5%, of 91 to 180 days – 33.8%, while there were no redeemed receivables with contractual maturity over 180 days in this reporting period.

Total income of the factoring service providers in the FB&H for January 1 – June 30, 2020 amounted to BAM 053 million (income from interest, fees and administrative fees), down by BAM 0.5 million or 49.3% compared to the same period the year before. In the structure of the reported total income from interest, fees and administrative fees, 51.7% refers to factoring with right to recourse and 48.3% to factoring without right to recourse.

According to reporting data as of 30/06/2020, the biggest interest rate on paid advances in the FB&H factoring market (i.e. the rate effective as of the last day of the reporting period of the 2nd quarter of 2020) was 6.00%, while discount interest rate was 4.00% and both rates have been calculated in relation to domestic factoring. Banks performing factoring deals have been calculating factoring charges, while only one bank also collected administrative fee for factoring services.

3.3.3. RECOMMENDATIONS FOR THE FACTORING BUSINESS

Factoring business in the 1H 2020 was conducted exclusively through the function of financing. There was neither any recorded provision of services of securing collection and receivables management service, nor performance of activities related to factoring, which confirms that this activity is still beginning to develop in the 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. A part of significant activities in this segment will surely be reform of relevant laws and regulations.

Within the FBA's mandated responsibilities, supervision over factoring operations is guided by the principles of transparency, confidence building of the factoring service providers, with the aim of conducting factoring operations at the FB&H level in compliance with relevant regulations.

4. BANKS' COMPLIANCE IN THE PAYMENTS SEGMENT AND COMPLIANCE OF BSEs WITH AML&CTF STANDARDS

4.1. Banks' Compliance in the Payments Segment

The total value of payments in banks seated in the FB&H as of 30/06/2020, based on DP and FXP transactions, is BAM 64.6 billion (transactions performed in all currencies, BAM equivalent). The volume of DP and FXP is shown in the table below:

Table 52: 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	1,312,114	3.5	11,899,941	18.4
2.	DP	36,535,083	96.5	52,726,007	81.6
Total		**37,847,197**	**100**	**64,625,948**	**100**

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 30/06/2020 has shown that the FB&H banks registered the following FXP volume by currencies (EUR, USD, other currencies):

Table 53: FXP Volume

No.	Inflow		Outflow		Currency
	Number	Value (BAM 000)	Number	Value (BAM 000)	
1	2	3	4	5	6
1.	803,111	4,600,625	329,210	5,053,658	EUR
2.	26,325	334,875	15,799	466,391	USD
3.	89,820	422,909	47,849	1,021,483	Other currencies
Total	**919,256**	**5,358,409**	**392,858**	**6,541,532**	

Within the structure of FXP transactions, the share of inflows from abroad in the total number of FXP transactions is 70.1%, while outflows to abroad hold a share of 29.9%. Observing the value of FXP transactions, the share of inflows from abroad is 45%, while outflows to abroad take on a share of 55%. Out of total value of effected FXP transactions, 81.1% was effected in EUR.

Based on analysis of relevant reports that banks seated in the FB&H deliver to the FBA regarding effected FXP transactions in the period from 01/01/2020 to 30/06/2020, we have determined that FB&H banks registered the following FXP volume by transaction types:

Table 54: DP Volume

No.	Transaction type	No. of transactions		Value of transactions (BAM 000)	
		Number	% share	Number	% share
1	2	3	4	5	6
1.	Cash	4,491,954	12.3	4,904,151	9.3
2.	Non-cash[33]	32,043,129	87.7	47,821,855	90.7
Total		**36,535,083**	**100**	**52,726,006**	**100**

An analysis of data as of 30/06/2020 in the Registry of Foreign Exchange Deals of Banks has shown that 75 authorised exchange offices with 473 locations hold foreign exchange contracts with banks seated in the FB&H.

[33] Non-cash transactions include cashless intra-bank payment transactions/internal orders, inter-bank transactions of gyro clearing and RTGS.

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 30/06/2020 by currencies (EUR, USD, other currencies):

Table 55: Foreign exchange deals in banks

No.	Buy		Sell		Currency
	Number	Value (BAM 000)	Number	Value (BAM 000)	
1	2	3	4	5	6
1.	469,968	278,359	48,611	61,685	EUR
2.	26,806	15,471	1,684	1,632	USD
3.	83,283	39,579	10,750	4,339	Other currencies
Total	**580,057**	**333,409**	**61,045**	**67,656**	

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 83.1% of buy transactions is included in the total value of exchange office deals and 16.9% refers to sell transactions. Out of the total value of effected exchange office transactions in banks seated in the FB&H, 84.8% 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 30/06/2020 by currencies (EUR, USD, other currencies):

Table 56: 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.	538,363	243,763	19,702	8,723	EUR
2.	12,730	3,343	353	163	USD
3.	87,330	18,958	7,124	2,049	Other currencies
Total	**638,423**	**266,064**	**27,179**	**10,935**	

Out of the total number of transactions effected with authorised exchange offices, buy transactions hold a share of 95.9%, while sell transactions have a share of 4.1%, while buy transactions represent 96.1% of the total value of deals effected in the authorised exchange offices and sell transactions have 3.9% share. Out of the total value of effected transactions by authorised exchange offices, 91.1% refers to buy and sell deals in EUR.

4.2. BSEs Compliance with AML&CTF Standards

4.2.1. Banks' Compliance with AML/CTF Standards

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), in 1H 2020, banks have reported to FID a total of 122,811 transactions (10.6% less than in the same period the year before) in total value of BAM 6.1 billion (10.1% less than in the same period of the previous year).

In the same reporting period, banks have reported on a total of 128 suspicious transactions (141.5% more than in the same period the year before) in total value of BAM 33.4 million.

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

Table 57: Reported transactions by number and value - banks

No.	Description	01.01. - 30.06.2019		01.01. - 30.06.2020		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	4	1,634	2	258	50	16
2.	Transactions reported within 3 days	137,367	6,753,814	122,712	6,069,936	89	90
3.	Transactions reported after 3-day period	14	616	97	6,934	693	1,126
	Total	**137,385**	**6,756,064**	**122,811**	**6,077,128**	**89**	**90**

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

No.	Description	01.01. -30.06.2019		01.01. - 30.06.2020		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	4	1,634	2	258	50	16
2.	Transactions reported within 3 days	36	1,974	46	26,990	128	1,367
3.	Transactions reported after 3-day period	13	442	80	6,193	615	1,401
	Total	**53**	**4,050**	**128**	**33,441**	**242**	**826**

4.2.2. Compliance of the Microcredit Sector with AML&CTF Standards

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), in the period from 01/01/2020 vto 30/06/2020, MCOs have reported to FID a total of 70 transactions (91.5% less than in the same period the year before) in total value of BAM 352.9 ths (41.9% less than in the same period of the previous year).

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

- BAM 000 -

Table 59: Reported suspicious transactions by number and value - MCOs

No.	Description	01.01. - 30.06.2019		01.01. - 30.06.2020		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 asked for information	1	29	0	0	0	0
2.	Transactions for which FID did not ask for information	820	578	70	353	9	61
	Total	**821**	**607**	**70**	**353**	**9**	**58**

4.2.3. Compliance of the Leasing Sector with AML&CTF Standards

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), in the period from 01/01/2020 to 30/06/2020, leasing companies have reported to the Agency 3 suspicious transactions in total value of BAM 132.2 ths and 4 suspicious customers. FID did not ask for additional information regarding reported transactions or customers.

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.

During 1H 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. Accordingly, there is an evident reduction of balance sheet exposures at the FB&H banking sector level, as well as increase of ECL coverage rate. Also, the first effects caused by the pandemic also became evident via reduction of lending activities of banks and the loan portfolio included the moratorium or some other special measure, as this part constituted 18.6% of the total loan portfolio as of 30/06/2020.

Despite uncertainties caused by the pandemic and based on the reported key business indicators of the FB&H banking sector as of 30/06/2020, it could be inferred that it is stable, as ensured via high levels of liquidity and capital and high NPL coverage with value adjustments. 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.

Analysing the MCO reporting data in the FB&H as of 30/06/2020 and the comparative trends of business indicators, it can be concluded that 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 1H 2020 saw a downward trend. Business operations have continued with a positive financial performance, being much lower than the one presented in the same period last year.

As of 30/06/2020, 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 and capital of leasing companies compared to 31/12/2019, while number and value of newly concluded leasing contracts posted a decrease against 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 the 1H 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.

ANNEXES – BANKING SECTOR – data as of 30/06/2020

Annex 1 - Basic information on FB&H banks as at 31/03/2020

No.	Bank	Web address	Number of employees	Management Chairperson
1.	ADDIKO BANK DD SARAJEVO	www.addiko.ba	369	Sanela Pašić
2.	ASA BANKA DD SARAJEVO	www.asabanka.ba	206	Samir Mustafić
3.	BOSNA BANK INTERNATIONAL DD SARAJEVO	www.bbi.ba	457	Amer Bukvić
4.	INTESA SANPAOLO BANKA DD BOSNA I HERCEGOVINA SARAJEVO	www.intesasanpaolobanka.ba	548	Almir Krkalić
5.	KOMERCIJALNO-INVESTICIONA BANKA DD V. KLADUŠA	www.kib-banka.com.ba	80	Hasan Porčić
6.	NLB BANKA DD SARAJEVO	www.nlb.ba	444	Lidija Žigić
7.	PRIVREDNA BANKA SARAJEVO DD SARAJEVO	www.pbs.ba	166	Hamid Pršeš
8.	PROCREDIT BANK DD SARAJEVO	www.procreditbank.ba	147	Almir Salkanović
9.	RAIFFEISEN BANK DD BiH SARAJEVO	www.raiffeisenbank.ba	1,299	Karlheinz Dobnigg
10.	SBERBANK BH DD SARAJEVO	www.sberbank.ba	439	Jasmin Spahić
11.	SPARKASSE BANK DD BOSNA I HERCEGOVINA SARAJEVO	www.sparkasse.ba	520	Sanel Kusturica
12.	UNICREDIT BANK DD MOSTAR	www.unicreditbank.ba	1,247	Amina Mahmutović
13.	UNION BANKA DD SARAJEVO	www.unionbank.ba	200	Vedran Hadžiahmetović
14.	VAKUFSKA BANKA DD SARAJEVO	www.vakuba.ba	125	Edina Vuk
15.	ZIRAATBANK BH DD SARAJEVO	www.ziraatbosnia.com	302	Yusuf Dilaver
	TOTAL		**6,549**	

Annex 2 - FB&H banks' balance sheet according to FBA scheme (active sub-balance sheet)

- BAM 000 -

No.	Description		Amount as of 31.12.2019	%	Amount as of 30.06.2020	%	Index (5/3)
1	2		3	4	5	6	7
	ASSETS						
1.	Cash and deposit accounts with deposit institutions		7,641,570	31.6	6,957,158	29.6	91
	1.a.	Cash and non-interest bearing deposit accounts	3,321,750	13.7	3,416,496	14.5	103
	1.b.	Interest bearing deposit accounts	4,319,820	17.9	3,540,662	15.1	82
2.	Securities at fair value through profit or loss and at fair value in other comprehensive income		1,297,075	5.4	1,444,949	6.1	111
3.	Placements to other banks		149,197	0.6	86,951	0.4	58
4.	Loans, leasing type receivables and past-due receivables		15,220,759	62.8	15,190,555	64.6	100
	4.a.	Loans	14,198,216	58.6	14,321,814	60.9	101
	4.b.	Leasing type receivables	68,407	0.3	59,606	0.3	87
	4.c.	Due receivables on loans and leasing type receivables	954,136	3.9	809,135	3.4	85
5.	Securities at amortized cost		159,246	0.7	169,410	0.7	106
6.	Business premises and other fixed assets		550,887	2.3	507,530	2.2	92
7.	Other real-estate		49,797	0.2	48,017	0.2	96
8.	Investments in subsidiaries and affiliates		15,944	0.1	15,944	0.1	100
9.	Other assets		321,220	1.3	335,695	1.4	105
10.	MINUS: Impairments		1,195,128	4.9	1,238,345	5.3	104
	10.a.	Impairments of items in position 4 of Assets	1,120,940	4.6	1,183,415	5.0	106
	10.b.	Impairments of assets items, except for position 4 of Assets	74,188	0.3	54,930	0.3	74
11.	**TOTAL ASSETS**		**24,210,567**	**100**	**23,517,864**	**100**	**97**
	LIABILITIES						
12.	Deposits		19,414,294	80.2	18,892,746	80,3	97
	12.a.	Interest-bearing deposits	14,181,299	58.6	13,457,244	57,2	95
	12.b.	Non interest-bearing deposits	5,232,995	21.6	5,435,502	23,1	104
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	833,255	3,5	97
	16.a.	with residual maturity up to one year	199,989	0.8	210,796	0,9	105
	16.b.	with residual maturity over one year	656,637	2.7	622,459	2,6	95
17.	Subordinated debts and subordinated bonds		189,055	0.8	194,276	0,8	103
18.	Other liabilities		619,088	2.6	617,368	2,7	100
19.	**TOTAL LIABILITIES**		**21,079,213**	**87.1**	**20,537,795**	**87,3**	**97**
	CAPITAL						
20.	Permanent priority shares		365	0.0	365	0.0	100
21.	Common shares		1,299,335	5.4	1,299,335	5.5	100
22.	Issue premiums		137,290	0.6	137,290	0.6	100
	22.a.	on permanent priority shares	88	0.0	88	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	1,437,591	6.1	103
24.	Exchange rate differences		0	0.0	0	0.0	-
25.	Other capital		262,125	1.1	105,488	0.5	40
26.	Loan loss reserves created from profits		38,968	0.2	0	0	-
27.	**TOTAL CAPITAL: (20 to 25)**		**3,131,354**	**12.9**	**2,980,069**	**12.7**	**95**
28.	**TOTAL LIABILITIES AND CAPITAL: (19 + 27)**		**24,210,567**	**100**	**23,517,864**	**100**	**97**
PASSIVE AND NEUTRAL SUB-BALANCE SHEET			**712,764**		**712,774**		**100**
	TOTAL		**24,923,331**		**24,230,638**		**97**

Annex 3 - Overview of assets, loans and deposits of FB&H banks

- BAM 000 -

No.	Bank	Assets		Loans		Deposits	
		Amount	%	Amount	%	Amount	%
1.	ADDIKO BANK DD SARAJEVO	974,971	4.1	607,675	4.0	734,285	3.9
2.	ASA BANKA DD SARAJEVO	560,221	2.4	372,179	2.5	486,288	2.6
3.	BOSNA BANK INTERNATIONAL DD SARAJEVO	1,230,796	5.2	812,661	5.3	958,180	5.1
4.	INTESA SANPAOLO BANKA DD BOSNA I HERCEGOVINA SARAJEVO	2,225,854	9.5	1,619,759	10.7	1,661,842	8.8
5.	KOMERCIJALNO-INVESTICIONA BANKA DD V. KLADUŠA	99,165	0.4	52,294	0.3	67,901	0.4
6.	NLB BANKA DD SARAJEVO	1,217,113	5.2	820,559	5.4	994,078	5.2
7.	PRIVREDNA BANKA SARAJEVO DD SARAJEVO	546,240	2.3	300,167	2.0	453,757	2.4
8.	PROCREDIT BANK DD SARAJEVO	558,263	2.4	430,235	2.8	256,695	1.3
9.	RAIFFEISEN BANK DD BiH SARAJEVO	4,739,729	20.2	2,721,167	18.0	3,901,680	20.6
10.	SBERBANK BH DD SARAJEVO	1,550,266	6.6	1,016,065	6.7	1,334,021	7.1
11.	SPARKASSE BANK DD BOSNA I HERCEGOVINA SARAJEVO	1,609,816	6.8	1,129,448	7.4	1,328,464	7.0
12.	UNICREDIT BANK DD MOSTAR	5,988,480	25.5	3,979,036	26.2	4,887,203	25.9
13.	UNION BANKA DD SARAJEVO	935,233	4.0	272,425	1.8	823,690	4.4
14.	VAKUFSKA BANKA DD SARAJEVO	290,165	1.2	185,608	1.2	257,333	1.4
15.	ZIRAATBANK BH DD SARAJEVO	991,552	4.2	871,277	5.7	747,329	3.9
TOTAL		**23,517,864**	**100**	**15,190,555**	**100**	**18,892,746**	**100**

Annex 4 – Sector Structure of Loans in the FB&H and ECL

- 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
1	2	3	4	5	6	7	8
1. Total corporate loans (1.1. to 1.21.)	**6,300,484**	**942,678**	**647,588**	**7,890,750**	**83,891**	**85,423**	**507,721**
1.1. A Agriculture, forestry and fishing	82,804	28,624	28,307	139,738	1,134	3,672	20,568
1.2. B Mining and quarrying	74,656	31,543	244	106,443	967	2,179	229
1.3. C Processing industry	1,238,463	264,658	123,067	1,626,187	15,134	21,228	106,222
1.4. D Production and supply of electricity, gas, fumes and air conditioning	364,278	10,259	99,955	474,492	10,666	1,326	78,160
1.5. E Water supply, waste water drainage, commercial waste disposal and environmental recovery	26,780	5,048	992	32,820	372	258	906
1.6. F Construction	369,363	48,479	48,661	466,503	5,625	4,358	41,291
1.7. G Wholesale and retail trade; repair of motor vehicles and motorcycles	2,327,539	296,996	225,717	2,850,252	29,670	21,078	171,464
1.8. H Transport and warehousing	219,856	46,896	12,681	279,432	2,548	3,002	10,749
1.9. I Accommodation and catering (hotels and hospitalist business)	162,411	59,079	33,623	255,114	2,381	8,004	21,307
1.10. J Information and communication	130,530	13,055	18,602	162,187	1,970	1,446	12,326
1.11. K Financial and insurance business	666,343	908	1,120	668,370	4,157	42	1,120
1.12. L Real estate business	123,778	48,858	30,134	202,769	1,795	5,130	25,215
1.13. M Professional, scientific and technical activities	107,936	60,406	11,467	179,809	1,732	10,570	10,244
1.14. N Administrat. and auxiliary services	18,471	5,256	1,611	25,337	269	339	1,578
1.15. O Public administration and defence; social insurance	240,049	12,321	1,172	253,542	3,999	1,622	955
1.16. P Education	8,954	136	4,459	13,549	169	8	839
1.17. Q Health care and social welfare	73,256	5,819	570	79,646	650	637	454
1.18. R Art, entertainment and recreation	5,654	866	1,093	7,613	81	107	1,082
1.19. S Other services	52,947	2,294	2,896	58,137	540	185	1,797
1.20. T Activities of households as employers; activities of households manufacturing different goods and rendering different services for their own needs	0	0	1,217	1,217	0	0	1,215
1.21. U activities of extraterritorial organisations and bodies	6,416	1,177	0	7,593	32	232	0
2. Total Retail (2.1 + 2.2 + 2.3)	**6,441,511**	**420,679**	**437,615**	**7,299,805**	**81,417**	**57,502**	**367,461**
2.1. General consumption	5,134,560	361,760	377,064	5,873,384	71,224	51,049	318,014
2.2. Housing construction	1,233,476	46,296	52,332	1,332,104	9,157	5,411	42,105
2.3. Entrepreneurs	73,475	12,623	8,218	94,317	1,036	1,042	7,342
3. Total loans (1. + 2.)	**12,741,995**	**1,363,357**	**1,085,203**	**15,190,555**	**165,308**	**142,925**	**875,182**

Annex 5 - FB&H banks' income statement according to FBA's scheme

- BAM 000 -

No.		Description	30.06.2019	%	30.06.2020	%	Index (5/3)
1		2	3	4	5	6	7
1.		**INTEREST INCOME AND EXPENSES**					
	a)	**Interest income and similar income**					
	1)	Interest-bearing deposit accounts with deposit institutions	2,582	0,5	1.638	0.3	63
	2)	Placements to other banks	2,090	0,5	1.356	0.3	65
	3)	Loans and leasing operations	324,284	61,5	313.259	61.3	97
	4)	Securities held to maturity	2,349	0,4	2.178	0.4	93
	5)	Equity securities	0	0,0	0	0.0	-
	6)	Receivables on paid off-balance sheet liabilities	1	0,0	1	0.0	100
	7)	Other interest income and similar income	34,315	6,5	31.209	6.1	91
	8)	TOTAL INTEREST INCOME AND SIMILAR INCOME	365,621	69,4	349.641	68.4	96
	b)	**Interest expenses and similar expenses**					
	1)	Deposits	47,091	8.9	46,650	9.1	99
	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	4,544	0.9	4,505	0.9	99
	5)	Subordinated debts and subordinated bonds	3,658	0.7	3,249	0.7	89
	6)	Other interest expenses and similar expenses	7,276	1.4	12,366	2.4	170
	7)	TOTAL INTEREST EXPENSES AND SIMILAR EXPENSES	62,569	11.9	66,770	13.1	107
	c)	**NET INTEREST AND SIMILAR INCOME**	**303,052**	**57.5**	**282,871**	**55.3**	**93**
2.		**OPERATING INCOME**					
	a)	Income from foreign exchange operations	28,732	5.5	25,496	5.0	89
	b)	Loan fees	5,185	1.0	4,840	0.9	93
	c)	Off-balance sheet operation fees	11,222	2.1	11,611	2.3	103
	d)	Service fees	152,085	28.9	147,046	28.8	97
	e)	Income from trading operations	1,205	0.2	1,412	0.3	117
	f)	Other operating income	25,554	4.8	37,815	7.4	148
	g)	**TOTAL OPERATING INCOME a) through f)**	**223,983**	**42.5**	**228,220**	**44.7**	**102**
		TOTAL INCOME(1c + 2g)	**527,035**	**100**	**511,091**	**100**	**97**
3.		**NON-INTEREST EXPENSES**					
	a)	**Operating and direct expenses**					
	1)	Risk asset impairment costs, provisions for contingent liabilities and other value adjustments	22,432	4.3	82,714	16.2	369
	2)	Other operating and direct costs	63,937	12.1	65,320	12.8	102
	3)	TOTAL OPERATING AND DIRECT EXPENSES 1) + 2)	86,369	16.4	148,034	29.0	171
	b)	**Operating expenses**					
	1)	Salary and contribution costs	129,746	24.6	128,211	25.1	99
	2)	Business premises costs, other fixed assets and overheads	75,722	14.4	78,778	15.4	104
	3)	Other operating costs	52,460	10.0	50,605	9.9	96
	4)	TOTAL OPERATING EXPENSES 1) through 3)	257,928	48.9	257,594	50.4	100
	c)	**TOTAL NON-INTEREST EXPENSES**	**344,297**	**65.3**	**405,628**	**79.4**	**118**
		TOTAL EXPENSES (1b7+3c)	**406,866**		**472,398**		**116**
4.		PROFIT BEFORE TAXATION	183,288	34.8	10,.937	20.7	58
5.		LOSS	550	0.1	474	0.1	86
6.		TAXES	1,040	0.2	652	0.1	63
7.		PROFIT ON INCREASE IN DEFERRED TAX ASSETS AND DECREASE IN DEFERRED TAX LIABILITIES	43	0.0	690	0.1	1.605
8.		LOSS ON DECREASE IN DEFERRED TAX ASSETS AND INCREASE IN DEFERRED TAX LIABILITES	60	0.0	13	0.0	22
9.		**NET PROFIT (4-6+7-8 or 7-5-6-8)**	**182,231**	**34.6**	**105,962**	**20.7**	**58**
10.		**NET LOSS (4-6-7+8 or 6+8-4-7)**	**550**	**0.1**	**474**	**0.1**	**86**
11.		**FINANCIAL PERFORMANCE (9-10)**	**181,681**	**-**	**105,488**	**-**	**58**

Annex 6 - Weighted average NIR and EIR on loans and deposits

Weighted average NIR and EIR on loans

- % -

No.	DESCRIPTION	31.12.2019		30.06.2020	
		NIR	EIR	NIR	EIR
1	2	3	4	5	6
1.	**Weighted interest rates on short-term loans**	**2.32**	**2.67**	**2.23**	**2.50**
1.1.	Corporate	2.27	2.55	2.19	2.40
1.2.	Retail	7.48	14.02	8.43	15.31
2.	**Weighted interest rates on long-term loans**	**4.58**	**5.49**	**4.52**	**5.39**
2.1.	Corporate	3.41	3.67	3.55	3.83
2.2.	Retail	5.38	6.74	5.43	6.84
3.	**Total weighted interest rates**	**3.27**	**3.86**	**3.09**	**3.59**
3.1.	Corporate	2.53	2.81	2.49	2.71
3.2.	Retail	5.42	6.89	5.49	7.00

Average Weighted NIR and EIR on deposits

- % -

No.	DESCRIPTION	31.12.2019		30.06.2020	
		NIR	EIR	NIR	EIR
1	2	3	4	5	6
1.	**Weighted interest rates on short-term deposits**	**0.34**	**0.33**	**0.35**	**0.35**
1.1.	Up to three months	0.36	0.35	0.20	0.20
1.2.	Up to one year	0.32	0.32	0.45	0.45
2.	**Weighted interest rates on long-term deposits**	**1.24**	**1.19**	**0.96**	**0.97**
2.1.	Up to three years	1.12	1.05	0.75	0.76
2.2.	Over three years	1.54	1.55	1.30	1.32
3.	**Total weighted interest rates on deposits**	**0.78**	**0.75**	**0.67**	**0.67**

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

Weighted average NIR and EIR on loans by periods

- % -

No.	DESCRIPTION	30.06.2016		30.06.2017		30.06.2018		30.06.2019		30.06.2020	
		NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	2	3	4	5	6	7	8	9	10	11	12
1.	**Weighted interest rates on short-term loans**	**4.30**	**4.78**	**3.30**	**3.57**	**2.76**	**3.05**	**2.36**	**2.77**	**2.23**	**2.50**
1.1.	Corporate	4.23	4.64	3.24	3.45	2.70	2.93	2.32	2.66	2.19	2.40
1.2.	Retail	7.73	12.95	8.23	15.14	7.55	14.45	7.21	13.60	8.43	15.31
2.	**Weighted interest rates on long-term loans**	**6.29**	**7.38**	**5.61**	**6.68**	**4.84**	**5.87**	**4.63**	**5.57**	**4.52**	**5.39**
2.1.	Corporate	5.02	5.35	4.30	4.59	3.79	4.11	3.46	3.73	3.55	3.83
2.2.	Retail	7.29	8.98	6.50	8.08	5.66	7.26	5.37	6.74	5.43	6.84
3.	**Total weighted interest rates**	**5.22**	**5.98**	**4.31**	**4.92**	**3.69**	**4.32**	**3.34**	**3.98**	**3.09**	**3.59**
3.1.	Corporate	4.45	4.84	3.49	3.71	2.99	3.24	2.58	2.90	2.49	2.71
3.2.	Retail	7.30	9.11	6.53	8.22	5.70	7.41	5.40	6.87	5.49	7.00

Weighted average NIR and EIR on deposits by periods

- % -

No.	DESCRIPTION	30.06.2016		30.06.2017		30.06.2018		30.06.2019		30.06.2020	
		NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	2	3	4	5	6	7	8	9	10	11	12
1.	**Weighted interest rates on short-term deposits**	**0.38**	**0.38**	**0.36**	**0.36**	**0.30**	**0.29**	**0.33**	**0.32**	**0.35**	**0.35**
1.1.	Up to three months	0.27	0.27	0.34	0.34	0.31	0.29	0.33	0.32	0.20	0.20
1.2.	Up to one year	0.76	0.78	0.51	0.52	0.27	0.27	0.33	0.33	0.45	0.45
2.	**Weighted interest rates on long-term deposits**	**1.84**	**1.86**	**1.42**	**1.45**	**1.05**	**1.06**	**1.31**	**1.22**	**0.96**	**0.97**
2.1.	Up to three years	1.67	1.70	1.32	1.34	0.91	0.92	1.21	1.08	0.75	0.76
2.2.	Over three years	2.35	2.35	1.81	1.86	1.26	1.27	1.59	1.60	1.30	1.32
3.	**Total weighted interest rates on deposits**	**0.98**	**0.99**	**0.67**	**0.68**	**0.56**	**0.55**	**0.82**	**0.77**	**0.67**	**0.67**

ANNEXES - MICROCREDIT SECTOR – data as of 30/06/2020

Annex 7 - Basic information on FB&H MCOs

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	6
2.	MKD "EKI" d.o.o. Sarajevo	www.eki.ba	Almir Sultanović	04.02.2008	221
3.	MKF "EKI" Sarajevo	www.eki.ba	Esad Uzunić	20.08.2007	108
4.	MKD „IUTECREDIT BH“ d.o.o. Sarajevo	www.iutecredit.ba	Vilma Tunjić Juzbašić	28.02.2019	28
5.	MKF "LIDER" Sarajevo	www.lider.ba	Džavid Sejfović	04.02.2008	74
6.	"LOK MKF" Sarajevo	www.lok.ba	Elma Čardaklija - Bašić	04.02.2008	72
7.	MKF "MELAHA" Sarajevo	www.melaha.ba	Jakob Finci	09.10.2007	6
8.	MKF "MI-BOSPO" Tuzla	www.mi-bospo.org	Safet Husić	09.07.2007	189
9.	MKF "MIKRA" Sarajevo	www.mikra.ba	Sanin Čampara	19.03.2008	146
10.	MKF "MIKRO ALDI" Goražde	www.mikroaldi.org	Omar Softić	20.08.2007	35
11.	"PARTNER MKF" Tuzla	www.partner.ba	Senad Sinanović	20.08.2007	292
12.	"PRVA ISLAMSKA MKF" Sarajevo	www.mfi.ba	Edina Hadžimurtezić	10.12.2007	8
13.	MKF "SANI" Zenica	-	Sulejman Haračić	09.10.2007	4
14.	MKF "SUNRISE" Sarajevo	www.microsunrise.ba	Samir Bajrović	20.08.2007	165
TOTAL					**1,354**

Annex 8 - MCFs' aggregate balance sheet

- BAM 000 -

No.	DESCRIPTION	Amount as of 31.12.2019	%	Amount as of 30.06.2020	%	Index (5/3)
1	2	3	4	5	6	7
	ASSETS					
1.	**Cash (1a+1b)**	**35,594**	7.6	**44,033**	9.2	**124**
1a)	Cash and non-interest bearing deposit accounts	22,842	4.9	29,618	6.2	130
1b)	Interest-bearing deposit accounts	12,752	2.7	14,415	3.0	113
2.	Placements to banks	2,150	0.5	2,140	0.4	100
3.	Loans	370,298		371,709		100
3a)	Loan loss reserves	2,759		4,822		175
3b)	**Net loans (3-3a)**	**367,539**	78.2	**366,887**	76.8	**100**
4.	Business premises and other fixed assets	28,231	6.0	28,282	6.0	100
5.	Long-term investments	33,061	7.0	33,081	6.9	100
6.	Other assets	3,415	0.7	3,359	0.7	98
7.	Minus: reserves on other asset items, except for loans	3		3		100
8.	**TOTAL ASSETS**	**469,987**	**100**	**477,779**	**100**	**102**
	LIABILITIES					
9.a)	Liabilities on short-term loans taken out	45,676	9.7	59,784	12.5	131
9.b)	Liabilities on long-term loans taken out	150,186	32.0	141,381	29.6	94
9.c)	Liabilities based on interest due	907	0.2	806	0.2	89
10.	Other liabilities	24,218	5.1	21,690	4.5	90
11.	**Total liabilities**	**220,987**	**47.0**	**223,661**	**46.8**	**101**
12.	Donated capital	48,076		48,076		100
13.	Tier 1 capital	3,868		3,868		100
14.	**Surplus of income over expenses**	**252,273**		**257,725**		**102**
14a)	for previous years	237,483		252,282		106
14b)	for current year	14,790		5,443		37
15.	**Shortfall of income over expenses**	**55,335**		**55,661**		**101**
15a)	for previous years	55,236		55,334		100
15b)	for current year	99		327		330
16.	Other reserves	118		110		93
17.	**TOTAL CAPITAL**	**249,000**	**53.0**	**254,118**	**53.2**	**102**
18.	**TOTAL LIABILITIES**	**469,987**	**100**	**477,779**	**100**	**102**
	OFF-BALANCE SHEET RECORDS					
19.	Written-off loans	149,854		145,582		97
20.	Approved, but undrawn loan funds of creditors	11,649		5,934		51
21.	Commission operations	222		222		100
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		394		99
23.	Other (all other off-balance sheet items not covered above)	195,691		191,362		98

-

Annex 9 - MCCs' aggregate balance sheet

- BAM 000 -

No.	DESCRIPTION	Amount as of 31.12.2019	%	Amount as of 30.06.2020	%	Index (5/3)
1	2	3	4	5	6	7
	ASSETS					
1.	**Cash (1a+1b)**	**13,281**	**8.3**	**16,569**	**10.1**	**125**
1a)	Cash and non-interest bearing deposit accounts	12,781	8.0	16,319	10.0	128
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		145,513		103
3a)	Loan loss reserves	1,411		5,159		366
3b)	**Net loans (3-3a)**	**139,296**	**87.3**	**140,354**	**86.0**	**101**
4.	Business premises and other fixed assets	5,747	3.6	4,981	3.1	87
5.	Long-term investments	0	0.0	0	0.0	-
6.	Other assets	1,304	0.8	1,343	0.8	103
7.	Minus: reserves on other asset items, except for loans	0		0		-
8.	**TOTAL ASSETS**	**159,628**	**100**	**163,247**	**100**	**102**
	LIABILITIES					
9.a.)	Liabilities on short-term loans taken out	56,995	35.7	47,484	29.1	83
9.b.)	Liabilities on long-term loans taken out	48,888	30.6	61,997	37.9	127
9.c.)	Liabilities based on interest due	914	0.6	1,092	0.7	119
10.	Other liabilities	7,517	4.7	5,635	3.5	75
11.	**TOTAL LIABILITIES**	**114,314**	**71.6**	**116,208**	**71.2**	**102**
12.	Donated capital	0		0		-
13.	Tier 1 capital	31,600		33,100		105
14.	Issue premium	0		0		-
15.	**Unallocated profit (15a+15b)**	**9,186**		**7,529**		**82**
15a)	Previous year	5,976		10,124		169
15b)	Current year	3,210		-2,595		-81
16.	Legal reserves	2,528		3,568		141
17.	Other reserves	2,000		2,842		142
18.	**TOTAL CAPITAL**	**45,314**	**28.4**	**47,039**	**28.8**	**104**
19.	**TOTAL LIABILITIES**	**159,628**	**100**	**163,247**	**100**	**102**
	OFF-BALANCE SHEET RECORDS					
20.	Written-off loans	2,738		4,056		148
21.	Approved, but undrawn loan funds of creditors	38,649		14,482		37
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		17,915		84

Annex 10 - Overview of key indicators of MCOs in the FB&H

No.	Name	- BAM 000 -			
		Assets	Gross portfolio	Capital	Placements in the period 1.1.-30.06.2020
1.	MKD „CREDO CENTAR“ d.o.o. Mostar	2,020	1,604	1,988	1,314
2.	MKD "EKI" d.o.o. Sarajevo	155,270	139,714	43,446	47,774
3.	MKF "EKI" Sarajevo	91,594	42,303	69,449	20,630
4.	MKD „IUTECREDIT BH“ d.o.o. Sarajevo	5,957	3,991	1,605	3,744
5.	MKF "LIDER" Sarajevo	24,985	23,363	11,779	8,571
6.	"LOK MKF" Sarajevo	9,012	6,620	3,197	2,781
7.	MKF "MELAHA" Sarajevo	1,091	778	420	241
8.	MKF "MI-BOSPO" Tuzla	74,997	67,221	27,078	30,604
9.	MKF "MIKRA" Sarajevo	47,473	37,353	10,865	18,148
10.	MKF "MIKRO ALDI" Goražde	8,589	7,794	5,193	2,876
11.	"PARTNER MKF" Tuzla	157,259	137,612	94,824	48,024
12.	"PRVA ISLAMSKA MKF" Sarajevo	2,220	1,535	2,032	969
13.	MKF "SANI" Zenica	270	262	118	84
14.	MKF "SUNRISE" Sarajevo	60,289	45,860	29,163	25,189
TOTAL		**641,026**	**516,010**	**301,157**	**210,949**

Annex 11 - Overview of average weighted NIR and EIR for MCOs

No.	30.06.2020	MCOs seated in the FB&H		
		Microloans disbursement (in BAM 000)	Weighted NIR (average) %	Weighted EIR (average) %
1	2	3	4	5
1.	**Short term microloans for:**	**26,365**	**20.62%**	**31.87%**
1.1.	service activities	3,094	20.66%	27.32%
1.2.	trade	1,015	20.45%	27.44%
1.3.	agriculture	5,285	19.99%	26.07%
1.4.	manufacturing	434	20.16%	26.88%
1.5.	housing needs	1,999	20.79%	27.24%
1.6.	general-basic needs	11,060	21.44%	40.28%
1.7.	other	3,478	18.92%	22.59%
2.	**Long term microloans for:**	**184,584**	**19.02%**	**23.13%**
2.1.	service activities	36,295	18.68%	21.42%
2.2.	trade	5,993	19.31%	22.50%
2.3.	agriculture	60,632	17.91%	20.57%
2.4.	manufacturing	6,431	18.13%	20.61%
2.5.	housing needs	35,121	19.25%	22.42%
2.6.	general-basic needs	26,766	22.64%	27.50%
2.7.	other	13,346	17.42%	34.03%
3.	**Total microloans**	**210,949**	**19.22%**	**24.23%**

Annex 11a - Comparative overview of average weighted NIR and EIR for MCOs

- % -

Average weighted NIR on:	01.01.-30.06. 2016	01.01.-30.06. 2017	01.01.-30.06. 2018	01.01.-30.06. 2019	01.01.-30.06. 2020
Short-term microloans	16.78	18.83	20.20	21.26	20.62
Long-term microloans	20.64	20.46	19.66	19.29	19.02
Total microloans	**19.88**	**20.20**	**19.74**	**19.58**	**19.22**
Average weighted EIR on:	**01.01.-30.06. 2016**	**01.01.-30.06. 2017**	**01.01.-30.06. 2018**	**01.01.-30.06. 2019**	**01.01.-30.06. 2020**
Short-term microloans	25.33	28.08	27.00	29.83	31.87
Long-term microloans	24.49	24.30	23.34	22.98	23.13
Total microloans	**24.65**	**24.92**	**23.92**	**23.99**	**24.23**

Annex 12 - MCFs aggregate income statement

- BAM 000 –

No.	DESCRIPTION	01.01. - 30.06.2019	Share	01.01. - 30.06.2020	Share	Index (5/3)
1	2	3	4	5	6	7
	INTEREST INCOME AND EXPENSES					
1.	Interest and similar income	35,603	87.3	37,303	90.7	105
2.	Interest and similar expenses	4,055	12.1	3,864	10.9	95
3.	**Net interest and similar income (1. - 2.)**	**31,548**		**33,439**		**106**
	OPERATING INCOME AND EXPENSES					
4.	Operating income	5,177	12.7	3,413	8.3	66
5.	Operating expenses	27,224	81.4	27,304	77.0	100
	OTHER OPERATING INCOME AND EXPENSES					
6.	Other operating income	0	0.0	392	1.0	-
7.	Other operating expenses	216	0.7	296	0.8	137
8.	Costs of provisions for loan and other losses	1,950	5.8	4,001	11.3	205
9.	**Surplus/shortfall of income over expenses before taxes (3.+4.-5.+6.-7.-8.)**	**7,335**		**5,643**		**77**
10.	Tax on surplus income over expenses	0		638		
11.	**Net surplus/shortfall of income over expenses (9.-10.)**	**7,335**		**5,005**		**68**

Annex 13 - MCCs aggregate income statement

- BAM 000 -

No.	DESCRIPTION	01.01. - 30.06.2019	%	01.01. - 30.06.2020	%	Index (5/3)
1	2	3	4	5	6	7
	INTEREST INCOME AND EXPENSES					
1.	Interest and similar income	12,936	99.2	12,949	98.8	100
2.	Interest and similar expenses	2,265	23.6	2,780	17.7	123
3.	**Net interest and similar income (1. - 2.)**	**10,671**		**10,169**		**95**
	OPERATING INCOME AND EXPENSES					
4.	Operating income	101	0.8	55	0.4	54
5.	Operating expenses	6,578	68.6	7,983	50.8	121
	OTHER OPERATING INCOME AND EXPENSES					
6.	Other operating income	0	0.0	103	0.8	-
7.	Other operating expenses	28	0.3	257	1.7	918
8.	Costs of provisions for loan and other losses	722	7.5	4,682	29.8	648
9.	**Profit/loss before taxes (3.+4.-5.+6.-7.-8.)**	**3,444**		**-2,595**		**-75**
10.	Income tax	379		0		
11.	**Net profit/loss (9.-10.)**	**3,065**		**-2,595**		**-85**

ANNEXES – LEASING SECTOR (data as of 30/06/2020)

Annex 14 - Basic information on leasing companies in the FB&H

No.	Leasing company name	Web address	Director	License issuance date	No. of employees
1.	MOGO d.o.o. Sarajevo	www.mogo.ba	Sanja Štefatić Jovorić	01.06.2018	13
2.	PORSCHE LEASING d.o.o.	www.porscheleasing.ba	Dejan Stupar	28.05.2015	21
3.	RAIFFEISEN LEASING d.o.o. Sarajevo	www.rlbh.ba	Maja Jurčević	19.01.2010	41
4.	SPARKASSE LEASING d.o.o. Sarajevo	www.s-leasing.ba	Elma Hošo	11.02.2010	23
5.	VANTAGE BUSINESS LEASING d.o.o Sarajevo	www.vbleasing.ba	Aleksandar Milašinović	12.01.2010	14
TOTAL					**112**

Annex 15 - Leasing companies' aggregate balance sheet[34]

- BAM 000 -

No.	DESCRIPTION	31.12.2019	% share	30.06.2020	% share	Index (5/3)
1	2	3	4	5	6	7
	ASSETS					
1.	Cash and cash equivalents	5,530	1.7	2,595	0.8	47
2.	Placements to banks	13,572	4.2	16,873	5.1	124
3.	Financial leasing type receivables, net (3a-3b-3c-3d)	241,078	74.5	246,828	74.4	102
3a)	Financial leasing type receivables, gross	269,053	83.2	271,540	81.9	101
3b)	Loss reserves	2,665	0.8	1,995	0.6	75
3c)	Deferred interest income	25,095	7.8	22,490	6.8	90
3d)	Deferred fee income	215	0.1	227	0.1	106
4.	Receivables from subsidiaries	2	0.0	2	0.0	100
5.	Tangible and intangible assets, net (5a+5b-5c-5d)	50,371	15.6	52,899	16.0	105
5a)	Tangible and intangible assets –own funds	4,810	1.5	4,620	1.4	96
5b)	Tangible and intangible assets –of operational leasing	65,083	20.1	68,596	20.7	105
5c)	Impairment -own resources	3,605	1.1	3,322	1.0	92
5d)	Impairment-operating leasing	15,917	4.9	16,995	5.1	107
6.	Long-term investments	248	0.1	246	0.1	99
7.	Other assets (7a+7b)	12,486	3.9	12,130	3.6	97
7a)	Loans, net (7a1-7a2)	5,331	1.6	5,157	1.5	97
7a1)	Loans (past-due receivables+outstanding principal)	5,334	1.6	5,160	1.5	97
7a2)	Loan reserves	3	0.0	3	0.0	100
7b)	Inventory	1,474	0.5	1,114	0.3	76
7c)	Other assets	5,681	1.8	5,859	1.8	103
	TOTAL ASSETS	**323,287**	**100**	**331,573**	**100**	**103**
	LIABILITIES					
8.	Liabilities on loans, net	286,281	88.5	293,015	88.4	102
8a)	Liabilities on short-term loans	0	0.0	0	0.0	-
8b)	Liabilities on long-term loans	286,526	88.6	293,243	88.5	102
8c)	Advanced costs and fees	245	0.1	228	0.1	93
9.	Other liabilities	7,936	2.5	7,320	2.2	92
	TOTAL LIABILITIES	**294,217**	**91.0**	**300,335**	**90.6**	**102**
10.	Tier 1 capital	23,472	7.3	24,450	7.4	104
11.	Reserves	7,950	2.4	6,760	2.0	85
12.	Accumulated profit/loss	-2,352	-0.7	28	0.0	-1
	TOTAL CAPITAL	**29,070**	**9.0**	**31,238**	**9.4**	**107**
	TOTAL LIABILITIES	**323,287**	**100**	**331,573**	**100**	**103**
	Written off receivables (opening balance)	21,749		23,468		108
	New write off (+)	6,471		1,181		18
	Recovery (-)	1,039		127		12
	Permanent write off (-)	3,713		0		0
	Written off receivables (closing balance)	23,468		24,522		104

[34] 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 16 - Basic indicators of leasing companies in the FB&H

No.	Name	Balance sheet total	Financial leasing receivables	Net balance of funds granted under operational leasing	Total capital	Plalacements in the period 1.1.-30.06.2020
1.	MOGO d.o.o. Sarajevo	4,391	2,847	0	1,461	0
2.	PORSCHE LEASING d.o.o.	123,110	83,032	37,740	4,212	33,252
3.	RAIFFEISEN LEASING d.o.o. Sarajevo	123,562	89,123	10,812	15,127	17,968
4.	SPARKASSE LEASING d.o.o. Sarajevo	77,152	71,683	3,049	7,266	19,566
5.	VANTAGE BUSINESS LEASING d.o.o Sarajevo	3,358	143	0	3,172	0
TOTAL		**331,573**	**246,828**	**51,601**	**31,238**	**70,786**

Annex 17 - Leasing companies' aggregate income statement

- BAM 000 -

No.	DESCRIPTION	01.01.-30.06.2019	% share	01.01.-30.06.2020	% share	Index (7/3)
1	2	3	4	5	6	7
	Financial income and expenses					
1.	**Interest income**	**6,561**	**41.9**	**6,203**	**35.7**	**95**
1a)	Interest on financial leasing	5,622	35.9	5,158	29.7	92
1b)	Interest on placements to banks	154	1.0	202	1.2	131
1c)	Fees (for leasing application processing, etc.)	387	2.5	417	2.4	108
1d)	Other interest income	398	2.5	426	2.4	107
2.	**Interest expenses**	**2,019**	**13.7**	**2,117**	**13.6**	**105**
2a)	Interest on borrowed funds	1,963	13.4	2,064	13.3	105
2b)	Loan processing fees	50	0.3	52	0.3	104
2c)	Other interest expenses	6	0.0	1	0.0	17
3.	**Net interest income**	**4,542**	**29.0**	**4,086**	**23.5**	**90**
4.	**Operating income and expenses**	**9,106**	**58.1**	**11,159**	**64.3**	**123**
4a)	Operating income	1	0.0	1	0.0	100
4b)	Service fees	6,867	43.8	8,442	48.6	123
4c)	Operating lease fee	143	0.9	0	0.0	0
4d)	Income from sale of leasing object	2,095	13.4	2,716	15.7	130
4d)1	Other operating income	667	4.3	105	0.7	16
4d)2	Income from recovered written off receivables	18	0.1	6	0.0	33
4d)3	Income from collection letters	1,410	9.0	2,605	15.0	185
5.	**Other**	**11,971**	**81.5**	**12,913**	**82.8**	**108**
5a)	Operating expenses	2,677	18.2	2,506	16.1	94
5b)	Salary and contribution costs	4,653	31.7	5,656	36.3	122
5c)	Business premises costs	4,641	31.6	4,751	30.4	102
6.	**Other costs**	**711**	**4.8**	**559**	**3.6**	**79**
7.	**Costs of loss reserves**	**966**		**1,773**		**184**
8.	Profit before tax	0	0.0	0	0.0	-
9.	**Corporate income tax**	**966**		**1,773**		**184**

Annex 18 - Overview of weighted NIR and EIR for financial leasing contracts

Average NIR and EIR for financial leasing contracts concluded in the period **01.01.-30.06.2020**					
No.	**DESCRIPTION**	**Number of contracts**	**Financing amount (BAM 000)**	**Weighted NIR %**	**Weighted EIR %**
1	**2**	**3**	**4**	**5**	**6**
1.	**Short-term leasing contract by leasing objects:**	**12**	**381**	**4.12**	**8.34**
a.	Passenger vehicles	8	127	4.25	8.10
b.	Vehicles for performing business activity (cargo and passenger vehicles)	4	254	4.05	8.47
c.	Machines and equipment	0	0	0	0
d.	Real estate	0	0	0	0
e.	Other	0	0	0	0
1.1.	**Short-term leasing contract by lessees:**	**12**	**381**	**4.12**	**8.34**
a.	Corporate	12	381	4.12	8.34
b.	Entrepreneurs	0	0	0	0
c.	Retail	0	0	0	0
2.	**Long-term leasing contract by leasing objects:**	**1,179**	**60,028**	**4.05**	**7.01**
a.	Passenger vehicles	723	32,055	4.17	7.68
b.	Vehicles for performing business activity (cargo and passenger vehicles)	392	18,458	4.13	7.00
c.	Machines and equipment	64	9,515	3.48	4.77
d.	Real estate	0	0	0	0
e.	Other	0	0	0	0
2.1.	**Long-term leasing contract by lessees:**	**1,179**	**60,028**	**4.05**	**7.01**
a.	Corporate	1,015	54,433	3.97	6.21
b.	Entrepreneurs	45	1,731	4.80	7.76
c.	Retail	119	3,864	4.84	18.00
	Total (1+2)	**1,191**	**60,409**	**4.05**	**7.02**

Annex 18a – Comparative overview of AVERAGE weighted NIR and EIR for financial leasing contracts

No.	**DESCRIPTION**	**30.06.2016**		**30.06.2017**		**30.06.2018**		**30.06.2019**		**30.06.2020**	
		NIR	**EIR**	**NIR**	**EIR**	**NIR**	**EIR**	**NIR**	**EIR**	**NIR**	**EIR**
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**
1.	**Short-term leasing contracts:**	**3.38**	**6.60**	**3.39**	**5.57**	**4.60**	**12.16**	**8.93**	**17.98**	**4.12**	**8.34**
1.1.	Corporate	3.21	5.09	3.38	5.52	4.49	8.51	3.13	5.53	4.12	8.34
1.2	Entrepreneurs	5.95	11.70	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1.3.	Retail	6.00	86.34	4.99	11.36	5.82	51.36	33.04	69.75	0.00	0.00
2.	**Long-term leasing contracts:**	**5.17**	**8.28**	**4.71**	**7.27**	**4.31**	**6.84**	**6.47**	**9.96**	**4.05**	**7.01**
2.1.	Corporate	5.16	7.44	4.68	6.74	4.26	6.14	4.05	5.88	3.97	6.21
2.2.	Entrepreneurs	6.49	8.99	5.82	8.06	5.25	7.59	4.90	6.91	4.80	7.76
2.3.	Retail	4.96	20.83	4.95	17.44	5.02	19.11	25.74	42.68	4.84	18.00
Total		**5.13**	**8.26**	**4.69**	**7.25**	**4.31**	**6.86**	**6.48**	**10.01**	**4.05**	**7.02**

- % -

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