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 30/06/2021

Sarajevo, September 2021

Abbreviations and terms

DIA	Deposit Insurance Agency of Bosnia and Herzegovina
BD	Brčko District
BiH	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
EBRD	European Bank for Reconstruction and Development
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
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
IFRS	International Financial Reporting Standards
NFI	Non-deposit Financial Institutions
NIR	Nominal Interest Rate
NPL	Non performing loans
LLP	Loan Loss Provisions
RS	Republic of Srpska
USA	United States of America
WB	World Bank
BSE	FB&H Banking System Entities: banks, banking groups, development banks, MCOs, leasing companies, factoring companies, exchange offices, and other financial organizations whose operations are supervised by the FBA
AML&CTF	Anti-money laundering and 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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Summary of Regulatory Requirements and Operating Standards of BSEs

Minimum amount of paid in shareholder capital – BAM 15 million	Article 24, Paragraph (2) of LoB [1]
Common Equity Tier 1 capital ratio – 6.75%	Article 34, Paragraph (1), Item a) of the Decision on Capital Calculation in Banks [2]
Tier 1 capital ratio – 9%	Article 34, Paragraph (1), Item b) of the Decision on Capital Calculation in Banks
Own funds ratio – 12%	Article 34, Paragraph (1), Item c) of the Decision on Capital Calculation in Banks
Capital buffer in form of Tier 1 Capital – 2.5% of the total risk exposure	Article 39, Paragraph (1) of the Decision on Capital Calculation in Banks
Financial leverage ratio – 6%	Article 37, Paragraph (2) of the Decision on Capital Calculation in Banks
Liquidity Coverage Ratio - LCR ≥100%	Article 17, Paragraph (2) of the Decision on Liquidity Risk Management in Banks[3]
Maturity matching of financial assets and financial liabilities	Maturity matching of remaining terms to contractual maturities of assets and liabilities instruments: - Minimum 65% of funding sources with maturity up to 30 days shall be used for purpose of facilities (assets instruments) with maturity up to 30 days, Article 43, Paragraph (8), Item a) of the Decision on Liquidity Risk Management in Banks; - Minimum 60% of funding sources with maturity up to 90 days shall be used for purpose of facilities (assets instruments) with maturity up to 90 days, Article 43, Paragraph (8), Item b) of the Decision on Liquidity Risk Management in Banks; - Minimum 55% of funding sources with maturity up to 180 days shall be used for purpose of facilities (assets instruments) with maturity up to 180 days, Article 43, Paragraph (8), Item c) of the Decision on Liquidity Risk Management in Banks.
Limitation regarding individual overnight foreign exchange position of the bank, except in EUR – up to 20% of the bank's eligible capital	Article 3, Paragraph (2), Item a) of the Decision on Foreign Exchange Risk Management in Banks[4]
Limitation regarding individual overnight foreign exchange position of the bank in EUR – up to 40% of the bank's eligible capital.	Article 3, Paragraph (2), Item b) of the Decision on Foreign Exchange Risk Management in Banks
Limitation regarding aggregate foreign exchange position of the bank – up to 40% of the bank's eligible capital.	Article 3, Paragraph (2), Item c) of the Decision on Foreign Exchange Risk Management in Banks

[1] FB&H Official Gazette No. 27/17
[2] FB&H Official Gazette Nos. 81/17, 50/19, 37/20 and 81/20
[3] FB&H Official Gazette No. 39/21
[4] FB&H Official Gazette Nos. 81/17 and 37/20

Ratio of change in economic value of the banking book and regulatory own funds ≤ 20%	Article 7 of the Decision on Interest Rate Risk Managemet in the Banking Book[5]
Herfindahl-Hirschman index - HHI	It represents the most frequently used measure of concentration in European and U.S. economic systems. HHI is calculated by summing up the squares of percentage shares of specific items (e.g. assets, deposits, loans) of all market participants in a particular system. If HHI value is below 1,000, it indicates to absence of market concentration, while its value ranging from 1,000 to 1,800 units shows moderate concentration in the market and HHI above 1,800 means high market concentration.
Concentrations Ratio – CR	CR is an indicator of concentrations in the banking sector. It represents a total share of largest banks in the sector in relevant categories: in assets, loans and deposits. It is being designated by the number of banks included in the calculation, e.g. CR 5. There is no unique and commonly accepted opinion on interpretation of results of CR. With higher the value, comes higher the market concentration
Ratio of loans/deposits and loans taken	This is a ratio between the most important bank loans, on the assets side, and deposits and loans taken on the liabilities side. With higher rate comes weaker liquidity position of the bank. Behavioral standards are: below 70% - very sound, 71%-75% - satisfactory, 76%-80% - marginally satisfactory, 81%-85% - insufficient, over 85% - critical.

Minimum amount of Tier 1 capital of MCCs - BAM 500,000	Article 26, Paragraph (1) of LoMCO[6]
Minimum amount of Tier 1 capital of MCFs - BAM 50,000	Article 36, Paragraph (1) of LoMCO
Ratio of fixed assets to total assets minus donated capital – up to 10% for MCFs and MCCs where MCF holds majority ownership	Article 11, Paragraph (2) of the Decision on Business Conditions and Other Standards and Limitations of Micro Credit Organisations[7]
Ratio of equity (minus donated capital) and total assets of MCOs – over 10%	Article 11, Paragraph (1) of the Decision on Business Conditions and Other Standards and Limitations of Micro Credit Organisations
Portfolio at risk of MCOs over 30 days (PAR) – up to 5%	Article 12, Paragraph (1), Item c) of the Decision on Business Conditions and Other Standards and Limitations of Micro Credit Organisations
Annual write off in MCOs – up to 3%	Article 12, Paragraph (1), Item d) of the Decision on Business Conditions and Other Standards and Limitations of Micro Credit Organisations
Operating efficiency of MCOs – up to 45%	Article 12, Paragraph (1), Item b) of the Decision on Business Conditions and Other Standards and Limitations of Micro Credit Organisations
Return on Assets of MCOs adjusted by	Article 12, Paragraph (1), Item a) of the Decision on Business

[5] FB&H Official Gazette No. 41/20
[6] FB&H Official Gazette No. 59/06
[7] FB&H Official Gazette No. 103/18

inflation, market price of capital and donations (AROA) - positive	Conditions and Other Standards and Limitations of Micro Credit Organisations
Minimum amount of Tier 1 capital of leasing companies – BAM 250,000	Article 8, Paragraph (1) of LoL[8]
Minimum amount of Tier 1 capital of factoring companies – BAM 750,000	Article 27, Paragraph (1) of LoF[9]

[8] FB&H Official Gazette Nos. 85/08, 39/09, 65/13, 104/16
[9] FB&H Official Gazette Nos. 14/16 and 74/20

EXECUTIVE SUMMARY

FB&H Banking Sector's Key Performance Indicators

15 commercial banks, with 524 organisational units employing a total of 6,458 persons, operated in the FB&H as at 30/06/2021. This number is lower by 64 employees compared to the end of 2020.

Total net assets across the FB&H banking sector as of 30/06/2021 were BAM 25 billion and were higher by BAM 606.7 million or 2.5% compared to 31/12/2020.

The FB&H banks' total capital amounted to BAM 3.2 billion, which was higher by BAM 142.7 million or 4.7% compared to the end of 2020, 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 12.8%.

The own funds amounted to BAM 2.7 billion and increased by BAM 25 million or 0.9% compared to the end of 2020. Common Equity Tier 1 capital and Tier 1 capital stood at BAM 2.6 billion and increased by BAM 29.7 million or 1.1%, while Tier 2 capital amounted BAM 112.4 million and decreased by BAM 4.7 million or 4% compared to the end of 2020.

The FB&H banking sector's own funds ratio was 18.9% as at 30/06/2021 and was slightly lower compared to the end of 2020. Other capital ratios (Common Equity Tier 1 capital ratio and Tier 1 capital ratio) at the FB&H banking sector level were 18.1%.

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%, down by 0.1 percentage point compared to the end of 2020.

Total exposure of banks stood at BAM 29.5 billion, of which BAM 25.6 billion refers to on-balance exposures and BAM 3.9 billion to off-balance items.

Over the first half of 2021, balance sheet total increased against YE2020 by an amount of BAM 654 million or 2.6%. This mostly came as a net effect of an increase of financial assets measured at fair value and at amortised cost. Over the same period, off-balance sheet items dropped by BAM 27.6 million or 0.7%. This decrease was posted in relation to issued guarantees and irrevocably approved, but undrawn loans, while the increase referred to uncovered letters of credit and other contingent liabilities of banks.

Balance sheet exposures within the credit risk grade 1 stood at BAM 22.9 billion as of 30/06/2021 and represented 89.4% of the total amount of such exposures. Balance sheet exposures within the credit risk grade 2 amounted BAM 1.7 billion and constituted 6.7% of the total balance sheet exposures, while balance sheet exposures in the credit risk grade 3 amount to BAM 1.0 billion and make up for 3.9% of the said total amount.

As of 30/06/2021, off-balance sheet exposures in the credit risk grade 1 amounted to BAM 3.5 billion and constituted 90.5% of total off-balance sheet exposures. As for credit risk grade 2 exposures, they amount to BAM 362 million and hold a share of 9.4% of total off-balance sheet exposures, while credit risk grade 3 includes BAM 5.5 million or 0.1% of total off-balance sheet exposures.

The ECL coverage rate for balance sheet exposures stood at 4.6%, while it sttod at 4.7% at the end of the previous year. Compared to 31/12/2020, ECL coverage rate in the credit risk grade 1 went down by 0.1 percentage point to 0.7%, while in the credit risk grade 2 it rose from 12.4% to 13.2% and in the credit risk grade 3 from 78.2% to 79.9%.

Total ECL coverage for off-balance sheet exposures was 1.4%, down by 0.1 percentage point compared to the end of 2020. The individual coverage rate increase was noted with credit risk grades 2 and 3, while the coverage rate for the credit risk grade 1 remained the same as at the end of the preceding year.

As of 30/06/2021, loans amounted to BAM 16.1 billion, up by BAM 805.2 million or 5.3% vs. YE2020. Looking at the sector structure of loans, the biggest increase refers to low risk short-term exposures (BAM 474.5 million or 58.9% of total credit growth). If excluding the increase of these exposures, the loan portfolio would post a rise over the observed period of 2.1%.

Retail loans amounted to BAM 7.5 billion with a share of 46.5% in total loans, thus they went up by BAM 181.8 million or 2.5% compared to the end of 2020. Corporate loans equal BAM 8.6 billion and participate in total loans with 53.5% share, which is also an increase by BAM 623.4 billion or 7.8%. If excluding the increase of short-term low risk exposures with one bank, the corporate loan portfolio rose over the obsrrved period by 1.6%.

As of 30/06/2021, the loan portfolio within the credit risk grade 3 (NPL) stood at BAM 969.6 million, thus constituting 6% of the total loan portfolio (down by BAM 13.3 million or 1.4% compared to the end of 2020). ECL coverage rate for the credit risk grade 3 is 79.5% (corporate 78.7% and retail 80.3%), which is higher by 1.8 percentage points vs. 31/12/2020.

Upon expiry of measures prescribed by the FBA regarding recovery from negative economic consequences caused by the COVID-19 pandemic (hereinafter: the pandemic), it continuously emphasises a need for further attention during this recovery period from the pandemic, i.e. it has pointed out to a still present increased risk of loan portfolio growth within the credit risk grade 3.

Out of total corporate loans, BAM 507.6 million or 5.9% refers to NPLs, which is by 0.9 percentage points lower than at the end of 2020. For purposes of NPL calculation, if short term low risk exposures would be excluded from the portfolio, the corporate NPL rate would be 6.8%. As for the retail segment, NPLs amount to BAM 461.9 million or 6.2%, up by 0.2 percentage points vs. YE2020.

Cash funds equal BAM 7 billion and hold a share of 28% in total assets, thus being by BAM 418.7 million or 5.6% lower than at the end of 2020, as mostly caused by the increase of short term low risk exposures.

As of 30/06/2021, investments in securities equaled BAM 1.9 billion holding a share in assets of 7.8%, thus increasing against the YE2020 by BAM 260.8 million or 15.5%.

Deposits, being the key source of funding for banks, reached an amount of BAM 20.2 billion with a share of 80.8% in total liabilities. Compared to the end of 2020, they went up by BAM 531.2 million or 2.7%. Savings deposits as the most significant and the biggest segment of deposit and financial potential of banks, increased by BAM 375.6 million or 3.8% to BAM 10.3 billion. This is an important indicator of the citizens' trust in the banking system.

The loans taken amounted to BAM 782.6 million with a share of 3.1% in total liabilities, thus going down by BAM 29.3 million or 3.6 vs. YE2020.

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 at the end of the first half of 2021 despite negative effects to the economy caused by the pandemic.

According to reporting data as of 30/06/2021, the FB&H banking sector posted a positive financial result of BAM 150.7 million, i.e. all banks posted positive financial result in the first half of 2021.

FB&H Micro Credit Sector's Key Performance Indicators

In the FB&H, as of 30/06/2021, 13 MCOs comprising the FB&H microcredit sector had a license issued by the FBA, of which 10 were MCFs (non-profit organizations) and 3 MCCs (profit organizations). Number of MCOs went down compared to 31/12/2020 as one MCF had its operating licence revoked in May 2021. Since this MCF operated during the second quarter of 2021, reports covering the observed period are included in this Information. As of 30/06/2021, the number of organisational parts of MCOs seated in the FB&H was 358 employing 1,387 persons. This is lower by 7 employees vs. 31/12/2020.

Total assets of the FB&H micro credit sector as of 30/06/2021 were BAM 660.3 million, which is by BAM 2.2 million or 0.3% higher than as at 31.12.2020. Over the observed period, the rate of total assets increase of MCCs was 0.6% and 0.3% in MCFs.

Total net micro loans were BAM 539.5 million, thus constituting 81.7% of total assets of the FB&H micro credit sector. This is by BAM 5.7 million or 1.1% higher than as of 31/12/2020. The net MCCs' micro loans increased by 3.8%, while net loans of MCFs rose only slightly.

Quality indicators of the microcredit portfolio at the sector level (portfolio at risk over 30 days – 1.44% and write offs – 1.34%) are within the prescribed limits and show a slight increase compared to the end of 2020.

The FB&H micro credit sector's total liabilities under loans taken were BAM 308.7 million as of 30/06/2021, with a share of 46.7% in total liabilities and decreasing by BAM 6.7 million or 2.1% compared to 31/12/2020. In the reporting period, MCCs' credit obligations decreased by 1.3%, while MCFs' credit obligations decreased by 2.5%.

The total capital across the FB&H micro credit sector was BAM 321.9 million or 48.8% of total liabilities and was higher by BAM 10.3 million or 3.3% compared to the end of 2020, where the total capital of MCCs rose by 6.5% and the total capital of MCFs by 2.7%.

Across the FB&H micro credit sector, in the period from 01/01/2021 to 30/06/2021, positive financial performance was reported in an amount of BAM 7.3 million, which is by BAM 4.9 million higher compared to the same period of 2020. MCCs reported a net profit of BAM 0.4 million, while MCFs reported a surplus of revenues over expenses of altogether BAM 6.9 million.

Operational efficiency of the FB&H micro credit sector was 18.48% as of 30/06/2021, which was within the regulatory indicator, while reported return on assets, adjusted by the inflation rate, market price of capital and donations, was positive and amounted to 3.28%, which was in compliance with the regulatory limit.

FB&H Leasing Sector's Key Performance Indicators

The FB&H leasing system comprised, as of 30/06/2021, four leasing companies (leasing sector) and one commercial bank performing financial leasing operations. The FB&H leasing sector employed a total of 106 persons as of 30/06/2021, thus being higher by 5 employees than at the end of the previous year.

The FB&H leasing sector's total assets were BAM 358.5 million as at 30/06/2021 and were higher by BAM 14.7 million or 4.3% compared to 31/12/2020.

The net receivables under financial leasing, as the most significant item in the composition of total assets, were BAM 278.4 million or 77.6% of total assets and were higher by BAM 21.6 million or 8.4% compared to 31/12/2020. With respect to the FB&H leasing sector's asset quality as at 30/06/2021, overdue receivables amounted BAM 3.1 million, down by 11.8% was seen with respect to 31/12/2020. The financial leasing loss reserves rose by 163.8% vs. end of the previous year due to a major increase of this item with one leasing company. At the leasing system level, the total number and value of newly concluded leasing contracts (financial and operational leasing) in the reporting period increased by 36.6% and 39.2% respectively.

The largest item in the composition of the FB&H leasing sector's total liabilities constituted, as of 30/06/2021, liabilities of BAM 323.1 million under loans taken and accounted for 90.1 % of total liabilities. Compared to 31/12/2020, these liabilities increased by BAM 15.2 million or 4.9%. If observed from the perspective of contractual maturity, long term loan obligations hold a dominant share in total loan obligations.

The FB&H leasing sector's total capital was BAM 26.9 million as at 30/06/2021, comprising 7.5% of the FB&H leasing sector's total liabilities and decreasing by BAM 0.8 million or 2.9% compared to December 31st, 2020.

Across the FB&H leasing sector (comprising four leasing companies), in the January 1 - June 30, 2021 period, a positive financial result was reported of BAM 2.3 million, thus representing an increase by BAM 0.5 million compared to the same period of the preceding year. This increase of the leasing sector's business result largely refers to the much improved business result with one leasing company by an amount of BAM 0.9 million.

Information on Special Measures of FBA regarding BSEs in the FB&H

As of 1H 2021, BAM 667.5 million or 4.2% of total loans at the FB&H banking sector level was captured by some of active measures prescribed by the Decision on Temporary Measures of Banks to Ensure Recovery from Negative Economic Consequences Caused by Covid-19[10]. Total amount of the corporate loan portfolio encompassed by some of the active measures was BAM 604.3 million or 7% of the corporate loan portfolio, while retail portfolio subjected to active measures was BAM 63.2 million or 0.8% of the retail loan portfolio.

As of 30/06/2021, active amount of exposures captured by special measures prescribed by the Decision on Temporary Measures of Leasing Companies and Microcredit Organisations to Ensure Recovery from Negative Economic Consequences Caused by Covid-19[11] was BAM 57.6 million or 7.2% of the total loan portfolio. In the retail segment, exposures subjected to some of the

[10] FB&H Official Gazette Nos. 60/20 and 21/21
[11] FB&H Official Gazette Nos. 60/20 and 21/21

special measures amounted to BAM 37.9 million or 7% of the total retail loan portfolio, while corporate exposures captured by some of the said measures amounted to BAM 19.7 million and represented 7.8% of the total corporate loan portfolio.

FB&H Factoring Sector's Key Indicators

As of 30/06/2021, there were four commercial banks in the FB&H performing the factoring business, of which three are members of international banking groups seated in the EU member states and one is in majority local ownership.

In the FB&H, 191 factoring contracts were concluded with the total nominal value of purchased monetary claims as of 30/06/2021 of BAM 79.9 million. Compared to the total number of concluded factoring contracts in the same period last year, this number remained the same and the nominal value of purchased monetary claims and settled payables saw an increase by BAM 23.2 million or 40.9% vs. the same period the year before.

The factoring service providers' total income in the FB&H factoring system as of 30/06/2021 was BAM 610 ths, which is higher by 16.4% vs. the same period in 2020.

INTRODUCTION

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 FBA 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 30/06/2021 was drawn up using reporting data and other data and information provided by the FB&H BSEs to the FBA and used in regular supervision of the BSEs.

Content-wise, this Information is divided into four sections. The first section refers to the microecnomic environment in which credit institutions operated on a global level. The second section presents 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 operations of NFIs, as well as compliance of their operations with the laws and regulations within which microcredit and leasing sectors, as well as factoring business, in the FB&H were addressed as separate segments, with related specific FBA's recommendations. The fourth section discloses banks' operations in the segment of payments and AML&CTF.

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

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

In 2021, FBA has, subject to its prescribed competences, extended deadlines for filing applications for approval of special measures defined in the Decision on Temporary Measures of Banks to Ensure Recovery from Negative Economic Consequences Caused by Covid-19. Implementation of these measures will have a positive impact on the entire economy in the FB&H and its banking sector. Therein, FBA has adopted the Decision on Amendments to the Decision on Temporary Measures of Banks to Ensure Recovery from Negative Economic Consequences Caused by Covid-19 and the Decision on Temporary Measures of Leasing Companies and Microcredit Organisations to Ensure Recovery from Negative Economic Consequences Caused by Covid-19, all aimed to preserve stability of the banking, microcredit and leasing sectors in the FB&H and at enabling approval of relief measures to customers of BSEs whose income, i.e. repayment sources, are still reduced as a result of the pandemic effect, thus making it difficult or rendering them incapable of due settlement of their obligations to BSEs.

1. MACROECONOMIC FRAMEWORK OF OPERATIONS OF CREDIT INSTITUTIONS

The macroeconomic framework of operations of credit institutions at the global level, i.e. monitoring macroeconomic indicators, is of special relevance in the context of interest rate trends and other changes in international markets. Effect of the globalisation process spilled over to other markets and thus may impact future regulations related to operations of banking institutions, as well as the policies of individual banks, whether or not being members of banking groups. Banks in B&H are significantly integrated into internatonal banking groups, most of which are seated in the Eureozone countries. Looking into performance indicators of the banking system in B&H, as well as the economic environment, the banking system in B&H is largely exposed to challenges and risks related to the interest rate level, NPLs, liquidity, upholding profitability, conditions on traditional markets., etc. Also, for purpose of monitoring macroeconomic indicators and their impact on the B&H banking system, one should also take into account limitations related to the CBB&H monetary policy, as well as the Currency Board arrangement.

It is believed that the pandemic-caused crisis is the biggest economic crisis since the 2nd World War and, as such, it is the main hallmark of the Y2020. The pandemic will most certainly leave its mark on 2021, although it is believed that this year will bring us a slight recovery. Short term economic prospects are still characterised by uncertainty, especially regarding the duration of the pandemic, as well as the vaccination rate and efficiency. Latest data show an increase of activities in the service sector and continuous dynamics in the processing industry sector, as supported by a stable global demand.

According to the IMF forecast from April 2021, global economic activities (real GDP) are expected to rise by 6% in 2021 and by 4.4% in 2022.

Table No. 1 below shows selected macroeconomic indicators across periods:

Table 1: Selected macroeconomic indicators

No.	Area/interest rates	2017	2018	2019	2020	2021[12]
1	2	3	4	5	6	7
	GDP growth in %					
1.	USA	2.3	3.0	2.2	-3.5	6.4
2.	Euroarea	2.6	1.9	1.3	-6.6	4.4
3.	EU	3.0	2.3	1.7	-6.1	4.4
4.	Slovenia	4.8	4.4	3.2	-5.5	3.7
5.	Croatia	3.4	2.8	2.9	-9.0	4.7
6.	Serbia	2.1	4.5	4.2	-1.0	5.0
7.	B&H	3.2	3.7	2.8	-5.5	3.5
	Consumer price change (CPI), annual average in %					
1.	USA	2.1	2.4	1.8	1.2	2.3
2.	Euroarea	1.5	1.8	1.2	0.3	1.4
3.	BiH	0.8	1.4	0.6	-0.6	1.2
	Key interest rates					
1.	6-month Euribor[13]	-0.27	-0.25	-0.35	-0.51	-0.52
2.	Yield to 10-year German government bonds[14]	0.30	0.19	-0.30	-0.62	-0.29
3.	Yield to 10-year Italian government bonds	1.80	2.98	1.37	0.58	0.88

Souce: IMF, World Economic Outlook Database, April 2021; Eurostat

[12] Expected values for 2021 (IMF, World Economic Outlook, April 2021); for interest rates - data for June 2021.

[13] Data for this period refer to Euribor on the first working day of the last month of the reporting period.

[14] Eurostat for EU-member states, 10-year yield used in calculating the criteria from Maastricht: data for the last month of the reporting period.

The world's biggest economy, i.e. the US economy, saw a GDP decrease of 3.5% in 20201, while in 2021 it expects to achieve an increase of GDP by 6.4%. The EU economy experienced greater impact, i.e. decrease in 2020, so it is expected to show slower recovery than the US economy.

The projected GDP growth rate of the EU is 4.4% on an annual level. It is foreseen that the major fiscal package approved by the Biden administration (USD 1.9 billion or app. 9% of the GDP) will support the recovery rate in the US and provide positive spillover effects for the global economy.

Strong monetary and fiscal expansion are the main resons for relatively fast transition to the recovery stage. EU countries and the US have implemented various fiscal and monetary policies to save their economies ans own citizens, thus resulting in "injecting" great quantities of money into the economy. Since the situation is slowely stabilising and economies are recovering, an attention is shifted to an inevitable effect of effect of the monetary expansion, i.e. inflation increase. There are still no reasons for great concern, but we can expect to see an end to low inflation rates, at least in short term. The fact is that the inflation has been on the rise since early 2021, but is still at 2% on the EU level. The annual inflation rate in the Eurozone was at 1.9% in June 2020 an at 2% in May, whereas this rate in June 2021 was at 2.2% and at 2.3% in May. The US also experienced stronger inflatory pressures over the first five months of the current year. The base inflation rate, excluding unstable categories such as food and energy, has risen in June by 0.9% and in May by 0.7%. This rate went up by 5.4% in the past 12 months, thus being the highest increase since 2014.

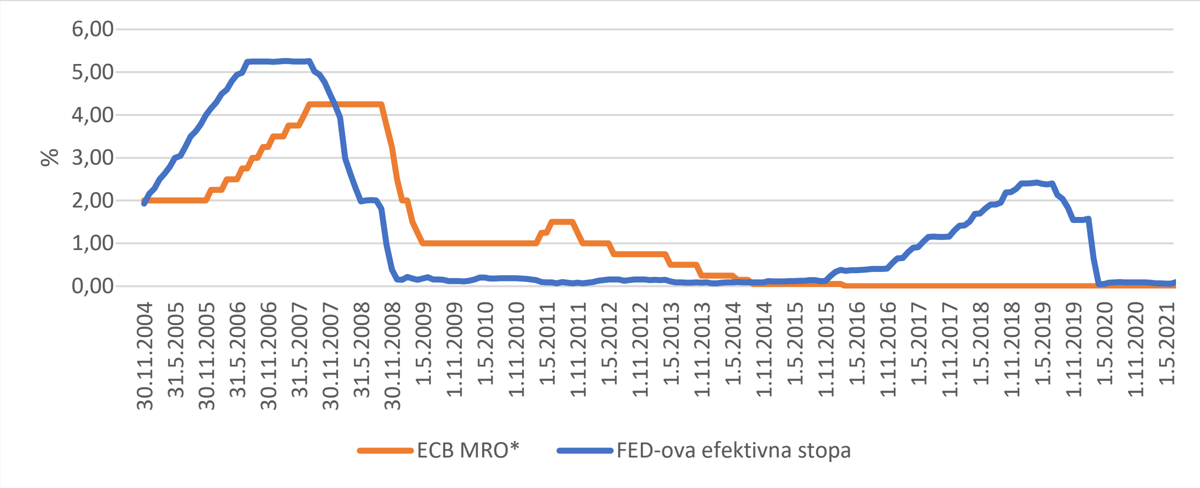
According to the IMF data, an annual average of the consumer price index in B&H was at negative 0.6% in 2020, while data of the B&H Statistics Agency for June 2021 showed the change rate of the consumer price index to by at 1,7% compared to June last year.

In response to the pandemic, fiscal policy became much more expansive, thus leading to the public debt increase in many countries. This fiscal response to the pandemic mostly occurred at the level of EU member countries. However, at the EU level, strong fiscal responses were arranged on two occasions as well. The initial assistance package in April was followed by an agreement on the Next Generation EU program worth EUR 750 billion or app. 4% of the GDP in the EU. This program is of historical relevance since this is the first time that it is being financed by the European bonds jointly guaranteed by member countries. It is expected for this program to play the key role here, i.e. to provide for faster, stronger and equal recovery. According to the macroeconomic projections from June, a combination of grants and borrowings from this program will ensure further stimulus of app. 0.5% of GDP annually in the period from 2021 to 2023.

As for the monetary policy, ECB has not changed the interest rates. The deposit interest rate remained in the negative area (-0.5%) and the main rate for refinancing operations was at 0%. In April 2021, the US FED decided to maintain the target range of EFFR (eng. Effecitve Federal Funds Rate) bwtween 0% and 0.25%.

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

Chart 1: Key interest rates of leading central banks



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

Financinal conditions in the Eurozone have become stricter to some point, following the meetings of the ECB Governing Council in December 2020 and in June 2021. The reference interest rate – Euribor (Euro Interbank Offered Rate) is still in the negative area and ranges at app. -0.5%. Yields on long term government bonds of the euroarea have risen slightly and are no longer to be found in the negative area for most of the countries. Yield on the 10-year German government bonds is still on the negative side, but unlike end of 2020 when it stood at -0.62%, it was at -0.29% in June 2021.

In June 2021, the ECB Governing Council confirmed a very flexible (accommodating) character of its monetary policy in order to maintain favourable financing terms for all sectors of the economy, as they are required to ensure stable economic recovery and price stability protection. ECB is still performing refinancing operations to ensure high liquidity of the securities purchases and targeted operations of long term refinancing via existing programs (PEPP - Pandemic Emergency Puchase Programme, APP - Asset Purchase Programme and TLTRO III - Targeted Longer Term Refinancing Operations).

Generating money in the euroarea become more moderate in April 2021 and showed first sings of normalisation after quite significant monetary expansion related to the pandemic.

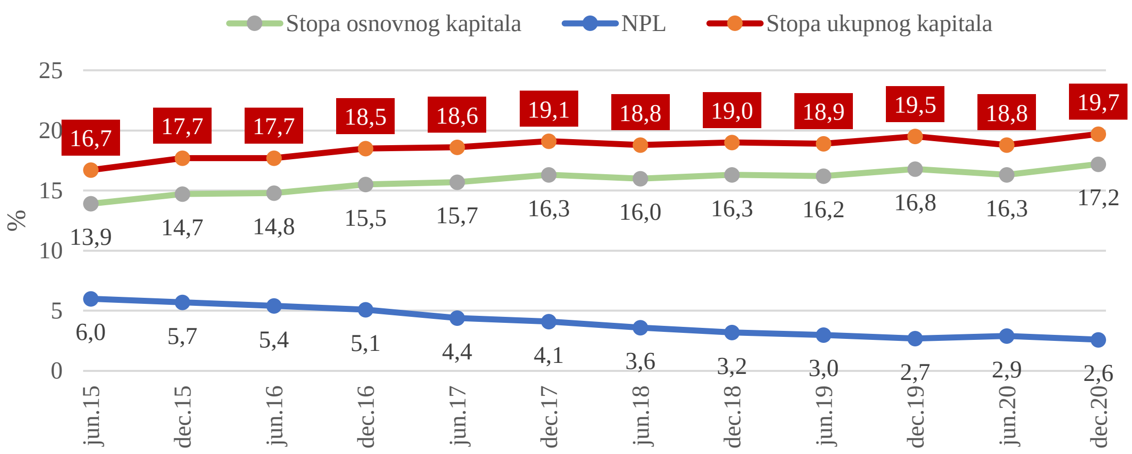
The pandemic outbreak was also impacted the financial stability, i.e. there was a sudden increase of vulnerability of financial stability across all markets and all sectors. This largely referred to the sensitivity to adjustments to assets prices (increased negative prospects for the ratings), challenges regarding debt collection by loan users, as well as additional weakening of profitability in banks. Central banks, government and other institutions in the EU have adopted series of measures to assist in mitigating financial shocks caused by the pandemic, as well as series of macroprudential measures aimed at strengthening resilience of the banking sector in Europe. EU banks have been facing increased risks due to possible worsening of the assets quality related to the economic downturn.

Central banks in the EU, together with ECB, have applied measures to make the bank capital available for apsorbing losses and suppprting retail and corporate lending. Therein, this meant lifting the requirement for capital buffers in an amount greater than EUR 20 billion via full or partial release of countercyclical capital buffers. Within the Single Supervisory Mechanism (SSM), ECB will not ask banks to add to their capital buffers, i.e. balance between structural and cyclical capital requirements, until we see a major capital decrease, which is not later than end of 2022.

With certain banks, bank supervision in the EU was reorganised in line with business models of such banks, i.e. supervision was more risk-oriented. Therein, ECB recommended for banks to refrain form dividend disbursements. Thanks to the SSM's active role, European banks entered the pandemic-caused crisis with much stronger capital and liquidity positions and better assets quality.

Chart No. 2 provides an overview of NPL ratio and total capital ratio in EU banks:

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



Source: EBA
Stopa osnovnog kapitala – CET1 ratio
Stopa ukupnog kapitala – total capital rate

In late 2019, i.e. prior to emergence of the pandemic, EU banks had the total capital rate at 19.5%. Upon occurrence of the pandemic, this rate went down by 0.7 percentage points and went up by 0.2 percentage points at the end of 2020 (vs. YE2019). The same trend was seen with the CET1 ratio that stood at 16.8% at YE2019 and dropped by 0.5 percentage points during 2020 and rose by 0.4 percentage points at YE2020 (vs. YE2019). At the end of 2019, i.e. before the pandemic, NPL was at 2.7%. During 2020, it expectedly worsened and decreased by 0.1 percentage point as of YE2020 vs. YE2019.

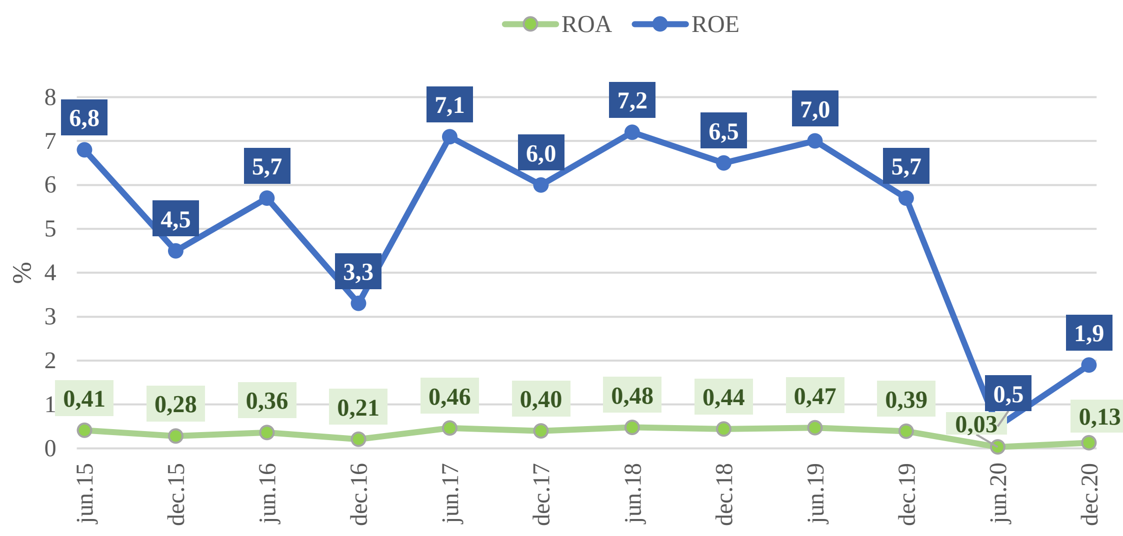
Liquidity of banks in the EU has improved during the crisis thanks to continued monetary expansion by ECB. LCR climbed from 149.8% at YE2019 to 173% at YE2020 (i.e. by 23.2 percentage points).

Preliminary data for Q1 2021 show a slight improvement. These trends were expected considering the economic downturn during the pandemic, whereas banks are sufficiently solvent and resilient enough with respect to the pandemic-caused crisis. According to available information at the EU level, a comparison of Q1 2021 and YE2020 has shown that the total capital rate remained the same, while NPL and CET1 ratio dropped slightly by 0.1 percentage point.

After occurrence of the pandemic, business results of banks in the EU have worsened. However, in 2020, banks have continued to operate in the positive area with an average return on assets of 0.13% and average return on equity of 1.9% at YE2020. This positive trend continued in Q1 2021 as well.

Chart No. 3 provides an overview of return on assets and return on equity in EU banks:

Chart 3: ROE and ROA in EU banks



Source: EBA

Every other year, EBA, in cooperation with ECB, European Systemic Risk Board (ESRB) and national supervisory authorities, performs stress testing at the EU level on a sample of the largest significant banks supervised directly by the ECB. This stress testing uses the EBA's methodology and templates, and the scenarios and key assumptions are developed jointly between the EBA, the ESRB, the ECB and the European Commission.

The EU-level stress testing represents a major input for the stress assessment of the European banking sector. However it was postponed for one year due to the pandemic. Early in 2021, EBA announced a new stress testing methodology for the Y2021, as well as macroeconomic stress testing scenarios for the three-year period, i.e. from 2021 to 2023.

Stress test results for 89 analysed commercial banks in the Eurozone[15] were published by EBA and ECB in late July 2021. They showed that the EU banking sector is still resilient to unfavourable economic trends. With the EU-level stress testing, CET1 ratio would dropped by 5.2 percentage points to 9.9% if sampled banks in the EU would be exposed to a 3-year stress period. The stress test entailed adding a challenging scenario caused by the pandemic, i.e. simulation of consequences of an economic collapse and sharp decline in prices of assets and shares. Key impact to the capital reduction would come from credit risk, market risk and limited capacity of profit generation in the unfavourable economic environment (banks would experience a reduction of their net interest income, trade income and net fee and commission income).

[15] The sample of banks captured by stress testing consists of 38 banks from the EBA sample and 51 medium-sized banks under ECB supervision.

From the perspective of financial stability, i.e. assessment as to how successfully banks can cope with financial and economic shocks, stress testing represents an important tool and a valuable source of information for supervisory authorities in terms of detecting bank weaknesses, all with an aim of ensuring an adequate risk-based supervision.

2. BANKING SECTOR

2.1. FB&H BANKING SECTOR'S STRUCTURE

2.1.1. Status, Number and Business Network

As of 30/06/202, 15 commercial banks had banking license in the FB&H. Number of banks remained the same as on December 31st, 2020. 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 1 provides basic information about the FB&H banks as at 30/06/2021.

The FB&H banks had, as of 30/06/2021, a total of 524 organizational units, which was fewer by 7 organisational parts or 1.3% compared to December 31st, 2020. In the territory of the FB&H there are 462 organizational units of banks. Seven banks from the FB&H have 51 organizational units in the RS, while 10 banks have 11 organizational units in the BD.
Three banks from the RS have 28 organisational parts in the FB&H, being the same as at December 31st, 2020.

The table below shows a comparative overview of organisational parts and network of ATMs and POS devices of banks in the FB&H:

Table 2: Org. parts, network of ATMs and POS devices of banks operating in the FB&H

No.	Description	Business unit/higher org.parts	Other organisational parts	POS devices	ATMs
31.12.2020					
1.	Banks seated in the FB&H (in the territory of B&H)	408	123	23,845	1,247
2.	Organisational parts of banks from the RS doing business in the FB&H	10	18	551	38
	Total	**418**	**141**	**24,396**	**1,285**
30.06.2021					
1.	Banks seated in the FB&H (in the territory of B&H)	408	116	23,890	1,254
2.	Organisational parts of banks from the RS doing business in the FB&H	10	18	483	37
	Total	**418**	**134**	**24,373**	**1,291**

2.1.2. Ownership Structure and Market Share

Ownership structure of the FB&H banks [16] as of 30/06/2021 is the following:
- privately owned and predominantly privately owned - 14 banks,
- state-owned and predominantly state-owned [17] - one bank.

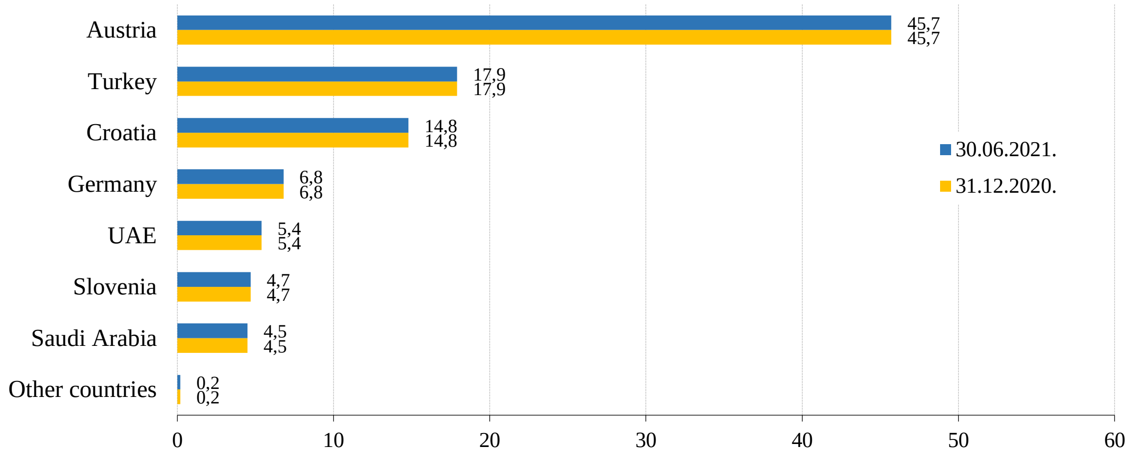
[16] Criteria here was the ownership over shareholder capital in banks.
[17] State ownership refers to the capital of the FB&H Government.

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 30/06/2021, the situation is unchanged compared to the end of 2020, since the highest share is still held by the shareholders from Austria (45.7% of foreign capital), followed by the shareholders from Turkey (17.9%) and Croatia (14.8%), while other countries have no major individual shares. Despite certain capital increase initiatives, the ownership structure remained unchanged. Possible reason may rest with difficulties in activities of the FB&H Securities Commission during the observed period.

The foreign capital structure by countries is provided in the following Chart No. 4:

Chart 4: Structure of foreign capital by countries (share in %)

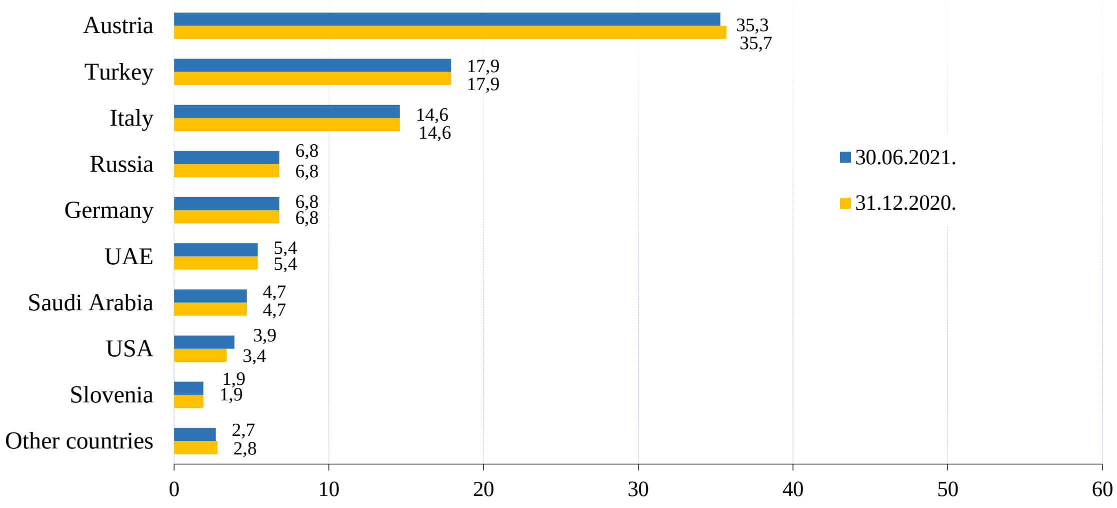


If the capital ties are considered, the foreign capital structure can also be viewed according to the criterion of the country of residence of the parent, i.e. the banking group that majority-owns (directly or indirectly through the members from the banking group) the FB&H banks.

According to this criterion, the highest share as of 30/06/2021 is held by the banking groups and banks from Austria (35.3%), followed by the banking groups and banks from Turkey (17.9%) and Italy (14.6%), 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 No. 5:

Chart 5: Structure of foreign capital by countries – residence of the group[18], share in %



The ownership structure according to the value of total capital is provided in the following Table No. 3:

- BAM 000 -

Table 3: Ownership structure according to total capital

No.	Banks	31.12.2019*		31.12.2020		30.06.2021		Index	
		Amount	% share	Amount	% share	Amount	% share	(5/3)	(7/5)
1	2	3	4	5	6	7	8	9	10
1.	State-owned banks	68,881	2.2	63,642	2.1	66,606	2.1	92	105
2.	Private banks	3,068,277	97.8	3,002,440	97.9	3,142,138	97.9	98	105
	Total	**3,137,158**	**100**	**3,066,082**	**100**	**3,208,744**	**100**	**98**	**105**

* Data corrected based on an external auditor's order due to subsequent measurement of financial assets at fair value in case of a share with one bank, which led to an increase of total capital of the FB&H banking system by BAM 5.8 million.

The total capital of the FB&H banking sector with the balance as at 30/06/2021 increased by BAM 142.7 million or 4.7% compared to the end of 2020, amounting to BAM 3.2 billion. The increase of total capital by BAM 142.7 million was realized as a net effect of: an increase on the basis of the current financial result for the first half of 2021 of BAM 151 million, a decrease based on changes to the accounting policy of measurement of tangible assets with one bank of BAM 6.4 million and a decrease based on fair valuation of assets items through other comprehensive income of BAM 1.9 million.

Viewed through the state-owned, private and foreign capital shares in the share capital of the banks, resulting in a more detailed analytical overview on the ownership structure of banks' capital in the FB&H, which is shown in the following Table No. 4:

- BAM 000 -

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

No.	Share capital	31.12.2019		31.12.2020		30.06.2021		Index	
		Amount	% share	Amount	% share	Amount	% share	(5/3)	(7/5)
1	2	3	4	5	6	7	8	9	10
1.	State-owned capital	41,619	3.2	41,619	3.2	41,619	3.2	100	100
2.	Private capital (residents)	139,355	10.7	140,547	10.8	140,851	10.8	101	100
3.	Foreign capital (non-	1,118,725	86.1	1,117,534	86.0	1,117,230	86.0	100	100

[18] 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.

residents)								
Total	**1,299,699**	**100**	**1,299,700**	**100**	**1,299,700**	**100**	**100**	**100**

As for the ownership structure of share capital in the FB&H banking sector according to shares of the state-owned capital, private capital and foreign capital as of 30/06/2021, remained at the same level compared to the end of 2020.

Table No. 5 provides an overview of market shares of banks by ownership type (majority capital) across periods:

Table 5: Market shares of banks by ownership type (majority capital)

No.	Banks	31.12.2019			31.12.2020			30.06.2021		
		Number of banks	Share in total capit. %	Share in total assets %	Number of banks	Share in total capit. %	Share in total assets %	Number of banks	Share in total capit. %	Share in total assets %
1	2	3	4	5	6	7	8	9	10	11
1.	Banks with majority state-owned capital	1	2.2	3.3	1	2.1	3.6	1	2.1	3.6
2.	Banks with majority private capital - residents	4	5.9	6.3	4	5.3	6.7	4	5.2	6.5
3.	Banks with majority foreign capital	10	91.9	90.4	10	92.6	89.7	10	92.7	89.9
	Total	**15**	**100**	**100**	**15**	**100**	**100**	**15**	**100**	**100**

2.1.3. Staff Structure

The number of employees across the banking sector as at 30/06/2021 is 6,458, which is lower by 64 employees or 1% compared to the end of 2020. A decrease in the number of employees is present in 7 banks, while the number of employees increased in 6 banks and this number remained the same with 2 banks compared to YE2020.

An overview of the qualification structure of employees across the FB&H banking sector is provided in the following Table No. 6:

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

No.	Qualification level	31.12.2019		31.12.2020		30.06.2021		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	4,125	61.9	4,088	62.7	4,055	62.8	99	99
2.	Two-year post-secondary school degree	485	7.3	453	6.9	442	6.8	93	98
3.	Secondary school degree	2,041	30.7	1,975	30.3	1,955	30.3	97	99
4.	Others	8	0.1	6	0.1	6	0.1	75	100
	Total	**6,659**	**100**	**6.522**	**100**	**6,458**	**100**	**98**	**99**

A decrease in the number of employees in the FB&H banking sector as of 30/06/2021 compared to the end of 2020 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 No. 7 provides an overview of total assets per an employee in the FB&H banking sector by periods:

- BAM 000 -

Table 7: Total assets per employee

31.12.2019			31.12.2020			30.06.2021		
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
6,659	24,217,016	3,637	6,522	24,396,438	3,741	6,458	25,003,159	3,872

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[19], in accordance with provisions of the FB&H Law on the Opening Balance Sheet of Enterprises and Banks, under which banks with a majority of state-owned capital are required to report to the FBA based on the „total" balance sheet broken down into: passive, neutral, and active sub-balance sheets.

In that respect, the data are reported in Annex 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 30/06/2021.

The following Table No. 8 provides an overview of the banking sector's balance sheet:

- BAM 000 -

Table 8: Balance sheet

No.	Description	31.12.2019*		31.12.2020		30.06.2021		Index	
		Amount	% share	Amount	% share	Amount	% share	(5/3)	(7/5)
1	2	3	4	5	6	7	8	9	10
	ASSETS								
1.	Cash	7.641.570	31,6	7.414.615	30,4	6.995.890	28,0	97	94
2.	Securities	1.462.770	6,0	1.687.459	6,9	1.948.290	7,8	115	115
3.	Placements to other banks	149.197	0,6	275.941	1,1	329.964	1,3	185	120
4.	Loans	15.220.759	62,8	15.254.651	62,5	16.059.822	64,2	100	105
5.	Impairments	1.120.940	4,6	1.127.176	4,6	1.138.551	4,5	101	101
6.	Net loans (loans minus impairments)	14.099.819	58,2	14.127.475	57,9	14.921.271	59,7	100	106
7.	Business premises and other fixed assets	600.684	2,5	553.475	2,3	520.088	2,1	92	94
8.	Other assets	262.976	1,1	337.473	1,4	287.656	1,1	128	85
	TOTAL ASSETS	**24.217.016**	**100**	**24.396.438**	**100**	**25.003.159**	**100**	**101**	**102**
	LIABILITIES								
9.	Deposits	19.414.294	80,2	19.660.862	80,6	20.192.081	80,8	101	103
10.	Borrowings from other banks	0	0,0	0	0,0	0	0,0	-	-
11.	Liabilities on loans	856.626	3,5	811.878	3,3	782.591	3,1	95	96
12.	Other liabilities	808.938	3,3	857.616	3,5	819.743	3,3	106	96
	CAPITAL								
13.	Capital	3.137.158	13,0	3.066.082	12,6	3.208.744	12,8	98	105
	TOTAL LIABILITIES (LIABILITIES AND CAPITAL)	**24.217.016**	**100**	**24.396.438**	**100**	**25.003.159**	**100**	**101**	**102**

* Based on an external auditor's order with one bank, Y2019 financial statements got corrected due to subsequent measurement of financial assets at fair value in case of one share, which led to an increase of the balance sheet total of the FB&H banking system by BAM 6.4 million.

The total net assets across the FB&H banking sector as of 30/06/2021 are BAM 25 billion, which is by BAM 606.7 million or 2.5% higher compared to the end of 2020.

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

The banks' net loans have the highest share (59.7%) within the assets in the banks' balance sheet, followed by cash (28%), securities (7.8%), fixed assets (2.1%), placements to other banks (1.3%) and other assets (1.1%). The deposits (80.8%) have the highest share within the liabilities in the banks' balance sheet, followed by capital (12.8%), other liabilities (3.3%) and liabilities based on loans (3.1%).

As of 30/06/2021, compared to the end of 2020, increase was evident with investments in securities, placements with other banks, loans, deposits and total capital, while decrease was seen with cash, business premises, other fixed assets and other assets, liabilities under loans taken and other liabilities.

The following Table No. 9 provides an overview of the banks' assets banks according to ownership structure:

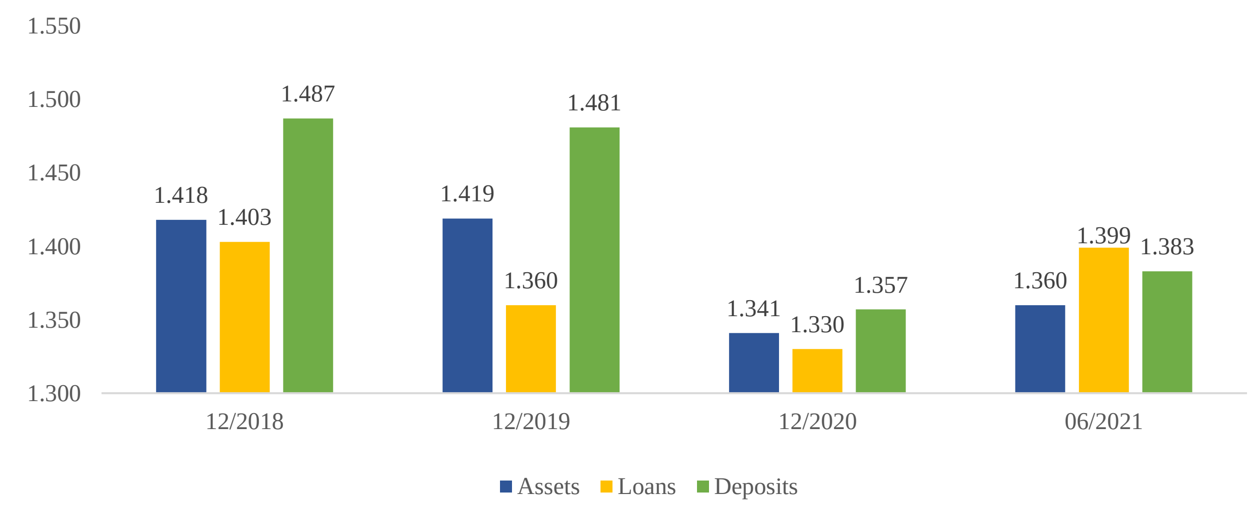
- BAM 000 -

Table 9: Banks' assets according to ownership structure

No.	Banks	31.12.2019			31.12.2020			30.06.2021			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	801,261	3.3	1	879,736	3.6	1	899,503	3.6	110	102
2.	Private	14	23,415,755	96.7	14	23,516,702	96.4	14	24,103,656	96.4	100	102
Total		**15**	**24,217,016**	**100**	**15**	**24,396,438**	**100**	**15**	**25,003,159**	**100**	**101**	**102**

The following Chart No. 6 presents the Herfindahl index of concentration in assets, loans and deposits:

Chart 6: Herfindahl index of concentration in assets, loans, and deposits



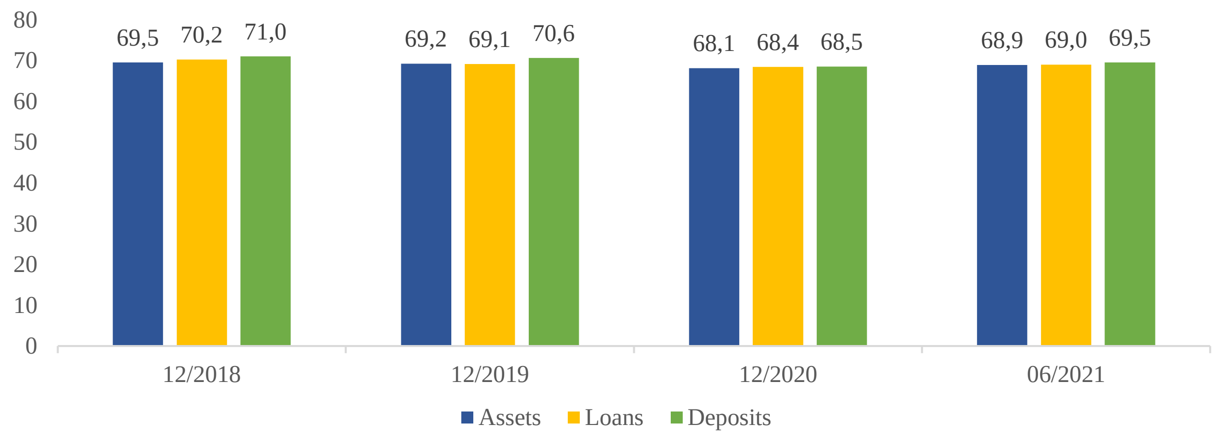
The Herfindahl index of concentration as of 30/06/2021, compared to the end of 2020, rose for assets by 19 units, for loans by 69 units and for deposits by 26 units. The Herfindahl index of concentration for the reporting period shows a moderate concentration in all three relevant categories (assets, loans, and deposits).

Looking into the concentration ratio, i.e. total share of the five biggest banks in the sector - CR5 as of 30/06/2021 is viewed compared to the end of 2020, there is an increase with all categories -

market share by 0.8 percentage points, loans by 0.6 percentage points and deposits by 1.0 percentage point. The two biggest banks in the sector account for 45.4% of the market (assets 45.6%, loans 44.4% and deposits 46.3%).

An overview of the concentration ratios for the five biggest banks in the sector is provided in the following Chart No. 7:

Chart 7: 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[20]. As of 30/06/2021, three banks in the FB&H banking sector with a 55.3% 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 No. 10 provides an overview of the amounts and shares of the groups of banks in the total assets through periods:

- BAM 000 -

Table 10: Share of groups of banks in total assets

No	Amount of assets	31.12.2019			31.12.2020			30.06.2021		
		Amount	% share	Amoun t	% share	Amou nt	% share	Amount	% share	Amount
1	2	3	4	5	6	7	8	9	10	11
1.	I (over BAM 2 billion)	13,686,527	56.5	3	13,375,256	54.8	3	13,827,198	55.3	3
2.	II (BAM 1-2 billion)	6,652,374	27.5	5	7,906,422	32.4	6	7,097,788	28.4	5
3.	III (BAM 0.5-1 billion)	3,451,044	14.2	5	2,708,664	11.1	4	3,655,195	14.6	5
4.	IV (BAM 0.1-0.5 billion)	427,071	1.8	2	406,096	1.7	2	422,978	1.7	2
5.	V (below BAM 0.1 billion)	0	0.0	0	0	0.0	0	0	0.0	0
	Total	**24,217,016**	**100**	**15**	**24,396,438**	**100**	**15**	**25,003,159**	**100**	**15**

As of 30/06/2021 (compared to YE2020), there was a change in the structure with groups II and III of banks in the total assets of the FB&H banking sector, i.e. one bank moved from group II to group III of banks. Over the observed period, none of the banks had assets below BAM 100 million.

Cash across the FB&H banking sector as of 30/06/2021 amounted to BAM 7.0 billion, down by BAM 418.7 million or 5.6% vs. YE2020. This is largely attributable to an increase of short-term low risk exposures. Banks still hold major amount of cash in excess of the mandatory reserves.

An overview of cash through the periods is provided in the following Table No. 11:

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

Table 11: Banks' cash

No	Cash	31.12.2019		31.12.2020		30.06.2021		Index	
		Amount	% share	Amount	% share	Amount	% share	(5/3)	(7/5)
1	2	3	4	5	6	7	8	9	10
1.	Cash	1,004,445	13.1	1,267,712	17.1	1,434,635	20.6	126	113
2.	Reserve account with CBB&H	4,329,659	56.7	4,478,515	60.4	4,268,867	61.0	103	95
3.	Accounts with deposit institutions in B&H	48,611	0.6	30,194	0.4	9,720	0.1	62	32
4.	Accounts with deposit institutions abroad	2,258,758	29.6	1,638,190	22.1	1,282,666	18.3	73	78
5.	Cash in process of collection	97	0.0	4	0.0	2	0.0	4	50
	Total	**7,641,570**	**100**	**7,414,615**	**100**	**6,995,890**	**100**	**97**	**94**

As of 30/06/2021, compared to the end of 2020, there was an increase of the banks' cash funds related to cash, while decrease was evident with reserve accounts with CBB&H, deposit accounts with deposit institutions in B&H and abroad and cash in process of collection.

In the currency structure of cash funds as of 30/06/2021 (compared to the end of 2020), the share of local currency rose from 73.7% to 76%, along with a simultaneous decrease of the share in foreign currency from 26.3% to 24%.

The portfolio of securities as at 30/06/2021 amounted to BAM 1.9 billion, which was higher by BAM 260.8 million or 15.5% compared to the end of 2020.

The following tables No. 12 and No. 13 provide overviews of the portfolio according to the type of instruments and issuer across periods:

- BAM 000 -

Table 12: Investments in securities according to type of instrument

No.	Investments in securities	31.12.2019*		31.12.2020		30.06.2021		Index	
		Amount	% share	Amount	% share	Amount	% share	(5/3)	(7/5)
1	2	3	4	5	6	7	8	9	10
1.	Equity securities	11,762	0.8	11,844	0.7	5,730	0.3	101	48
2.	Debt securities:	1,451,008	99.2	1,675,615	99.3	1,942,560	99.7	115	116
2.1.	- Securities of all levels of governments in B&H	747,632	51.1	992,337	58.8	1,165,911	59.8	133	117
2.2.	- Government securities (other countries)	549,649	37.6	544,646	32.3	623,573	32.0	99	114
2.3.	- Corporate bonds [21]	153,727	10.5	138,632	8.2	153,076	7.9	90	110
	Total	**1,462,770**	**100**	**1,687,459**	**100**	**1,948,290**	**100**	**115**	**115**

* Due to corrections made to Y2019 financial statements based on the external auditor's order with one bank (caused by subsequent measurement of financial assets at fair value in case of one share), there was an increase of equity securities, i.e. securities portfolio at the F&H banking sector level by an amount of BAM 6.4 million.

As of 30/06/2021, the most significant item within the investments in debt securities are the securities of entity governments, namely the securities issued by the FB&H[22] of the total value of BAM 719.6 million, and the securities of the RS as the issuer of BAM 413 million.

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Table 13: Securities of B&H entity governments

No.	Investments in securities	31.12.2019		31.12.2020		30.06.2021		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:	532,147	72.6	699,554	71.5	719,621	63.5	131	103
1.1.	- Treasury bills	18,921	2.6	100,007	10.2	77,235	6.8	529	77
1.2.	- Bonds	513,226	70.0	599,547	61.3	642,386	56.7	117	107
2.	Debt securities of RS:	201,089	27.4	278,325	28.5	413,019	36.5	138	148

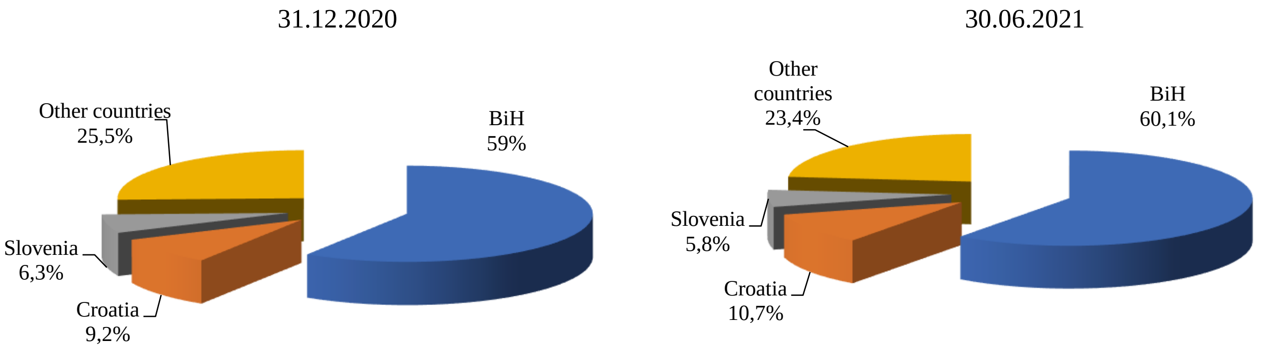
[21] Majority, i.e. app. 93.6%, relates to the EU and US banks' bonds, while the remainder relates to the EU companies' bonds.
[22] All types of securities of the FB&H as the issuer

2.1.	- Treasury bills	0	0.0	41,759	4.3	54,105	4.8	-	130
2.2.	- Bonds	201,089	27.4	236,566	24.2	358,914	31.7	118	152
	Total	**733,236**	**100**	**977,879**	**100**	**1,132,640**	**100**	**133**	**116**

If total investments in securities are analysed according to the exposures by countries, the highest share of 60.1% is to the issuers from B&H, followed by Croatia with a 10.7% share, Slovenia with 5.8% share and other countries with individual shares below 5%.

The structure of investments in securities according to the criterion of the country of issuer is provided in the Chart 8 below:

Chart 8: Structure of investments in securities according to the criterion of country of issuer



2.2.2. Liabilities

As of 30/06/2021, the share of deposits, as the most significant source of the banks' funding, increased by 0.2 percentage points (80.8%), while the share of loan obligations decreased by 0.2 percentage points compared to the YE2020 (3.1%).

The banks' loan obligations with the amount of BAM 782.6 million have decreased by BAM 29.3 million or 3.6% compared to the end of 2020. If subordinated loans of BAM 186.4 million are also added to the loan obligations, total loans have a 3.9% share in the funding sources.

The deposits recorded an increase of BAM 531.2 million or 2.7% compared to the end of 2020, amounting to BAM 20.2 billion as at 30/06/2021. Out of the total amount of deposits at the end of the reporting period, BAM 1.3 billion or 6.6% relates to deposits collected in the FB&H banks' organizational parts in the RS and the BD.

The following charts No. 9 and No. 10 provide an overview of total deposits and the ratio of loans and deposits by periods:

- BAM 000 -

Chart 9: Total deposits

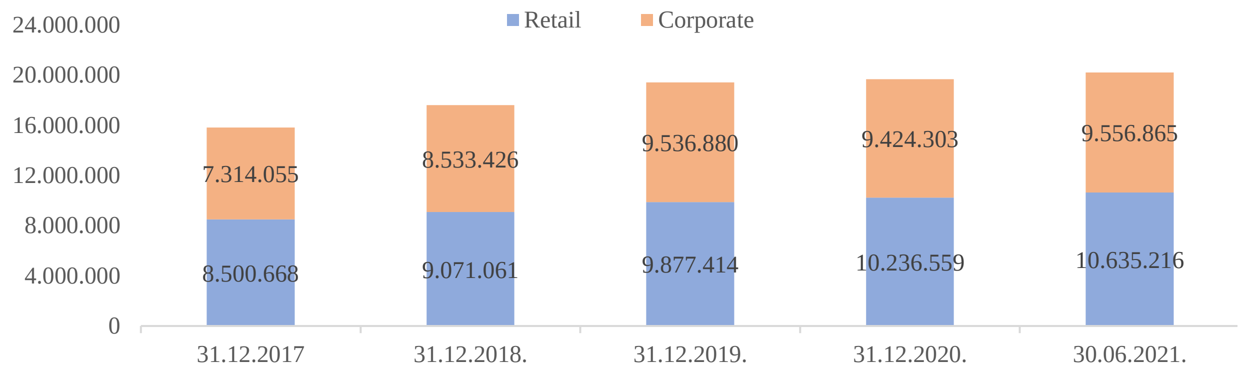
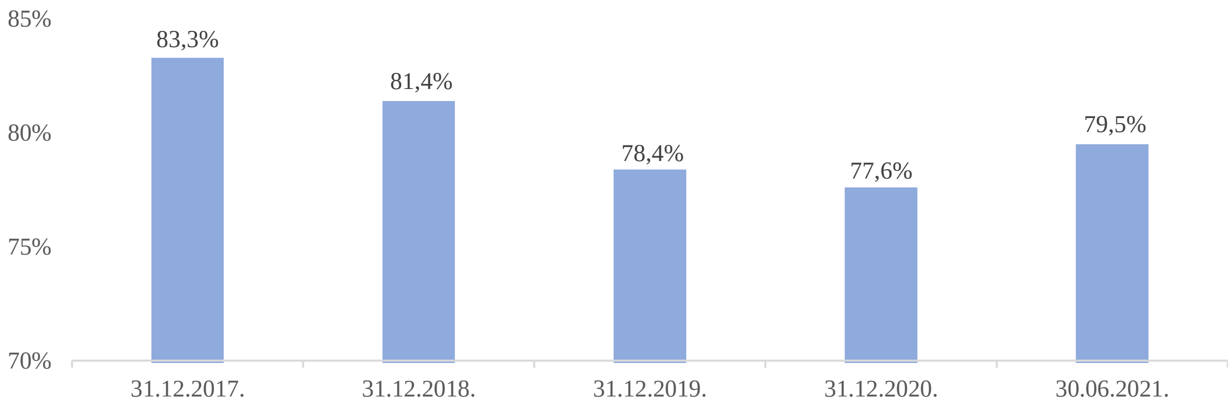


Chart 10: Loan-to-deposit ratio



The following Table No. 14 provides an overview of the sector structure of deposits:

-BAM 000-

Table 14: Sector structure of deposits

No.	Sectors	31.12.2019		31.12.2020		30.06.2021		Index	
		Amount	% share	Amount	% share	Amount	% share	(5/3)	(7/5)
1	2	3	4	5	6	7	8	9	10
1.	Government institutions	2,157,147	11.1	2,236,845	11.4	2,223,968	11.0	104	99
2.	Public enterprises	1,651,976	8.5	1,453,080	7.4	1,593,184	7.9	88	110
3.	Priv.enterp. and companies	3,236,224	16.7	3,783,548	19.2	4,008,471	19.9	117	106
4.	Banking institutions	1,208,613	6.2	568,484	2.9	426,677	2.1	47	75
5.	Non-bank fin. institutions	803,516	4.1	848,319	4.3	781,624	3.9	106	92
6.	Retail	9,877,414	50.9	10,236,559	52.1	10,635,216	52.7	104	104
7.	Other	479,404	2.5	534,027	2.7	522,941	2.5	111	98
	Total	**19,414,294**	**100**	**19,660,862**	**100**	**20,192,081**	**100**	**101**	**103**

The largest share in the sector structure of deposits refers to retail deposits with 52.7% and this share rose against YE2020 by 0.6 percentage points. As of 30/06/2021, retail deposits stood at BAM 10.6 billion.

An increase in deposits as of 30/06/2021, compared to the end of 2020, was realized in relation to the public enterprises' deposits by BAM 140.1 million or 9.6%, deposits of private companies by BAM 224.9 million or 5.9% and retail deposits by BAM 398.7 million or 3.9%.

A decrease of deposits as of 30/06/2021, compared to the end of 2020, was recorded in relation to government institutions' deposits by BAM 12.9 million or 0.6%, banking institutions' deposits by BAM 141.8 million or 24.9%, deposits of non-banking financial institutions by BAM 66.7 million or 7.9% and other deposits by BAM 11.1 million or 2.1%.

Financing in form of deposits of banking groups is present in eight banks in the FB&H, so that 85.7% of total deposits of banking institutions refer to deposits of these groups.

The currency structure of deposits as at 30/06/2021 has changed compared to the end of 2020, i.e. the share of deposits in domestic currency increased from 64.6% to 65.4% and the share of deposits in foreign currency decreased from 35.4% to 34.6%. Deposits in BAM amounted to BAM 13.2 billion (up by BAM 509.3 million or 4% vs. YE2020), while deposits in foreign currencies stood at BAM 7 billion (up by BAM 21.9 million or 0.3% vs. YE2020).

The structure of deposits according to the origin of depositors as of 30/06/2021, compared to the end of 2020, has the following structure: residents' deposits of BAM 19.4 billion have a 96% share (+0.7 percentage points), while non-residents' deposits are BAM 0.8 billion, which was 4% of total deposits (-0.7 percentage points).

The long term upward trend of savings deposits (as the most significant segment of deposit and financial potential of banks) has continued as of 30/06/2021 as well. As of 30/06/2021, savings deposits amounted to BAM 10.3 billion, up by BAM 375.6 million or 3.8% compared to the end of 2020.

The retail savings trend is shown in the Table No. 16 and the Chart No. 11:

- BAM 000 -

Table 15: Retail savings

No.	Banks	Amount			Index	
		31.12.2019	**31.12.2020**	**30.06.2021**	**(4/3)**	**(5/4)**
1	**2**	**3**	**4**	**5**	**6**	**7**
1.	State-owned	96,979	105,980	113,433	109	107
2.	Private	9,476,470	9,809,340	10,177,444	104	104
	Total	**9,573,449**	**9,915,320**	**10,290,877**	**104**	**104**

Chart 11: Retail savings by periods

54.2% of savings are concentrated in two biggest banks, while five banks have the individual shares of less than 2%, amounting to 5.3% of the total savings in the sector. Of the total amount of the savings, 52.3% relate to savings deposits in domestic currency, while 47.7% relate to savings deposits in foreign currency.

As of 30/06/2021 vs. YE2020, short term retail savings deposits rose by BAM 397.1 million or 6.5% (while their share rose by 1.6 percentage points) and long term retail savings deposits dropped by BAM 21.6 million or 0.6% (while they went down by 1.6 percentage points).

The maturity structure of savings deposits can be seen in the Table No. 16 below:

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Table 16: Maturity structure of retail savings deposits by periods

No.	Savings deposits	31.12.2019		31.12.2020		30.06.2021		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	5,634,426	58.9	6,142,454	61.9	6,539,586	63.5	109	106
2.	Long term savings deposits	3,939,023	41.1	3,772,866	38.1	3,751,291	36.5	96	99
	Total	**9,573,449**	**100**	**9,915,320**	**100**	**10,290,877**	**100**	**104**	**104**

Retail loans as of 30/06/2021 amounted to BAM 7.5 billion, up by 2.5% vs. YE2020. At the same time, retail deposits went up by 3.9% to BAM 10.6 billion as of 30/06/2021.

The table No. 17 below provides an overview of retail loans, savings and deposits by periods.

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Table 17: Retail loans, savings and deposits

No.	Description	31.12.2019	31.12.2020	30.06.2021	Index	
		Amount	Amount	Amount	(4/3)	(5/4)
1	2	3	4	5	6	7
1.	Retail loans	7,400,278	7,281,540	7,463,303	98	102
2.	Retail savings	9,573,449	9,915,320	10,290,877	104	104
2.1.	Term deposits	4,280,620	4,089,390	4,037,516	96	99
2.2.	Demand deposits	5,292,829	5,825,930	6,253,361	110	107
3.	**Loans/savings**	**77%**	**73%**	**73%**	-	-
4.	Retail deposits	9,877,414	10,236,559	10,635,216	104	104
5.	**Loans/Retail deposits**	**75%**	**71%**	**70%**	-	-

As of 30/06/2021, there was also an increase of both, retail loans and deposits, whereas deposits grew at faster pace. Therein, the ratio of loans and savings remained the same as at YE2020 while the ratio of loans and deposits of the retail segment showed a downward trend across periods.

2.2.3. Capital and Capital Adequacy

As of 30/06/2021, total banks' capital was BAM 3.2 billion, increasing by BAM 142.7 million or 4.7% compared to the end of 2020 (more details are provided under Subheading 2.1.2 - Ownership Structure and Market Share).

The following Table No. 18 provides a report on the balance, i.e. the structure of the FB&H banks' own funds:

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Table 18: Report on the balance of own funds

No.	Description	31.12.2019*	31.12.2020	30.06.2021	Index	
					(4/3)	(5/4)
1	2	3	4	5	6	7
1.	**Own funds**	**2,696,142**	**2,698,561**	**2,723,575**	**100**	**101**
1.1.	**Tier 1 capital**	**2,662,338**	**2,581,508**	**2,611,176**	**97**	**101**

1.1.1.	**Common Equity Tier 1**	**2,662,338**	**2,581,508**	**2,611,176**	**97**	**101**
1.1.1.1.	Paid-up capital instruments	1,299,335	1,299,335	1,299,335	100	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	-214	-214	100	100
1.1.1.4.	Previous year retained profit	403,027	343,453	356,970	85	104
	Recognized gain or loss	-36,302	-145,228	-135,306	400	93
1.1.1.6.	Accumulated other comprehensive income	32,434	29,151	20,051	90	69
1.1.1.7.	Other reserves	970,088	1,000,959	1,013,732	103	101
1.1.1.8.	(–) Other intangible assets	-57,589	-58,638	-55,286	102	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	-14	-34	-24	243	71
1.1.1.10.	(–) Deduction from Addition Tier 1 items exceeding Additional Tier 1	-1,255	0	0	-	-
1.1.1.11.	(–) Deferred tax assets that are deductible and rely on future profitability and arise from temporary differences	-1,349	-8,300	-9,106	615	110
1.1.1.12.	(–) Financial sector entities' Common Equity Tier 1 instruments if bank has material investment	-15,950	-16,266	-16,266	102	100
1.1.1.13.	Elements or deductions from Common Equity Tier 1 – other	-67,162	0	0	-	-
1.1.2.	**Additional Tier 1**	**0**	**0**	**0**	**-**	**-**
1.2.	**Tier 2 capital**	**33,804**	**117,053**	**112,399**	**346**	**96**
1.2.1.	Paid-up capital instruments and subordinated debts	170,158	117,067	112,413	69	96
1.2.2.	(–) Own Tier 2 instruments	-14	-14	-14	100	100
1.2.3.	General impairments for credit risk under standardized approach	163,609	0	0	0	-
1.2.4.	Deduction from Tier 2 items exceeding Tier 2 capital (deducted from Additional Tier 1 capital)	1,255	0	0	0	-
1.2.5.	Paid-up capital instruments and subordinated debts	-301,204	0	0	0	-

* Y2019 data were adjusted by BAM 5.8 million since one bank (subject to the eternal auditor's order) changed data for 2019 due to changed accounting policy of measurement of one part of its securities.

The FB&H banks' own funds as of 30/06/2021 were BAM 2.7 billion and, compared to the end of 2020, it increased by BAM 25 million or 0.9%. At the same time, the banks' T1 and CET1 capital is BAM 2.6 billion, with a realized increase of BAM 29.7 million or 1.1%, while Tier 2 capital is BAM 112.4 million, with a realized decrease of BAM 4.7 million or 4% compared to the end of 2020. The reduction of Tier2 capital came as a result of reduced position of paid-up capital instruments and subordinated debt with one bank. The own funds' structure of the FB&H banking sector includes a share of Tier 1 capital of 95.9% (12/2020: 95.7%), while Tier 2 capital participates with 4.1% (12/2020: 4.3%).

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

- increase based on included profit for 2020 in an amount of BAM 34.4 million,
- increase based on reduction of an off-set item – intangible assets in an amount of BAM 3.4 million,
- decrease of accumulated other comprehensive income in an amount of BAM 9.1 million.

According to the Decision on Capital Calculation in Banks, total amount of risk exposure is a sum of exposures weighted by credit risk, market risk, operational risk, settlement risk/free deliveries risk and risk related to large exposures resulting from the trading book items.

The FB&H banking sector's total risk exposure with the balance as at 30/06/2021 was BAM 14.4 billion, whose structure is provided in the following Table No. 19:

- BAM 000 -

Table 19: Risk exposure structure

No	Risk exposure	31.12.2019*		31.12.2020		30.06.2021		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	13,088,785	87.1	12,843,833	91.0	13,045,538	90.3	98	102
2.	Settlement/free delivery risk exposures	0	0.0	0	0.0	0	0.0	-	-
3.	Market risk (position and currency risk) exposures	237,686	1.6	119,065	0.8	248,037	1.7	50	208
4.	Risk exposures for operational risk	1,705,834	11.3	1,150,236	8.2	1,147,299	8.0	67	100
	Total risk exposure amount	**15,032,305**	**100**	**14,113,134**	**100**	**14,440,874**	**100**	**94**	**102**

* Information was corrected due to changed accounting policy of measurement of one part of securities with one bank (as per the external auditor's order).

The total risk exposure amount across the FB&H banking sector increased in the first half of 2021 by BAM 327.7 million or 2.3% against the end of the previous year. Over the reporting period, there was an increase of credit risk weighted exposures by BAM 201.7 million or 1.6% and the market risk weighted exposures rose by BAM 129 million or 108.3%, while the operational risk weighted exposures dropped by BAM 2.9 million or 0.3%. At the end of the first half of 2021, there were two 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, while there were five such banks at the end of 2020.

As of 30/06/2021, banks were most exposed to the credit risk (90.3% share), which is dominant in the FB&H banking sector. Compared to the end of the previous year, there were changes in the structure of shares by individual risk types in the total exposure, i.e. the share of credit risk went down by 0.7 percentage points and the share of the operational risk exposure decreased by 0.2 percentage points, while the market risk exposure increased by 0.9 percentage points.
Within the credit risk weighted exposures, the biggest share is with retail exposures (BAM 4.5 billion or 34.5%), followed by corporate exposures (BAM 3.5 billion or 26.5%) and real estate-secured exposures (BAM 3.3 billion or 25%).

The banking sector's capital adequacy has continuously been maintained above 15% in the last few years, which is satisfactory capitalization across the sector. The FB&H banking sector capital adequacy indicators are provided in the following Table No. 20:

-BAM 000-

Table 20: Capital adequacy indicators

No	Capital ratios	% and amount of regulatory minimum surplus or deficit		
		31.12.2019*	31.12.2020	30.06.2021
1	2	3	4	5
1.	**Common Equity Tier 1 capital ratio**	**17.7%**	**18.3%**	**18.1%**
2.	Surplus (+) / Deficit (–) of Common Equity Tier 1	1,647,657	1,628,872	1,636,416
3.	**Tier 1 capital ratio**	**17.7%**	**18.3%**	**18.1%**
4.	Surplus (+) / Deficit (–) of Tier 1 capital	1,309,430	1,311,327	1,311,497
5.	**Own funds ratio**	**17.9%**	**19.1%**	**18.9%**
6.	Surplus (+) / Deficit (–) of own funds	892,267	1,004,986	990,668

* Information was corrected due to changed accounting policy of measurement of one part of securities with one bank (as per the external auditor's order), but this had no effect on the presented capital ratios.

The own funds rate as at 30/06/2021 is 18.9% and it is considerably higher compared to the statutory minimum and the same stands for other capital ratios (Common Equity Tier 1 capital and Tier 1 capital ratios).

Compared to YE2020, own funds ratio dropped by 0.2 percentage points, since the own funds ratio increase was lower than the increase of total risk exposure. Over the same period, CET1 and T1 ratios also decreased by 0.2 percentage points.

The following Table No. 21 provides an overview of the FB&H banking sector's financial leverage ratio across periods:

- BAM 000 -

Table 21: Financial leverage ratio

No.	Exposure values	31.12.2019*	31.12.2020	30.06.2021
1	2	3	4	5
1.	Leverage ratio exposures - under Article 37(4) of Decision on Capital Calculation in Banks	25.208.367	25.523.184	26.174.620
2.	Tier 1 capital - under Article 37(3) of Decision on Capital Calculation in Banks	2.662.338	2.581.508	2.611.176
	Leverage ratio - under Article 37(2) of Decision on Capital Calculation in Banks	**10,6%**	**10,1%**	**10,0%**

* Information was corrected due to changed accounting policy of measurement of one part of securities with one bank (as per the external auditor's order).

The leverage ratio across the banking sector as at 30/06/2021 is 10% and is lower compared to the end of 2020 by 0.1 percentage point.

2.2.4. Credit Risk

The Decision on Credit Risk Management and Determination of Expected Credit Losses[23] defines rules of credit risk management, manner of exposure allocation to credit risk grades and ECL determination, types of eligible collateral, etc. It is in effect since 01.01.2020. All exposures are being allocated to one of the following credit risk grades: credit risk grade 1 – low level of credit risk, credit risk grade 2 – increased level of credit risk and credit risk grade 3 – exposures in default status.

The Table No. 22 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 22: Financial assets, off-balance sheet items and ECL

No.	description	31.12.2019			31.12.2020			30.06.2021		
		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	7,796,241	7,696	0.1	7,693,909	9,887	0.1	7,330,428	9,225	0.1
2.	Financial assets at amortised cost	15,417,105	1,150,848	7.5	15,460,513	1,136,925	7.4	16,295,624	1,157,902	7.1
3.	Financial assets at fair value	1,325,084*	0	0.0	1,552,559	0	0.0	1,796,852	0	0.0
4.	Other financial receivables	224,665	36,030	16.0	258,027	33,250	12.9	196,122	23,652	12.1
I Total balance sheet exposure		**24,763,095**	**1,194,574**	**4.8**	**24,965,008**	**1,180,062**	**4.7**	**25,619,026**	**1,190,779**	**4.6**
5.	Issued guarantees	1,350,083	21,488	1.6	1,373,899	24,965	1.8	1,368,505	24,373	1.8
6.	Uncovered letters of credit	48,255	554	1.1	39,203	1,432	3.7	59,663	2,017	3.4
7.	Irrevocably approved, but undrawn loans	2,058,199	19,685	1.0	2,468,359	32,597	1.3	2,186,221	23,486	1.1

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

8.	Other contingent liabil.	54,122	310	0.6	8,274	26	0.3	247,790	2,746	1.1
	II Total off-bal.sheet items	**3,510,659**	**42,037**	**1.2**	**3,889,735**	**59,020**	**1.5**	**3,862,179**	**52,622**	**1.4**
	Total exposure (I+II)	**28,273,754**	**1,236,611**	**4.4**	**28,854,743**	**1,239,082**	**4.3**	**29,481,205**	**1,243,401**	**4.2**

* Data corrected by an amount of BAM 6.4 million based on the external auditor's order due to changed accounting policy of measurement of one part of securities with one bank .

Total exposure of banks as of 30/06/2021 stood at BAM 29.5 billion, thereof BAM 25.6 billion referring to balance sheet exposures and BAM 3.9 billion to off-balance sheet items.

Over the first six months of 2021, there was an increase of balance sheet exposures compared to the YE2020 by BAM 654 million or 2.6%, as caused by a net effect of elevated financial assets measured at fair value and at amortised cost, as well as due to a significant decrease of cash with one bank and other financial receivables with two banks.

Over the same period, there was a decrease of off-balance sheet items by BAM 27.6 million or 0.7%. This refers to reduced level of issued guarantees and irrevocably approved, but undrawn loans, while an increase was seen with uncovered letters of credit and other contingent liabilities. This increase of other contingent liabilities with one bank resulted solely from repositioning in relevant reports of approved, but undrawn loans having certain elements of revocability and for which the bank allocated provisions for contingent liabilities (as they were previously posted among "irrevocably approved, but undrawn loans").

The following Table No. 23 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 23: Exposures by credit risk grades

No.	Description	31.12.2019			31.12.2020			30.06.2021		
		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	21,793,866*	123,558	0.6	22,301,920	179,478	0.8	22,909,343	161,901	0.7
2.	Credit risk grade 2	1,652,439	113,839	6.9	1,645,274	204,681	12.4	1,703,969	225,042	13.2
3.	Credit risk grade 3	1,316,790	957,177	72.7	1,017,814	795,903	78.2	1,005,714	803,836	79.9
	I Total balance sheet exposure	**24,763,095**	**1,194,574**	**4.8**	**24,965,008**	**1,180,062**	**4.7**	**25,619,026**	**1,190,779**	**4.6**
4.	Credit risk grade 1	3,027,094	20,431	0.7	3,440,487	21,343	0.6	3,494,604	20,538	0.6
5.	Credit risk grade 2	474,159	15,610	3.3	443,246	34,354	7.8	362,099	28,681	7.9
6.	Credit risk grade 3	9,406	5,996	63.7	6,002	3,323	55.4	5,476	3,403	62.1
	II Total off-bal.sheet items	**3,510,659**	**42,037**	**1.2**	**3,889,735**	**59,020**	**1.5**	**3,862,179**	**52,622**	**1.4**
	Total exposure (I+II)	**28,273,754**	**1,236,611**	**4.4**	**28,854,743**	**1,239,082**	**4.3**	**29,481,205**	**1,243,401**	**4.2**

* Data corrected by an amount of BAM 6.4 million based on the external auditor's order due to changed accounting policy of measurement of one part of securities with one bank.

As of 30/06/2021, balance sheet exposures within the credit risk grade 1 amounted to BAM 22.9 billion and make up for 89.4% of the total balance sheet exposures. Compared to YE2020, they have risen by BAM 607.4 million or 2.7%. The increase mostly came as a net effect of: increased loan portfolio within this credit risk grade by BAM 763.5 million and increased financial assets measured at fair value by BAM 245.8 million, as well as decreased cash and cash receivables by BAM 365.6 million and decreased other financial assets by BAM 43.7 million.

As of 30/06/2021, balance sheet exposures within the credit risk grade 2 stood at BAM 1.7 billion, representing 6.7% of the total balance sheet exposures. Compared to YE2020, they have risen by BAM 58.7 million or 3.6%. The increase of total balance sheet exposures within this credit risk grade came mostly as a result of: increase of the loan portfolio within the credit risk grade 2 by BAM 59.8 million, securities measured at amortised cost by BAM 10.6 million and cash and cash receivables by BAM 2.1 million. A decrease was evident with other financial receivables by BAM 8.7 million and other assets measured at amortised cost by BAM 5 million.

As of 30/06/2021, balance sheet exposures within the credit risk grade 3 equaled BAM 1.0 billion, representing 3.9% of the total balance sheet exposures. If observed against YE2020, they have dropped by BAM 12.1 million or 1.2%.

Over the first half of 2021, ECLs at the credit risk grade 1 for the balance sheet exposures decreased by BAM 17.6 million and increased for the credit risk grade 2 by BAM 20.4 million and for the credit risk grade 3 by BAM 7.9 million. Over the observed period, ECL coverage rate at the credit risk grade 1 remained went down by 0.1 percentage point, while this rate rose at the credit risk grade 2 by 0.8 percentage points and at the credit risk grade 3 by 1.7 percentage points. Total ECL coverage rate for balance sheet exposures is 4.6%, whereas at the end of the previous year it was 4.7%.

As of 30/06/2021, off-balance sheet exposures at the credit risk grade 1 stood at BAM 3.5 billion, thus representing 90.5% of the total off-balance sheet exposures. Exposures at the credit risk grade 2 amount to BAM 362 million or 9.4% of the total off-balance sheet exposures, while the credit risk grade 3 includes exposures of BAM 5.5 million or 0.1% of the total off-balance sheet exposures.

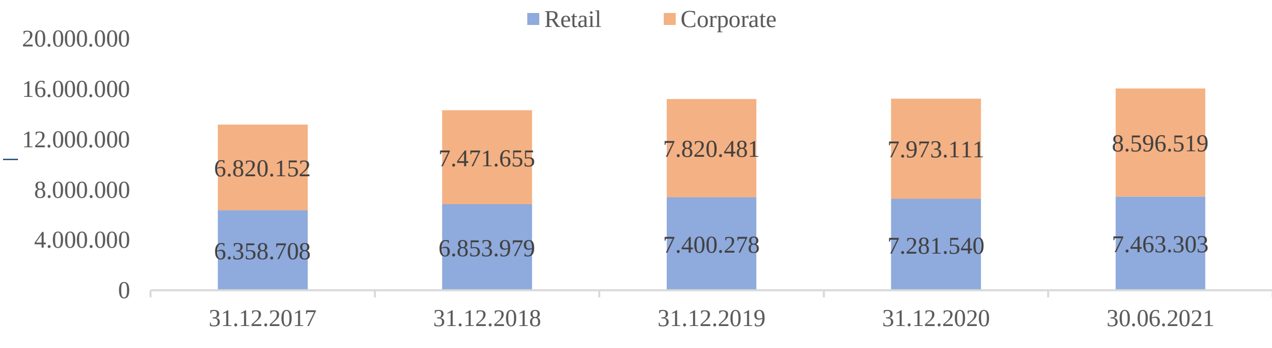
Total ECL coverage for off-balance sheet exposures is 1.4%, which is by 0.1 percentage point lower than at the end of the previous year, while the increase of individual coverage rates was noted with all credit risk grades 2 and 3 and remained the same for the credit risk grade 1 (compared to the end of the previous year).

As of 30/06/2021, loans stood at BAM 16.1 billion, up by BAM 805.2 million or 5.3% vs. YE2020. Looking at the sector structure of loans, the biggest increase came from loans to banking institutions (BAM 474.5 million or 58.9% of total loan growth). This increase of loans to banking institutions of BAM 488.2 million refers to the increase of short term low risk exposures being included in the loan portfolio. If the increase of this item would be excluded, the loan portfolio would show a growth of 2.1%.

Retail loans amount to BAM 7.5 billion and hold a share in total loans of 46.5% (up by BAM 181.8 million or 2.5% compared to YE2020). Corporate loans (amounting to BAM 8.6 billion and representing 53.5% of total loans) have risen by BAM 623.4 million or 7.8% against end of 2020. If the increase of short term low risk exposures with one bank would be excluded, the corporate loan portfolio would show a growth of 1.6% during the observed period.
The following Chart No. 12 provides a comparative overview of retail and corporate loans at the FB&H banking sector level:

- BAM 000 -

Chart 12: Loans



The following Table No. 24 shows a trend and changes of individual sectors of loan users in the total loan structure:

- BAM 000 -

Table 24: Loan structure by sectors

No.	Sectors	31.12.2019		31.12.2020		30.06.2021		Index	
		Amount	% share	Amount	% share	Amount	% share	(5/3)	(7/5)
1	2	3	4	5	6	7	8	9	10
1.	Government institutions	189,360	1.2	199,032	1.3	181,607	1.1	105	91
2.	Public sector enterprises	359,635	2.4	395,157	2.6	400,202	2.5	110	101
3.	Private companies	6,922,742	45.5	6,500,322	42.6	6,680,069	41.6	94	103
4.	Banking institutions	247,501	1.6	772,554	5.1	1,247,069	7.8	312	161
5.	Non-banking financial instit.	86,902	0.6	83,921	0.6	64,215	0.4	97	77
6.	Retail	7,400,278	48.6	7,281,540	47.7	7,463,303	46.5	98	102
7.	Other	14,341	0.1	22,125	0.1	23,357	0.1	154	106
	Total	**15,220,759**	**100**	**15,254,651**	**100**	**16,059,822**	**100**	**100**	**105**

This table shows that the biggest growth rate over the first six months of 2021 was seen with loans approved to banking institutions, thus referring to the increase of short term low risk exposures.

The following Table No. 25 provides maturity structure of loans by sectors:

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Table 25: Maturity structure of loans

No.	Sectors	31.12.2020			30.06.2021			Index		
		ST loans	LT loans	Receiv. due	ST loans	LT loans	Receiv. due	(6/3)	(7/4)	(8/5)
1	2	3	4	5	6	7	8	9	10	11
1.	Government institutions	4,732	193,928	372	4,271	177,190	146	90	91	39
2.	Public sector enterprises	40,618	342,373	12,166	76,734	322,288	1,180	189	94	10
3.	Private companies	2,301,850	3,782,059	416,413	2,432,006	3,819,106	428,957	106	101	103
4.	Banking institutions	772,554	0	0	1,247,061	0	8	161	-	-
5.	Non-banking financial instit.	18,777	65,113	31	12,939	51,258	18	69	79	58
6.	Retail	400,340	6,655,109	226,091	394,248	6,819,383	249,672	98	102	110
7.	Other	6,476	15,426	223	7,797	15,095	465	120	98	209
	Total	**3,545,347**	**11,054,008**	**655,296**	**4,175,056**	**11,204,320**	**680,446**	**118**	**101**	**104**

As of 30/06/2021, compared to the end of 2020, short term loans in the FB&H banking sector have risen by BAM 629.7 million or 17.8% (as largely attributable to the increase oh short term low risk exposures) and long term loans by BAM 150.3 million or 1.4%. Receivables due amount to BAM 680.4 million, up by BAM 25.2 million or 3.8% vs. YE2020.

In the currency structure of loans, loans approved in domestic currency have the highest share of 50.1% or BAM 8.0 billion, followed by loans approved with a currency clause with a share of 41.7% or BAM 6.7 billion (EUR: BAM 6.7 billion or 99.9%, CHF: BAM 7.4 million or 0.1 %), while loans approved in foreign currency have the lowest share of 8.2% or BAM 1.3 billion (of which BAM 1.3 billion or 99.97% relates to EUR).

The following Table No. 26 provides an overview of corporate and retail loans by credit risk grades and related ECLs:

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Table 26: Loans by credit risk grades

No.	Description	31.12.2019			31.12.2020			30.06.2021		
		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	6,146,371	51,146	0.8	6,272,170	78,817	1.3	6,879,598	66,902	1.0
2.	Credit risk grade 2	904,039	55,829	6.2	1,157,194	141,218	12.2	1,209,304	161,636	13.4
3.	Credit risk grade 3	770,071	516,128	67.0	543,747	421,893	77.6	507,617	399,673	78.7
	Total I	**7,820,481**	**623,103**	**8.0**	**7,973,111**	**641,928**	**8.1**	**8,596,519**	**628,211**	**7.3**
II Retail loans										
4.	Credit risk grade 1	6,451,878	59,562	0.9	6,395,495	84,591	1.3	6,554,563	80,700	1.2
5.	Credit risk grade 2	471,019	57,081	12.1	446,971	58,801	13.2	446,805	58,504	13.1
6.	Credit risk grade 3	477,381	381,194	79.9	439,074	341,856	77.9	461,935	371,136	80.3
	Total II	**7,400,278**	**497,837**	**6.7**	**7,281,540**	**484,248**	**6.7**	**7,463,303**	**510,340**	**6.8**
Total loans										
7.	Credit risk grade 1	12,598,249	110,708	0.9	12,667,665	163,408	1.3	13,434,161	147,602	1.1
8.	Credit risk grade 2	1,375,058	112,910	8.2	1,604,165	200,019	12.5	1,656,109	220,140	13.3
9.	Credit risk grade 3	1,247,452	897,322	71.9	982,821	763,749	77.7	969,552	770,809	79.5
	Total loans (I+II)	**15,220,759**	**1,120,940**	**7.4**	**15,254,651**	**1,127,176**	**7.4**	**16,059,822**	**1,138,551**	**7.1**

The loan portfolio allocated to the credit risk grade 1 as of 30/06/2021 stood at BAM 13.4 billion, representing 83.7% of the total loan portfolio. This represents an increase against YE2020 by BAM 766.5 million or 6.1% and is mostly caused by higher level of short term low risk exposures. The ECL coverage rate for the credit risk grade 1 is 1.1% (corporate 1% and retail 1.2%), thus being lower by 0.2 percentage points against end of 2020.

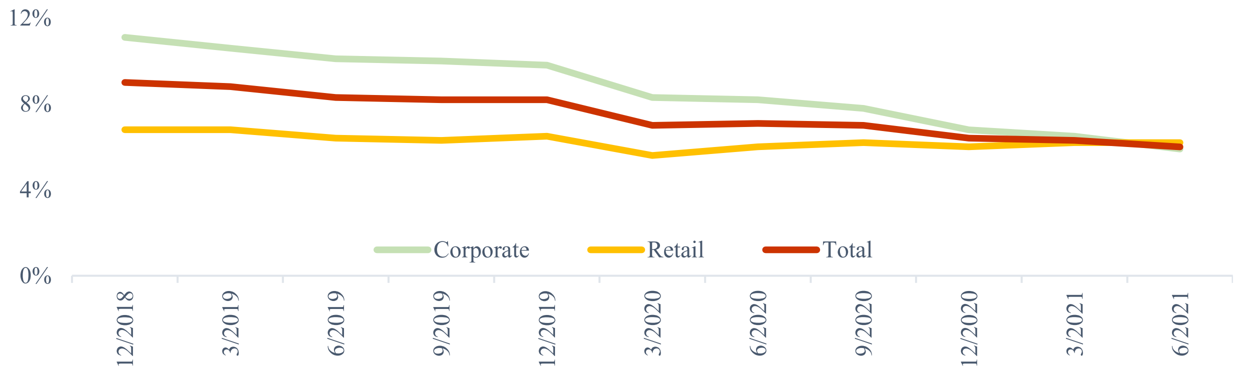
The loan portfolio in the credit risk grade 2 as of 30/06/2021 stood at BAM 1.7 billion, thus making up for 10.3% of the total loan portfolio. Compared to YE2020, it is by BAM 51.9 million or 3.24% higher. The ECL coverage rate for this credit risk grade is 13.3% (corporate 13.4% and retail 13.1%), up by 0.8 percentage points compared to 31/12/2020.

The loan portfolio in the credit risk grade 3 (NPL) as of 30/06/2021 amounted 969.6 million, thus constituting 6% of the total loan portfolio. Its reduction by BAM 13.3 million or 1.4% vs. YE2020 was largely resulting from the net effect of: new non-performing loans of BAM 121.4 million, recoveries of BAM 25.2 million, collection of BAM 74.5 million, accounting and permanent write offs of BAM 32.7 million and other items of BAM 2.3 million. The ECL coverage rate for the credit risk grade 3 is 79.5% (corporate 78.7% and retail 80.3%), up by 1.8 percentage points vs. 31/12/2020.

Out of total corporate loans, BAM 507.6 million or 5.9% refers to the NPL segment, down by 0.9 percentage points vs. YE2020. If short term low risk exposures would be excluded from the calculation, the corporate NPL rate would be 6.8%. As for the retail segment, NPLs stood at BAM 461.9 million or 6.2% of the retail loan portfolio, thus being 0.2 percentage points higher than as at YE2020.

An overview of NPLs (loan portfolio allocated to the credit risk grade 3) is provided in the following Chart No. 13:

Chart 13: Share of NPLs in loans



Total NPL rate is being calculated as a ratio of non-performing loans and total loan portfolio. If short term low risk exposures would be excluded from the NPL calculation, the NPL rate would be higher.

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. It rests on data of sector-level concentration of loans within corporate (by NACE) and retail segments (by purpose).

As for corporate loans, the biggest share relates to the trade sector (BAM 2.8 billion or 32.6% of corporate loans, i.e. 17.5% of the total loan portfolio), processing industry (BAM 1.9 billion or 22.4% of corporate loans, i.e. 12 % of total loans) and financial industry (BAM 1.4 billion or 15.8% of corporate loans, i.e. 8.4% of total loans). The share of NPLs in loans to the trade sector is 5.8%, to the processing industry 9.6% and to the financial industry 0%. With regards to other corporate loans, the biggest share of NPLs as of 1H 2021 referred to loans approved to education (25%), agriculture (21.3%) and hotel and hospitality business (12.5%).

As far as retail loans are concerned, the largest share is with general consumption loans (BAM 5.9 billion or 79.4% of retail loans, i.e. 36.9% of the total loan portfolio) and housing loans (BAM 1.5 billion or 19.5% of retail loans, i.e. 9.1% of the total loan portfolio). The share of NPLs in general consumption loans is 6.9% and with housing loans 3.1%. 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. Key indicators of credit risk measurement in the FB&H banking sector: NPL share in total loans and corporate loan portfolio and ECL coverage rates for higher credit risk grades, all posted an improvement over the first six months of 2021, while the share of NPLs in the retail loan portfolio saw an increase. The share of loans due saw an increase vs. YE2020.

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

As of 1H 2021, BAM 667.5 million or 4.2% of total loans was encompassed by some of active special measures prescribed by the Decision on Temporary Measures of Banks to Ensure Recovery from Negative Economic Consequences Caused by Covid-19. Total amount of the corporate loan portfolio subjected to active measures was BAM 604.3 million or 7% of the corporate loan portfolio, while active measures refer to the retail portfolio amount of BAM 63.2 million or 0.8% of the retail loan portfolio.

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 the 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 and quality of the earnings level and strengthening of the capital base through retained earnings.

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

Positive financial performance of BAM 150.7 million across the FB&H banking sector was reported for the January 1 – June 30, 2021 period, which was higher by BAM 45.2 million or 42.8% compared to the same period of 2020 when the Pandemic had greater impact on the banks' profitability. Net profit was posted by all banks in the first half of 2021.

Annex 5 shows the FB&H banks' income statement for the January 1 – June 30, 2021 period, according to the FBA's scheme, with the comparative data for the same reporting period of 2020.

The following Table No. 27 provides an overview of the financial performance reported across the FB&H banking sector, through the following reporting periods:

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Table 27: Actual financial performance: profit/loss

No.	Description	30.06.2019		30.06.2020		30.06.2021	
		Amount	Number of banks	Amount	Number of banks	Amount	Number of banks
1	2	3	4	5	6	7	8
1.	Profit	182,231	14	105,962	14	150,657	15
2.	Loss	550	1	474	1	0	0
	Total	**181,681**	**15**	**105,488**	**15**	**150,657**	**15**

FB&H Banking Sector's Total Income

According to the banks' reporting data as of 30/06/2021, the total income across the FB&H banking sector is BAM 599 million and, compared to the same period last year, it increased by BAM 21.2 million or 3.7%. Table No. 28 shows the structure of total income of the FB&H banking sector over the observed period.

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Table 28: Structure of total income

No.	Structure of total income	30.06.2020		30.06.2021		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	1,638	0.3	408	0.1	25
2.	Loans and leasing operations	313,259	54.2	308,590	51.5	99
3.	Other interest income	34,744	6.0	36,411	6.1	105
	Total I	**349,641**	**60.5**	**345,409**	**57.7**	**99**
II Operating income						
4.	Service fees	147,046	25.4	165,371	27.6	112
5.	Income from FX operations	25,496	4.4	30,338	5.1	119
6.	Other operating income	55,678	9.6	57,898	9.7	104
	Total II	**228,220**	**39.5**	**253,607**	**42.3**	**111**
	Total income (I+II)	**577,861**	**100**	**599,016**	**100**	**104**

In the total income structure, interest income and similar income hold a share of 57.7%, while operating income participate with 42.3%. Compared to the same period the year before, there was a decrease of share of interest and similar income by 2.8 percentage points, while share of operating income increased by the same percentage point. Total interest and similar income reported a decrease in the reporting period by BAM 4.2 million or 1.2%. A dominant item among this income category was income from interest on loans and leasing facilities with a share in total income dropping by 2.7 percentage points. At the same time, the share of loans and leasing type receivables in total assets decreased by 0.4 percentage points (from 64.6% to 64.2%), while average weighted NIR related to loans went up from 3.09% to 3.29% (by 0.20 percentage points). Over the first six months of 2021, interest income under interest-bearing deposit accounts with deposit institutions dropped by BAM 1.2 million or 75.1% compared to the same period last year. Over the same period, the share of interest-bearing deposit accounts with deposit institutions in total assets of the FB&H banking sector has dropped from 15.1% to 13.5% (i.e. by 1.6 percentage points).

As for other interest income, there was an increase of interest income positions related to placements to other banks by 22.6% and other interest income by 4.5%, while interest income from held-to-maturity securities decreased by 2.5% although securities have risen in the assets structure from 6.9% to 7.8% over the observed period.

Looking into the sector structure of interest income, most of this refers to income from the retail segment (61.5%), although retail loans make up for 46.5% of the total loan portfolio of the FB&H banking sector due to higher average NIR of the Retail segment of 5.38% compared to the corporate segment's NIR of 2.45%. Out of total interest income, the part that refers to private companies is 29.3%, 4.8% refers to government institutions and 1.7% to public companies.

Total operating income recorded an increase of BAM 25.4 million or 11.1% in the reporting period. The largest item in the structure of total operating income is income from service fees which recorded an increase of BAM 18.3 million or 12.5%. There was also an increase in other operating income by BAM 2.2 million or 4%, while income from foreign exchange operations showed the biggest growth rate of 19%, i.e. they went up by BAM 4.8 million vs. the same period the year before.

FB&H Banking Sector's Total Expenses

According to the banks' reporting data as of 30/06/2021, total expenses across the FB&H banking sector are BAM 447.3 million, which decreased by BAM 25.1 million or 5.3% compared to the same period last year. The structure of the FB&H banking sector's total expenses in the reporting period is provided in the following Table No. 29.

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Table 29: Structure of total expenses

No.	Structure of total expenses	30.06.2020		30.06.2021		Index
		Amount	%	Amount	%	(5/3)
1	2	3	4	5	6	7
I Interest expenses and similar expenses						
1.	Deposits	46,650	9.9	40,357	9.0	87
2.	Liabilities on loans and other borrowings	4,505	1.0	3,540	0.8	79
3.	Other interest expenses	15,615	3.3	15,848	3.5	101
	Total I	**66,770**	**14.1**	**59,745**	**13.4**	**89**
II Non-interest expenses						
4.	Costs of impairments of assets at risk, provisions on contingent liabilities and other value adjustments	82,714	17.5	50,331	11.3	61
5.	Salary and contribution costs	128,211	27.1	130,623	29.2	102
6.	Business premises costs and depreciation	78,778	16.7	85,479	19.1	109
7.	Other operating and direct costs	65,320	13.8	72,009	16.1	110
8.	Other operating costs	50,605	10.7	49,160	11.0	97
	Total II	**405,628**	**85.9**	**387,602**	**86.6**	**96**
	Total expenses (I+II)	**472,398**	**100**	**447,347**	**100**	**95**

The total expenses structure is dominated by non-interest expenses with a share of 86.6%, while interest expenses and similar expenses account for 13.4%. Compared to the same period last year, the share of interest expenses dropped by 0.7 percentage points, while the share of non-interest expenses rose by equivalent percentage points.

In the reporting period, interest and similar expenses decreased by BAM 7.0 million or 10.5%, which is mostly a result of a reduction on interest expenses on deposits by BAM 6.3 million or 13.5%, despite them being the FB&H banking sector's dominant funding source. The deposit potential at the end of 1H 2021 stood at BAM 20.2 billion, up by BAM 1.3 billion compared to the same period last year when it was BAM 18.9 billion. Interest-bearing deposits participate in total deposit potential as of 30/06/2021 with a share of 71.2%, thus their share has dropped since 30/06/2020 when they participated with 71.2%. This reduction of interest expenses on deposits came as a result of reduced share of interest-bearing deposits and lower average NIR going from 0.67% as of 30/06/2020 to 0.54% at the end of 1H 2021.

Over the observed period, interest expenses on loans and other borrowings dropped by BAM 965 ths or 21.4%, while the FB&H banking sector's level of indebtedness on loans and other borrowings went down by BAM 50.7 million or 6.1%.

Other interest expenses increased during the observed period by BAM 233 ths or 1.5%. Therein, the biggest changes refers to an increase of interest expenses on subordinated debts by BAM 192 ths or 5.9%, although subordinated debts as at 30/06/2021 were lower by BAM 7.9 million than as at 30/06/2020.

Across the FB&H banking sector, there was a decrease by BAM 18 million or 4.4% of total non-interest expenses in the reporting period, where the most significant structural changes relate to an a decrease of costs of value adjustments, provisions for contingent liabilities and other value adjustments by BAM 32.4 million or 39.2 while there was an increase of costs of business premises and depreciation by BAM 6.7 million or 8.5% and a decrease of other operating and direct expenses by BAM 6.7 million or 10.2%.

FB&H Banking Sector's Operational Profitability, Productivity and Efficiency Ratios

The following Table No. 30 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 30: Profitability, productivity, and efficiency ratios				
No.	**Description**	**30.06.2019**	**30.06.2020**	**30.06.2021**
1	**2**	**3**	**4**	**5**
1.	Net profit	181,681	105,488	150,657
2.	Average net assets	22,617,958	23,741,273	24,558,433
3.	Average total capital	3,069,157	2,950,906	3,146,082
4.	Total income	527,035	511,091	539,271
5.	Net interest income	303,052	282,871	285,664
6.	Operating income	223,983	228,220	253,607
7.	Operating expenses	257,928	257,594	265,262
8.	Operating and direct expenses	86,369	148,034	122,340
9.	Other operating and direct expenses	63,937	65,320	72,009
10.	Return on average assets (ROAA)	0.8	0.4	0.6
11.	Return on average equity (ROAE)	5.9	3.6	4.8
12.	Total income/average assets	2.3	2.2	2.2
13.	Net interest income/average assets (NIM)*	1.3	1.2	1.2
14.	Net interest margin (interest income /average interest-bearing assets – interest expenses/average interest-based liabilities)	1.4	1.3	1.2
15.	Operating expenses/total income minus other operating and direct expenses (CIR)**	55.7	57.8	56.8

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

Return on average assets and average total capital posted an upward trend compared to the same period last year, while other profitability indicators remained the same as at the end of the first half of the previous year (except for CIR that saw an improvement).

Looking into the net interest income, there is an increase vs. the same period in 2020 by BAM 2.8 million or 1%. This item constitutes 53% of total income, while in the same period in 2020 its share was 55.3%.

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, as well as 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.[24].

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 by periods.

[24] 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

The total weighted average EIR on loans in the FB&H banking sector as of 30/06/2021 is 3.86% and is higher by 0.27 percentage points compared to the same period in 2020, when it was 3.59%. The upward trend in the weighted average EIR is present across the FB&H banking sector in the reporting period in relation to long-term loans (0.07 percentage point, increase from 5.39% to 5.46%), while short-term loans saw a decrease of average weighted EIR by 0.08 percentage points (from 2.50% to 2.42%). Viewed in the aforementioned period according to the sector structure, EIR on total corporate loans decreased by 0.03 percentage points (from 2.71% to 2.68), while on retail loans it decreased by 0.24 percentage points (from 7.00% to 6.76%).

The total weighted average EIR on deposits in the FB&H banking sector as of 30/06/2021 is 0.55% and is lower by 0.12 percentage points compared to the same period in 2020, when it was 0.67%. Viewed according to the deposit maturity, the weighted average EIR on short-term deposits recorded a decrease by 0.15 percentage points (from 0.35% to 0.20%), while it decreased by 0.09 percentage points (from 0.97% to 0.88%) on long-term deposits.

On the overall level in the reporting period, EIR on loans increased by 0.27 percentage points, while EIR on deposits decreased by 0.12 percentage 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 following Table No. 31 provides the trend of LCR performance in the FB&H banking sector:

-BAM 000-

Table 31: LCR

No.	Description	31.12.2019	31.12.2020	30.06.2021	Index (4/3)	Index (5/4)
1	2	3	4	5	6	7
1.	Liquidity buffer	4,727,454	5,849,379	6,512,378	124	111
2.	Net liquidity outflows	1,628,421	2,186,642	2,700,763	134	124
	LCR	**290%**	**268%**	**241%**	**92**	**90**

As of 30/06/2021, LCR across the FB&H banking sector was 241%. All banks in the FB&H banking sector meet the requirements in respect of LCR.

The maturity structure of deposits by residual maturity is shown in the following Table No. 32:

- BAM 000 -

Table 32: Maturity structure of deposits by residual maturity

No.	Deposits	31.12.2019		31.12.2020		30.06.2021		Index	
		Amount	% share	Amount	% share	Amount	% share	(5/3)	(7/5)
1	2	3	4	5	6	7	8	9	10
1.	Savings and sight deposits (up to 7 days)	11,196,133	57.7	12,948,828	65.9	13,701,456	67.9	116	106
2.	7-90 days	855,191	4.4	989,184	5.0	763,866	3.8	116	77
3.	91 days to one year	3,175,998	16.4	2,153,403	10.9	2,360,617	11.6	68	110
	I Total short-term	**15,227,322**	**78.5**	**16,091,415**	**81.8**	**16,825,939**	**83.3**	**106**	**105**
4.	Up to 5 years	3,983,643	20.5	3,388,072	17.3	3,214,088	15.9	85	95
5.	Over 5 years	203,329	1.0	181,375	0.9	152,054	0.8	89	84

II Total long-term	**4,186,972**	**21.5**	**3,569,447**	**18.2**	**3,366,142**	**16.7**	**85**	**94**
Total (I + II)	**19,414,294**	**100**	**19,660,862**	**100**	**20,192,081**	**100**	**101**	**103**

As of 30/06/2021, short-term deposits had an 83.3% share, while long-term ones had a 16.7% share, with the share of the short-term deposits increasing, i.e. the share of the long-term ones decreasing by 1.5 percentage points compared to the end of 2020. In the reporting period, an increase of BAM 734.5 million or 4.6% was recorded in relation to short-term deposits and a decrease of BAM 203.3 million or 5.7% in relation to long-term deposits. A decrease in long-term deposits was also realized in relation to deposits of up to 5 years (by BAM 174 million or 5.1%), as well as with deposits of over 5 years (by BAM 29.3 million or 16.2%). Looking into the structure of long term deposits by residual maturity, evidently they are dominated by deposits with residual maturity of up to 5 years (95.5%).

An overview of the core liquidity ratios is shown in the following Table No. 33:

- % -

Table 33: Liquidity ratios

No.	Ratios	31.12.2019	31.12.2020	30.06.2021
1	2	3	4	5
1.	Liquid assets[25]/net assets	31.9	31.3	29.1
2.	Liquid assets/ short-term financial liabilities	49.2	45.9	41.5
3.	Short-term financial liabilities/ total financial liabilities	75.4	78.9	81.2
4.	Loans/deposits and loans taken	75.1	74.5	76.6
5.	Loans/ deposits, loans taken and subordinated debts[26]	74.4	73.8	75.9

Compared to the end of 2020, the ratio of liquid assets and net assets, i.e. liquid assets and short term financial liabilities, has decreased, while the share of short term financial liabilities in total financial liabilities has increased. Also, the ratio of loans/deposits and loans taken has risen and has become borderline acceptable.

For purpose of planning the required level of liquid resources, banks need to plan for sources and structure of an adequate liquidity potential and, therein, also plan their credit policy. Maturity of placements, i.e. loan portfolio, is in fact determined by maturity of funding sources. An important aspect of liquidity monitoring and analysis is maturity matching of remaining maturities of financial assets and financial liabilities according to the time scale which, according to the prescribed minimum limits, has been set to a time horizon of 180 days. Since the maturity transformation of assets with banks is inherently related to functional features of the very banking operations, banks continue to control maturity mismatches between funding sources and placements, thus maintaining it within the prescribed limits.

For purpose of mitigating negative effects caused by the pandemic, as well as unfavourable consequences to the economic situation in the country, in March 2021, FBA has amended the Decision on Liquidity Risk Management in Banks so to stimulate lending activity of banks. Under these new circumstances of operations, this enables banks to apply measures related to reduction of the prescribed limits for maturity matching of financial assets and financial liabilities in maturity buckets of up to 180 days in order to be more flexible in responding to customer requests and in managing their liquidity positions.

[25] Liquid assets in narrow sense: cash and deposits and other financial assets with residual maturity period of less than three months, excluding interbank deposits.

[26] The previous ratio was expanded, the funding also includes subordinated debts, which is a more realistic indicator.

The following Table No. 34 provides an overview of maturity matching of financial assets and liabilities of up to 180 days:

-BAM 000 -

Table 34: Maturity matching of financial assets and financial liabilities of up to 180 days

No.	Description	31.12.2019*	31.12.2020	30.06.2021	Index	
		Amount	Amount	Amount	(4/3)	(5/4)
1	2	3	4	5	6	7
I 1-30 days						
1.	Amount of financial assets	10,586,283	10,981,471	11,428,566	104	104
2.	Amount of financial liabilities	11,624,766	13,510,009	14,203,150	116	105
3.	Balance (+ or -) = 1-2	-1,038,483	-2,528,538	-2,774,584	-	-
Calculation of compliance with regulatory requirements in %						
a)	Actual %= no. 1 / no. 2	91.1%	81.3%	80.5%		
b)	Regulatory minimum %	85.0%	65.0%	65.0%		
	More (+) or less (-) = a – b	**6.1%**	**16.3%**	**15.5%**		
II 1-90 days						
1.	Amount of financial assets	11,648,306	12,065,528	12,501,781	104	104
2.	Amount of financial liabilities	12,367,913	14,303,357	14,836,583	116	104
3.	Balance (+ or -) = 1-2	-719,607	-2,237,829	-2,334,802	-	-
Calculation of compliance with regulatory requirements in %						
a)	Actual %= no. 1 / no. 2	94.2%	84.4%	84.3%		
b)	Regulatory minimum %	80.0%	60.0%	60.0%		
	More (+) or less (-) = a – b	**14.2%**	**24.4%**	**24.3%**		
III 1-180 days						
1.	Amount of financial assets	12,992,018	13,257,364	13,843,140	102	104
2.	Amount of financial liabilities	13,550,664	15,167,836	15,652,704	112	103
3.	Balance (+ or -) = 1-2	-558,646	-1,910,472	-1,809,564	-	-
Calculation of compliance with regulatory requirements in %						
a)	Actual %= no. 1 / no. 2	95.9%	87.4%	88.4%		
b)	Regulatory minimum %	75.0%	55.0%	55.0%		
	More (+) or less (-) = a – b	**20.9%**	**32.4%**	**33.4%**		

* Information was corrected due to changed accounting policy of measurement of one part of securities with one bank (as per the external auditor's order).

As of 30/06/2021, 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 15.5%, in the second one by 24.3% and in the third time bucket by 33.4%.

By observing the key liquidity ratios, 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 at the end of the 1H 2021 is satisfactory despite negative effects to the economy caused by the pandemic.

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 provides for how the foreign exchange position is calculated and maximum permitted FX risk exposure, i.e. the limits for open individual and total foreign exchange positions (long or short), calculated by reference to the bank's eligible capital. For purpose of mitigating consequences of the pandemic, FBA has amended this Decision by increasing the limit for individual FX position for EUR and for total FX position of the bank.

According to the balance as at 30/06/2021, the items in foreign currencies amounted to BAM 4.3 billion, with a 17.3% share (BAM 3.9 billion or 16% at the end of 2020) in the currency structure of the banks' assets across the banking sector. The currency structure of liabilities is significantly different, because the share of liabilities in foreign currency is significantly higher and amounts to BAM 8.1 billion or 32.2% (BAM 8.0 billion, with 32.9% share at the end of 2020).

The following Table No. 35 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	31.12.2020				30.06.2021				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	1,405	14.5	1,950	18.8	1,114	11.2	1,678	15.8	79	86
2.	Loans	826	8.5	826	7.9	1,301	13.1	1,301	12.2	158	158
3.	Loans with currency clause	6,321	65.4	6,323	60.8	6,123	61.8	6,124	57.5	97	97
4.	Other	929	9.6	1,117	10.7	1,170	11.8	1,338	12.6	126	120
5.	Other financial assets with currency clause	190	2.0	190	1.8	203	2.0	204	1.9	107	107
Total I (1+2+3+4+5)		**9,671**	**100**	**10,406**	**100**	**9,911**	**100**	**10,645**	**100**	**102**	**102**
II	**Financial liabilities**										
6.	Deposits	6,221	72.5	6,965	74.6	6,214	72.7	6,987	74.9	100	100
7.	Loans	809	9.4	809	8.7	781	9.1	781	8.4	97	97
8.	Deposits and loans with currency clause	1,319	15.4	1,319	14.1	1,280	15.0	1,280	13.7	97	97
9.	Other	230	2.7	244	2.6	269	3.1	284	3.0	117	116
Total II (6+7+8+9)		**8,579**	**100**	**9,337**	**100**	**8,544**	**100**	**9,332**	**100**	**100**	**100**
III	**Off-balance sheet**										
10.	Assets	26		61		2		61			
11.	Liabilities	1,025		1,034		1,143		1,145			
Position											
Long (amount)		93		96		226		229			
%		3.4%		3.6%		8.3%		8.4%			
Short (amount)											
%											
Permitted		40.0%		40.0%		40.0%		40.0%			
Less than permitted		**36.6%**		**36.4%**		**31.7%**		**31.6%**			

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 30/06/2021 ranged within the regulatory limits.

As of 30/06/2021, 13 banks had long foreign exchange position, while 2 banks had short position. A long foreign exchange position of 8.4% of the banks' total eligible capital was reported across the sector, which was lower by 31.6 percentage points than the permitted one. The individual foreign exchange position for EUR was 8.3%, which was lower by 31.7 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[27] the EUR's 83% share is dominant (81.1% as at December 31st, 2020), with an increase in the nominal amount by BAM 425.5 million or 13.5% vs. YE2020. The EUR's share in financial liabilities is 90.2% (31/12/2020: 90.6%) and, compared to the end of 2020, it increased by BAM 4.1 million or 0.1%. The calculation basis for EUR's share in financial assets and financial liabilities does not include the items with a currency clause.

2.2.9. Interest Rate Risk in the Banking Book

Interest rate risk in the banking book is a risk of possible occurrence of adverse effects to the financial result and capital of banks related to the banking book positions due to interest rate changes. Interest rate changes causing this risk type usually appear as a result of maturity mismatches, interest rate changes related to assets and liabilities positions or off-balance sheet short or long position. In its Decision on Interest Rate Risk Management in the Banking Book, FBA prescribed minimum standards for establishing a system of interest rate risk management in the banking book, method of calculating changes in economic value resulting from the banking book positions, as well as quarterly reporting to the FBA. Banks are required to establish a comprehensive and efficient system of interest rate risk management in the banking book that is proportionate to the type, volume and complexity of the bank's operations and its risk profile. For purposes of FBA reporting, on interest rate risk exposures in the banking book, banks shall use a unique calculation when estimating changes to the economic value of the banking book, applying therein a standard interest rate shock of 200 basis points related to banking book positions across all major currencies respectively, as well as for other currencies aggregately, thus encompassing all banking book positions sensitive to interest rate changes.

Table No. 36 shows the currency structure of changes to the economic value of the banking book and ratio between changes to the economic value of the banking book and own funds at the FB&H banking sector level:

- BAM 000 -

Table 36: Total weighted position of the banking book

No.	Description	31.12.2019	31.12.2020	30.06.2021	Index (4/3)	Index (5/4)
1	2	3	4	5	6	7
1.	Net weighted position - KM	50,538	62,655	80,484	124	128
2.	Net weighted position - EUR	44,861	29,563	30,172	66	102
3.	Net weighted position - USD	0	168	-38	-	-23
4.	Net weighted position – other	-4,193	-5,710	-5,815	136	102
5.	**Change of economic value (1+2+3+4)**	**91,206**	**86,676**	**104,803**	**95**	**121**
6.	Own funds	2,696,142	2,698,561	2,723,575	100	101
7.	**Change of economic value/own funds**	**3.4%**	**3.2%**	**3.8%**	**95**	**120**

The ratio of changes to the economic value of the banking book positions and owns funds as of 30/06/2021 stands at 3.8%. This is within the regulatory limits and is higher by 0.6 percentage points compared to the end of the previous year.

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

[27] Source: Report on Bank's Foreign Exchange Position: Part of Financial Assets (in Foreign Currencies Denominated in BAM). Balance sheet assets items and off-balance sheet items are reported in net terms, i.e. minus expected credit losses.

sector's stability and to protect depositors, as well as to improve the FB&H banks' safe, quality and lawful operations. The said measures and activities will especially focus on continuation of ongoing supervision of the banks, with an emphasis on:

- monitoring effects of FBA's special measures to ensure recovery from adverse consequences caused by the pandemic and banks' actions regarding these measures;
- implementing SREP for all banks in line with adopted Methodology and determining additional capital requirements as a result of SREP;
- examinations of 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;
- monitoring implementation of strategies related to handling non-performing exposures and annual business plans of banks having NPL share in total loans above 5%;
- monitoring implementation of the Decision on Credit Risk Management and Determination of Expected Credit Losses;
- performing stress testing in banks for purpose of monitoring operations of every bank, assessing its risks and performing timely and appropriate measures;
- continued cooperation with competent supervisory authorities for the supervision of banking groups from the EU and third countries whose members are seated in the FB&H, with a view to supervising more efficiently and improving supervisory practices and cooperating and sharing information with the ECB and EBA on the issues of supervision and banking regulations, as well as with the international financial institutions;
- improving cooperation by signing new cooperation agreements with relevant institutions in B&H, which are included in the institutional framework for the performance of supervision, crisis and systemic risk management, financial users' protection; and
- continuing cooperation with the BAB&H, with a view to improving banks' operations, compliance of their operations with regulations, international standards, and professional rules, and market requirements, etc.

Starting from the prescribed competencies, FBA will continue to undertake measures and activities with a view to implementing the latest FSAP mission's recommendations, banking supervision strengthening projects under the technical assistance provided by the international financial institutions WB and IMF, and under the USAID FINRA Project, etc.

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

- consistent implementation of special measures that the FBA adopted for purpose of ensuring recovery from negative consequences of the pandemic in a way to:
  - support economic recovery and stimulate credit growth through continuous financing of customers and sustainable loan arrangements;
  - ensure joint action in order to find appropriate modalities for customers impacted by the pandemic;
  - improve operational readiness and capacities to respond to the crisis;
  - in particular, monitor quality of the portfolio under special measures and estimate future repayment capacities of customers, thus ensure timely allocation of provisions for expected credit losses in order to avoid potential negative effect of a sudden increase of these provisions over the future period;

- cautious and responsible management of risks in line with effective accounting and regulatory framework, local and international standards of best practices;
- further strengthening of the internal controls system in all business segments based on the Decision on Internal Governance System in Banks[28];
- alignment of operations with new regulatory requirements regarding bank operations and supervision, thus including also requirements related to bank recovery and resolution planning;
- 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;
- activities related to reporting on the net stable funding ratio (NSFR) as of 31.12.2021 and fulfillment of NSFR-related requirements as of 31.12.2022;
- 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. SECTOR OF NON-DEPOSIT FINANCIAL INSTITUTIONS

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) as of 30/06/2021 for which founding, operations, management, supervision and termination of their activities are regulated under special laws and regulations.

As of 30/06/2021, active number of NFI debtors captured by some of special measures prescribed by the Decision on Temporary Measures of Leasing Companies and Microcredit Organisations to Ensure Recovery from Negative Economic Consequences Caused by Covid-19 held an amount of BAM 57.6 million or 7.2% share in the total loan portfolio o NFIs. In the retail segment, exposures subjected to some of the special measures amounted to BAM 37.9 million and had a share of 7.0% in the total retail portfolio of NFIs, while the corporate segment shows BAM 19.7 million of exposures encompassed by the special measures and share of 7.8% in the total corporate loan portfolio.

3.1. MICROCREDIT 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 30/06/2021, FBA's operating licenses were held by 13 MCOs that comprise the microcredit sector in the FB&H, of which 10 are MCFs (non-profit organizations) and three

[28] FB&H Official Gazette No. 39/21

are MCCs (profit organizations). Compared to December 31, 2020, the number of MCOs got reduced since one MCF had its operating license revoked in May 2021. Since this MCF operated during the Q2 2021, its reports for the observed period were included in this Information.

The microcredit sector in the FB&H, as of 30/06/2021, operates through the total of 358 organizational parts of MCOs seated in the FB&H, while 4 MCCs with headquarters in the RS operate in the FB&H through 56 organizational units.

Annex 7 provides basic information on MCFs and MCCs which, as of 30/06/2021 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 established and be doing business as MCF or MCC. MCFs in the FB&H were founded by non-governmental, mostly humanitarian organizations, citizens' associations and natural persons being registered founders of MCFs, but having no ownership right over capital. Out of three MCCs, one MCC is in 100% ownership of a MCF, one MCC is in the full ownership of one non-resident legal entity and one MCC is in 100% ownership of one resident legal entity.

3.1.1.3. Staff Structure

The microcredit sector in the FB&H, as of 30/06/2021, had a total of 1,387 employees, which is higher by 7 employees or 0.5%, compared to December 31, 2020. More precisely, in 3 MCFs and 2 MCCs there is an evident increase in the number of employees, while in 5 MCFs and 1 MCC there is a decrease in the number of employees, while in 3 MCFs the number of employees remained unchanged. Out of the total number of employees in the microcredit sector in the FB&H, MCFs employ 1,135 persons or 81.8% %, while MCCs employ 252 persons or 18.2%.
An overview of the qualification structure of employees in the FB&H microcredit sector is provided in the Table No. 37 below:

Table 37: Qualification structure of employees in MCOs in the FB&H

No.	Qualification	31.12.2020		30.06.2021		Index
		No. of employees	% share	No. of employees	% share	(5/3)
1	2	3	4	5	6	7
1.	University qualifications	743	53.3	744	53.6	100
2.	Two-year post-secondary school qualifications	104	7.5	108	7.8	104
3.	Secondary school qualifications	536	38.4	526	37.9	98
4.	Other	11	0.8	9	0.7	82
	Total	**1,394**	**100**	**1,387**	**100**	**99**

An analysis of data on staff efficiency in the FB&H microcredit sector as of 30/06/2021 shows that assets per MCO employee amounted BAM 476.1 ths, up by 0.8% vs. 31/12/2020.

3.1.2. FINANCIAL INDICATORS OF PERFORMANCE

3.1.2.1. Balance Sheet

Total assets of the FB&H microcredit sector as of 30/06/2021 amounted to BAM 660.3 million and are higher by BAM 2.2 million or 0.3% compared to December 31, 2020. The biggest share in the total balance sheet of MCOs is with five MCFs and one MCC with assets amounting to BAM 606 million or 91.8% 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 30/06/2021.

The aggregate balance sheet of the FB&H microcredit sector as of 30/06/2021 and comparative data with December 31, 2020 are shown in the following Table No. 38:

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Table 38: Microcredit sector's balance sheet

No.	Description	31.12.2020				30.06.2021				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	42,575	12,356	54,931	8.4	44,187	7,914	52,101	7.9	95
2.	Placements to banks	110	0	110	0.0	110	0	110	0.0	100
3.	Microloans	389,972	150,918	540,890	82.2	389,937	157,239	547,176	82.9	101
4.	Loan loss provisions	4,108	2,936	7,044	1.1	4,027	3,613	7,640	1.2	108
5.	Net microloans	385,864	147,982	533,846	81.1	385,910	153,626	539,536	81.7	101
6.	Premises and other fixed assets	26,764	4,540	31,304	4.8	26,014	4,219	30,233	4.6	97
7.	Long-term investments	33,061	0	33,061	5.0	33,061	0	33,061	5.0	100
8.	Other assets	3,565	1,248	4,813	0.7	3,880	1,381	5,261	0.8	109
9.	Reserves on other items in assets, apart from loans	10	0	10	0.0	10	0	10	0.0	100
	Total assets	**491,929**	**166,126**	**658,055**	**100**	**493,152**	**167,140**	**660,292**	**100**	**100**
	LIABILITIES									
10.	Liabilities on loans	207,503	107,920	315,423	47.9	202,217	106,481	308,698	46.7	98
11.	Other liabilities	23,130	7,928	31,058	4.7	22,564	7,117	29,681	4.5	96
12.	Capital	261,296	50,278	311,574	47.4	268,371	53,542	321,913	48.8	103
	Total liabilities	**491,929**	**166,126**	**658,055**	**100**	**493,152**	**167,140**	**660,292**	**100**	**100**
13.	Off-bal.sheet records	190,541	35,801	226,342		184,148	33,310	217,458		96

In the structure of assets of the FB&H microcredit sector as of 30/06/2021, the level of cash funds has dropped and the same is with tangible and intangible assets. The following items rose against the end of the previous year: gross and net micro loans, LLP and other assets, while placements with banks, long term investments and reserves for other assets items (except loans) remained the same.

The rate of fixed assets compared to total assets (reduced by donated capital across the FB&H microcredit sector) as of 30/06/2021 amounts to 4.94%, which is within the prescribed limit.

The net microloan portfolio, as a dominant assets item in the microcredit sector amounts to BAM 539.5 million with a share of 81.7% in total assets, hence it recorded an increase in absolute amount of BAM 5.7 million, i.e. 1.1%, whereas net micro loans with MCFs rose only slightly by BAM 46 ths, while net microloans with MCCs rose by BAM 5.6 million, i.e. 3.8% compared to 31/12/2020. The level of LLPs for the entire microcredit portfolio in the reporting period is higher by BAM 0.6 million, i.e. 8.4%, as mostly caused by negative effects of the pandemic. LLP for MCFs went down by BAM 81 ths with a reduction rate of 2% and with MCCs this amount is higher by BAM 0.7 million or 23.1%, as mostly impacted by the LLP increase of 24.7% with one MCC holding 53.7% share in this balance sheet item.

The total off-balance sheet records as of 30/06/2021 stood at BAM 217.5 million, thus being lower by BAM 8.9 million or 3.9% vs. 31/12/2020, whereas with MCFs it went down by BAM 6.4 million or 3.4% and with MCCs by BAM 2.5 million or 7%. Out of the said amount within the off-balance sheet records, written off loans make up for BAM 147.9 million or 68% of off-balance sheet items (including write-offs under the principal and regular interest, default interest court expenses), i.e. they are lower by BAM 1.6 million or 1.1% compared to the end of the previous year. The total number of written off microloans as of 30/06/2021 was 37,594, up by a total of 810 microloans (2.2%) vs. 31/12/2020. 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 30/06/2021 relate to: liabilities on loans taken, which amount to BAM 308.7 million, i.e. 46.7% of total liabilities and capital, amounting to BAM 321.9 million and representing 48.8% of total liabilities. The remaining amount of BAM 29.7 million, i.e. 4.5% relates to other liabilities.

Maturity structure of liabilities for loans taken is presented in the following Table No. 39:

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Table 39: Maturity structure of loans taken

No.	Description	31.12.2020				30.06.2021				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	20,476	360	20,836	6.6	13,994	2,500	16,494	5.3	79
2.	Liabilities on long-term loans taken	186,128	106,468	292,596	92.8	187,249	102,797	290,046	94.0	99
3.	Liabilities based on interest due	899	1,092	1,991	0.6	974	1,184	2,158	0.7	108
	Total	**207,503**	**107,920**	**315,423**	**100**	**202,217**	**106,481**	**308,698**	**100**	**98**

As of 30/06/2021, liabilities based on loans taken dropped by BAM 6.7 million or 2.1% compared to 31/12/2020. In the structure of total liabilities on loans taken as of 30/06/2021, loan obligations of MCFs represent 65.5%, while loan obligations of MCCs represent 34.5%. With respect of the maturity structure of loan obligations compared to December 31, 2020, there is a decreased share of short term liabilities by 20.8%, while long term liabilities dropped by 0.9%. Liabilities related to interest due have risen by 8.4%. The largest three creditors of the FB&H microcredit sector, according to their share in total loan obligations of MCOs as of 30/06/2021, are EFSE with 14.3%, Blue Orchard - Switzerland with 6.5% and EBRD with 5.1%.

In the reporting period, across the FB&H microcredit sector, the total increase in capital amounted to BAM 10.3 million, i.e. 3.3%, of which the amount of BAM of 7.1 million, i.e. 2.7% relates to the capital increase in MCFs, while the capital of MCCs in the reporting period increased by BAM 3.3 million, i.e. 6.5%.

The structure of capital of the FB&H microcredit sector is shown in the following Table No. 40:

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Table 40: Microcredit sector's capital structure

No.	Description	31.12.2020				30.06.2021				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	10	11
1.	Donated capital	48,076	0	48,076	15.4	48,076	0	48,076	14.9	100
2.	Tier 1 capital	3,868	33,100	36,968	11.9	3,767	33,100	36,867	11.5	100
3.	Surplus & deficit of revenue over expense	209,248	0	209,248	67.2	216,430	0	216,430	67.2	103
4.	Emission premium	0	0	0	0.0	0	0	0	0.0	-
5.	Unallocated profits	0	9,168	9,168	2.9	0	13,187	13,187	4.1	144
6.		0	3,568	3,568	1.1	0	4,214	4,214	1.3	118

7.	Regulatory reserves Other reserves	104	4,442	4,546	1.5	98	3,041	3,139	1.0	69
	Total capital	**261,296**	**50,278**	**311,574**	**100**	**268,371**	**53,542**	**321,913**	**100**	**103**

Out of the total capital of the FB&H microcredit sector which, as of 30/06/2021 amounted to BAM 321.9 million, the total capital of MCFs amounted to BAM 268.4 million, i.e. 83.4%, and the biggest items are the surplus of revenues over expenses, amounting to BAM 216.4 million and representing 80.6% of total capital of MCFs, and donated capital, amounting to BAM 48.1 million, i.e. 17.9%. 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 or 21% of the total donated capital in one MCF.

Total capital of MCCs amounts to BAM 53.5 million, comprising 16.6% of the total capital of the microcredit sector. Its structure includes these key items: Tier 1 capital of BAM 33.1 million, i.e. 61.8%, and unallocated profit of BAM 13.2 million, i.e. 24.6%. The remaining BAM 7.2 million, i.e. 13.6% of MCC capital relates to statutory and other reserves.

Looking into the capital rate reduced by donated capital vs. assets, as of 30/06/2021, it amounted 41.47% at the microcredit sector level. Thus, we find that it is in line with the prescribed limit.

Other liabilities across the FB&H microcredit sector as of 30/06/2021 amounted to BAM 29.7 million, i.e. 4.5% of total liabilities, and compared to December 31, 2020 they have decreased by BAM 1.4 million, i.e. 4.4%.

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 30/06/2021 amounted to BAM 547.1 million, thus representing 82.9% of total assets of the microcredit sector. If reduced for the corresponding LLP in the total amount of BAM 7.6 million, the net microloan portfolio amounts to BAM 539.5 million, i.e. 81.7% of total assets of the FB&H microcredit sector. Compared to December 31, 2020, the gross microloan portfolio went up by BAM 6.3 million, i.e. by 1.2%, while the net microloan portfolio rose by the amount of BAM 5.7 million, i.e. 1.1%.

In the same period, the level of LLP increased by BAM 0.6 million, i.e. 8.4% due to worsened portfolio quality caused by difficult business conditions during the pandemic. The ratio of LLP to total gross microloan portfolio as of 30/06/2021 amounted to 1.3%, which, compared to the same ratio as of December 31, 2020, when it amounted to 1.3%, represents an increase by 0.1 percentage point. In the structure of total net portfolio of the microcredit sector in the FB&H as of 30/06/2021, net microloans of MCFs amounted to BAM 385.9 million and represent 71.5% of the total net microloans across the sector, while the amount of BAM 153.6 million, i.e. 28.5% of the total net microloans across the sector relate to MCCs.

Net microloans as of 30/06/2021 are shown in the following Table No. 41:

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Table 41: Net microloans

No.	Description	31.12.2020			30.06.2021			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)	389,972	150,918	540,890	389,937	157,239	547,176	101

2.	LLP	4,108	2,936	7,044	4,027	3,613	7,640	108
3.	**Net microloans (1.-2.)**	**385,864**	**147,982**	**533,846**	**385,910**	**153,626**	**539,536**	**101**

Detailed data on the sector and the maturity structure of the microloan portfolio (reduced by deferred fee income) as of 30/06/2021 are shown in the following Table No. 42:

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Table 42: 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	186	8,418	37	8,641	54.9
b)	Trade	112	3,091	3	3,206	20.4
c)	Agriculture	50	1,056	1	1,107	7.0
d)	Manufacturing	94	2,534	4	2,632	16.7
e)	Other	19	137	0	156	1.0
	Total 1	**461**	**15,236**	**45**	**15,742**	**100**
2.	**Retail**					
a)	Services	1,778	70,488	251	72,517	13.8
b)	Trade	477	9,974	48	10,499	2.0
c)	Agriculture	4,634	160,215	377	165,226	31.4
d)	Manufacturing	247	9,638	23	9,908	1.9
e)	Housing needs	3,054	125,201	248	128,503	24.4
f)	Other	18,253	119,997	937	139,188	26.5
	Total 2	**28,443**	**495,514**	**1,884**	**525,841**	**100**
	Total (1+2)	**28,904**	**510,750**	**1,929**	**541,583**	

In the maturity structure of total microloan portfolio as of 30/06/2021 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 5.3% share and receivables due on micro loans have a 0.4% share.

Upon observing the sector structure, the dominant share is the share of retail microloans, with 97.1%, while the remaining 2.9% relate to corporate microloans. Within the retail microloan portfolio, the biggest is the share of microloans approved to the agricultural sector, which amounts to 31.4% and for other sectors at 26.5%. By share levels, housing sector follows with 24.4% and services with 13.8%. The share of microloans for trade is 2% and for manufacturing 1.9%. In the structure of corporate microloans, the dominant share is the share of microloans for services – 54.9%.

The following Table No. 43 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 30/06/2021:

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Table 43: 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%	520,763	96.2	0%	197	380	0	0	0	0	0
2.	1–15	2%	7,060	1.3	2%	117	0	142	2	0	1	145
3.	16–30	15%	5,971	1.1	100%	68	0	896	68	0	24	988
4.	31–60	50%	2,865	0.5	100%	80	0	1,432	80	0	13	1,525
5.	61–90	80%	1,569	0.3	100%	77	0	1256	77	0	4	1,337
6.	91–180	100%	3,355	0.6	100%	288	0	3,355	288	0	2	3,645
	Total		**541,583**	**100**		**827**	**380**	**7,081**	**515**	**0**	**44**	**7,640**
7.	over 180	Write off	1,989	-	-	508	0	0	0	0	0	0

In the total microloan portfolio at the sector level, 96.2% relate to microloans without defaults, while in the remaining 3.8% of microloans there are defaults, of which defaults up to 30 days represent 2.4% of micro loans, while 1.4% are defaults of 31 to 180 days. Out of the total amount of due interest (BAM 0.8 million), defaults up to 30 days represent 22.4%, while defaults of 31 to 180 days represent 53.8%.

Out of the total amount of provisions under microloans, interest and other asset items as of 30/06/2021 (BAM 7.6 million), the largest item corresponds to provisions formed for microloans in default of 91 to 180 days, which amount to BAM 3.6 million and represent 47.7% of the total amount of provisions.

Key Indicators of Microcredit Portfolio Quality

The risk portfolio indicator for more than 30 days in default (PAR>30 days) as of 30/06/2021 amounts to 1.44% at the level the microcredit sector and it increased by 0.03 percentage points compared to December 31, 2020. This risk indicator of the microloan portfolio at the sector level is within the prescribed standard.

At the microcredit sector level, the rate of write offs of microloans as of 30/06/2021 amounted to 1.34%, which is within prescribed standard. This rate has increased by 0.13 percentage points compared to 31.12.2020.

Weighted NIR and EIR on micro loans

Over the period from 01/01/2021 to 30/06/2021, MCOs seated in the FB&H concluded 69,107 agreements and disbursed a total of BAM 237.2 million of microloans. This is by 8,971 agreements or 14.9% higher than in the same period last year, i.e. higher by BAM 26.2 million or 12.4% of disbursements. Over the observed period, MCOs seated in the FB&H had average weighted NIR on total microloans of 19.56% and EIR of 24.52%, whereas NIR on short term microloans was 20.28% and on long term ones 19.45% and EIR on short term microloans was 30.60% and on long term ones 23.63%. Average weighted EIR on total microloans disbursed by MCOs seated in the FB&H posted an increase in the period from 01/01/2021 to 30/06/2021 by 0.29 percentage points vs. the same period in 2020, whereas average weighted EIR on short term microloans posted a drop by 1.27 percentage points and on long term microloans a rise by 0.50 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 01/01/2021 to 30/06/2021 by MCOs seated in the FB&H.

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 2017 to 2021.

3.1.2.4. Financial Performance of the FB&H Microcredit Sector

At the FB&H microcredit sector, positive financial result was posted in the period from 01/01/2021 to 30/06/2021 in an amount of BAM 7.3 million, up by BAM 4.9 million against the same period in 2020.

MCFs posted excess income over expenses of BAM 6.9 million, thus being by BAM 1.9 million more than in the same period the year before. MCCs reported net profit of BAM 0.4 million, which is by BAM 2.9 million higher than in the same period of the previous year since one MCC posted a major increase of business result (and holds 94.6% share in total assets of MCCs). The presented overall excess income over expenses of MCFs was BAM 7.1 million (eight MCFs) and shortage of income over expenses was posted by three MCFs in an amount of BAM 0.2 million.

Annexes 12 and 13 show aggregate income statements of MCFs and MCCs.

According to the reporting data for MCOs, in the period from 01/01/2021 to 30/06/2021, total revenues at the level of the FB&H microcredit sector amounted to BAM 58.1 million, up by BAM 3.9 million or 7.2% compared to the same period last year.

The level and structure of total income with the comparative data for the same period last year are shown in the following Table No. 44:

- BAM 000 -

Table 44: Structure of total income

No.	Structure of total income	01.01.-30.06.2020				01.01.-30.06.2021				Index
		MCF	MCC	Total	% share	MCF	MCC	Total	% share	(9/5)
1	2	3	4	5=(3+4)	6	7	8	9=(7+8)	10	11
1.	**Interest income and similar income**									
1.1.	Interest on interest-bearing deposit accounts with deposit institutions	3	1	4	0.0	5	1	6	0.0	150
1.2.	Interest on placements to banks	15	0	15	0.0	5	0	5	0.0	33
1.3.	Interest on loans	34,015	12,108	46,123	85.1	35,577	14,272	49,849	85.8	108
1.4.	Management fee	2,590	736	3,326	6.1	2,062	726	2,788	4.8	84
1.5.	Prepayment fee	217	83	300	0.6	212	112	324	0.6	108
1.6.	Other interest income and similar income	463	21	484	0.9	504	39	543	0.9	112
	Total	**37,303**	**12,949**	**50,252**	**92.7**	**38,365**	**15,150**	**53,515**	**92.1**	**106**
2.	**Operating income**									
2.1.	Service fees	83	0	83	0.2	78	0	78	0.2	94
2.2.	Income from collected written off receivables	3,324	55	3,379	6.2	3,592	257	3,849	6.6	114
2.3.	Other operating income	6	0	6	0.0	4	11	15	0.0	250
	Total	**3,413**	**55**	**3,468**	**6.4**	**3,674**	**268**	**3,942**	**6.8**	**114**
3.	**Other operating income**	**392**	**103**	**495**	**0.9**	**551**	**99**	**650**	**1.1**	**131**
	Total income (1+2+3)	**41,108**	**13,107**	**54,215**	**100**	**42,590**	**15,517**	**58,107**	**100**	**107**

Within the structure of total income of MCOs, interest income and similar income hold a share of 92.1%, operating income 6.8% share and other operating income 1.1%. Compared to the same period last year, interest and similar income have risen by BAM 3.3 million or 6.5%. Income from interest on loans, being the key item within the category of interest and similar income, climbed by BAM 3.7 million or 8.1%.

During the observed period, operating income of MCOs went up by BAM 0.5 million or 13.7%, whereas income from collected written of receivables (as a dominant item) increased by BAM 0.5 million or 13.9%. Other operating income went up by BAM 155 ths or 31.3%.
According to the reporting data of MCOs for the period from 01/01/2021 to 30/06/2021, total expenses of the FB&H microcredit sector stood at BAM 50.8 million, down by BAM 1.0 million or 1.9% vs. the same period the year before.

The level and structure of total expenses with comparative data for the same period of the previous business year are all presented in the following Table No. 45:

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Table 45: Structure of total expenses

No.	Structure of total expenses	01.01.-30.06.2020				01.01.-30.06.2021				Index
		MCF	MCC	Total	% share	MCF	MCC	Total	% share	(9/5)
1	2	3	4	5=(3+4)	6	7	8	9=(7+8)	10	11
1.	**Interest expenses and similar expenses**									
1.1.	Interest on borrowed funds	3,395	1,993	5,388	10.4	3,227	2,101	5,328	10.5	99
1.2.	Fee for received loans	266	198	464	0.9	323	241	564	1.1	122
1.3.	Prepayment fee	0	0	0	0.0	3	0	3	0.0	-

1.4.	Other interest expenses and similar expenses	203	589	792	1.5	287	833	1,120	2.2	141
	Total	**3,864**	**2,780**	**6,644**	**12.8**	**3,840**	**3,175**	**7,015**	**13.8**	**106**
2.	**Operating expenses**									
2.1.	Costs of salaries and contributions	17,041	4,427	21,468	41.4	18,598	4,634	23,232	45.7	108
2.2.	Amortisation costs	2,173	653	2,826	5.5	2,201	667	2,868	5.6	101
2.3.	Material expenses	1,022	307	1,329	2.6	969	241	1,210	2.4	91
2.4.	Service costs	5,575	1,373	6,948	13.4	6,003	2,793	8,796	17.3	127
2.5.	Other operating expenses	1,493	1,223	2,716	5.2	1,312	410	1,722	3.4	63
	Total	**27,304**	**7,983**	**35,287**	**68.1**	**29,083**	**8,745**	**37,828**	**74.4**	**107**
3.	**Other operating expenses**	**296**	**257**	**553**	**1.1**	**210**	**38**	**248**	**0.5**	**45**
4.	**Costs of reserves for loan and other losses**	**4,001**	**4,682**	**8,683**	**16.8**	**1,934**	**2,832**	**4,766**	**9.4**	**55**
5.	**Tax on excess income over expenses(income tax)**	**638**	**0**	**638**	**1.2**	**586**	**359**	**945**	**1.9**	**148**
	Total expenses (1+2+3+4+5)	**36,103**	**15,702**	**51,805**	**100**	**35,653**	**15,149**	**50,802**	**100**	**98**

MCOs' total expense structure is dominated by operating expenses with a share of 74.4%, while interest and similar expenses participate with 13.8% and costs of reserves for loan and other losses with 9.4%. Other operating expenses and tax on excess income over expenses (i.e. income tax) hold a share of 2.4% in total expenses of MCOs.

Over the observed period, interest and similar expenses rose by BAM 0.4 million or 5.6%, whereas fees for received loans and other interest and similar expenses climbed by 21.6% and 41.4% respectively. Expenses related to interest on borrowed funds dropped by 1.1%.

Operating expenses of MCFs, as a dominant item among total expenses, saw a rise by BAM 2.5 million or 7.2%, whereas costs of salaries and contributions (as their key item) increased by BAM 1.7 million or 8.2%. Costs of services went up by BAM 1.8 million or 26.6%, while material expenses and other operating expenses dropped by 8.9% and 36.6% respectively. Amortisation costs have risen by 1.5%.

Other operating expenses increased by BAM 0.3 million or 55.1%, while costs of reserves for loan and other losses decreased by BAM 3.9 million or 45.1%. Tax on excess income over expenses (i.e. income tax) rose by BAM 0.3 million or 48.1%.

Efficiency and Sustainability Indicators for the FB&H Microcredit Sector

Operational efficacy of business operations of the FB&H microcredit sector as of 30/06/2021 amounted to 18.48%, which is within the prescribed range for the indicator.

According to reporting data at the FB&H microcredit sector as of 30/06/2021, the return on assets adjusted for inflation, market price of capital and donations (AROA) was positive at 3.28%. 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 116.55%.

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 following:

- monitoring effects of FBA's special measures related to recovery from negative consequences caused by the pandemic;
- 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 the increase of employment, supporting entrepreneurship development, increasing transparency of operations and protecting the rights of financial service users;
- timely and adequate undertaking of activities in MCOs according to the corrective measures imposed to eliminate irregularities and weaknesses in business operations.

The microcredit sector in the FB&H has an obligation to apply prescribed standards and restrictions in performance of microcredit operations, reporting and auditing, starting from regulatory requirements and objectives of micro lending. Related to the above, it is also necessary that the competent governance bodies of the MCOs ensure compliance of their business with the prescribed standards, especially in respect of:
- consistent implementation of special measures adopted by the FBA for purpose of recovery from negative consequences caused by the pandemic;
- 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;
- 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. LEASNG 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 30/06/2021, held by four leasing companies in the FB&H and there were no changes compared to 31/12/2020. Annex 14 provides basic information on leasing companies which, as of 30/06/2021, 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 30/06/2021, is as follows: two leasing companies are in 100% ownership of non-resident legal persons, one leasing company is majority-owned by a non-resident legal person, while one leasing company is in 100% ownership of a resident legal person.

3.2.1.3. Staff Structure

As at 30/06/2021, there was a total of 106 employees in the leasing sector in the FB&H, which is 5 employees or 4.9% more than 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 No. 46 below:

Table 46: Qualification structure of employees in leasing companies in the FB&H

No.	Qualification	31.12.2020		30.06.2021		Index
		No. of employees	% share	No. of employees	% share	(5/3)
1	2	3	4	5	6	7
1.	University qualifications	76	75.2	78	73.6	103
2.	Two-year post-secondary school qualifications	4	4.0	4	3.8	100
3.	Secondary school qualifications	13	12.9	17	16.0	131
4.	Other	8	7.9	7	6.6	88
Total		**101**	**100**	**106**	**100**	**105**

Efficiency of employees in the course of performance assessment of leasing companies is based on the ratio of assets and number of employees. According to indicators as at 30/06/2021, at the level of the leasing sector in the FB&H, each employee corresponded to BAM 3.4 million in assets. This is by BAM 22 ths or 0.6% less than as at 31/12/2020.

3.2.2. FINANCIAL INDICATORS OF PERFORMANCE

3.2.2.1. Balance Sheet

Total assets of the FB&H leasing sector as at 30/06/2021 amounted to BAM 358.5 million and are higher by BAM 14.7 million, i.e. 4.3% compared to December 31, 2020. Two leasing companies, viewed on the basis of asset size, are responsible for 71.4% of total assets of the FB&H leasing sector.

Annex 15 provides an aggregate balance sheet of leasing companies in the FB&H as per reporting data of 30/06/2021, while Annex 16 provides an overview of basic indicators of leasing companies in the FB&H as of 30/06/2021.

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 278.4 million, i.e. 77.6% of total assets. Compared to December 31, 2020, net receivables under financial leasing are higher by BAM 21.6 million, i.e. 8.4%, while gross receivables under financial leasing are higher by BAM 8.3 million, i.e. 3.2%, while gross receivables under financial leasing went up by BAM 25.9 million or 9.2%. As of 30/06/2021, one bank that performs also financial leasing deals posted net receivables under financial leasing of altogether BAM 38.9 million, thus indicating that net receivables under financial leasing at the leasing system level were equal to BAM 317.3 million and were by BAM 12.2 million or 4% higher than end of the previous year.

In the structure of receivables under financial leasing at the level of the leasing sector in the FB&H (if observed by the leasing objects), contracts approved for financing of passenger vehicles and vehicles for performing business activities participate with 83.6%, contracts for equipment financing participate with 15.8%, while 0.6% relates to contracts under which real estate is financed. If viewed by lessees, 88.6% refers to contracts with legal entities, while the increase of financial leasing receivables was noted in the segment of legal entities by 10.2%, private individuals by 4.8% and entrepreneurs by 21.8%.

The following table Nos. 47 and 48 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 30/06/2021 and a comparative overview of the structure of receivables as of December 31, 2020 and as of June 30, 2021:

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Table 47: Structure of financial leasing receivables

No.	Description	Short-term receivables	Long-term receivables	Due receivables	Total receivables	Share in %
1	2	3	4	5	6	7
1.	**By leasing object**					
1.1.	Passenger vehicles	44,602	94,364	1,555	140,521	49.5
1.2.	Vehicles for performing business activity (cargo and passenger vehicles)	35,782	59,874	1,242	96,898	34.1
1.3.	Machines and equipment	17,198	27,292	304	44,794	15.8
1.4.	Real estate	210	1,501	18	1,729	0.6
1.5.	Other	16	28	0	44	0.0
	Total	**97,808**	**183,059**	**3,119**	**283,986**	**100**
2.	**By lessee**					
2.1.	Corporate	87,561	161,562	2,456	251,579	88.6
2.2.	Entrepreneurs	3,077	5,878	118	9,073	3.2
2.3.	Retail	5,843	14,371	540	20,754	7.3
2.4.	Other	1,327	1,248	5	2,580	0.9
	Total	**97,808**	**183,059**	**3,119**	**283,986**	**100**

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Table 48: Structure of financial leasing receivables – comparative overview

No.	Description	31.12.2020	30.06.2021	Index (4/3)
1	2	3	4	5
1.	**By leasing object**			
1.1.	Passenger vehicles	127,102	140,521	111
1.2.	Vehicles for performing business activity (cargo and passenger vehicles)	91,011	96,898	106
1.3.	Machines and equipment	38,840	44,794	115
1.4.	Real estate	1,909	1,729	91
1.5.	Other	34	44	129
	Total	**258,896**	**283,986**	**110**
2.	**By lessee**			
2.1.	Corporate	228,329	251,579	110
2.2.	Entrepreneurs	7,451	9,073	122
2.3.	Retail	19,805	20,754	105
2.4.	Other	3,311	2,580	78
	Total	**258,896**	**283,986**	**110**

Net receivables under loans as of 30/06/2021 amount to BAM 4.8 million, i.e. 1.3% of total assets of the FB&H leasing sector. Compared to December 31, 2020, net receivables under loans decreased by BAM 0.2 million or 3.6%. Receivables under loans in the composition of total assets of leasing companies decreased due to the continuous decrease in receivables under loans, as the provisions of the LoL prohibit the leasing companies to conclude new loan agreements, that would remain recorded in the balance sheets of leasing companies in the 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 30/06/2021 amounted to BAM 2.6 million (constituting 0.7% of total assets), which was by BAM 3.9 million, i.e. 60.1% lower compared to December 31, 2020. Therein, decrease of this position by 78.7% and 68.4% respectively was seen with two leasing companies. Placements to banks (posted by one leasing company) as of 30/06/2021 amounted to BAM 2.1 million, comprising 0.6% of total assets of the FB&H leasing sector, which was by BAM 10 million or 82.9% less compared to December 31, 2020.

Net value of fixed assets financed through operational leasing (posted by three leasing companies) as of 30/06/2021 amounted to BAM 61.3 million and has increased by BAM 7.3 million, i.e. 13.6% compared to December 31, 2020.

The structure of net balance sheet assets positions of the leasing sector in the FB&H can be analysed in the Table No. 49 below:

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Table 49: Structure of net balance sheet assets positions

No.	Description	31.12.2020	% share	30.06.2021	% share	Index (5/3)
1	2	3	4	5	6	7
1.	Financial leasing	256,770	74.7	278.,377	77.7	108
2.	Operational leasing	53,964	15.7	61,285	17.1	114
3.	Loan	4,982	1.4	4,800	1.3	96
4.	Other assets	28,110	8.2	14,066	3.9	50
	Total	**343,826**	**100**	**358,528**	**100**	**104**

3.2.2.2. Capital and Liabilities

Total capital of the FB&H leasing sector as of 30/06/2021 amounted to BAM 26.9 million, thus constituting 92.5% of total liabilities of the FB&H leasing sector. Compared to December 31, 2020, the aforementioned position decreased by BAM 0.8 million or 2.9%. Therein, capital of one leasing company decreased against the end of the previous year by 18.5%.

Total liabilities of the leasing sector in the FB&H amounted to BAM 331.6 million as at 30/06/2021, thus representing 92.5% of total liabilities of leasing companies in the FB&H. Compared to December 31, 2020, total liabilities at the sector level rose by BAM 15.5 million or 4.9%.

Liabilities of leasing companies in the FB&H under loans taken as of 30/06/2021 stood at BAM 323.1 million, thus posing a dominant source in the structure of total liabilities of the FB&H leasing sector since they account for 90.1% of total liabilities. Compared to 31/12/2020, the position of loan obligations is higher by BAM 15.2 million, i.e. 4.9%. If observed by contractual maturity, the entire amount of liabilities based on loans refers to long term loans.

3.2.2.3. Assets and Assets Quality

According to reporting data at the level of the FB&H leasing sector, reported reserves for losses under financial leasing as of 30/06/2021 amounted to BAM 5.6 million and are higher compared to December 31, 2020 by BAM 3.5 million or 163.8% due to a major increase of loss reserves with one leasing company.

In the structure of receivables under financial leasing as of 30/06/2021, the total of BAM 3.1 million of overdue receivables were reported, which is by BAM 0.4 million or 11.8% less compared to December 31, 2020.
The Table No. 50 below provides a detailed overview of financial leasing reserves as of 30/06/2021:

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Table 50: 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%	277,513	1,756	50,437	782	252	4	4,257	4,513
2.	60-90	10%	10%	3,369	0	1,331	0	133	0	75	208
3.	90-180	50%	50%	632	0	251	0	126	0	29	155
4.	over 180	100%	75%	716	0	733	0	733	0	0	733
5.	over 360	100%	100%	0	0	0	0	0	0	0	0
Total				**282,230**	**1,756**	**52,752**	**782**	**1,244**	**4**	**4,361**	**5,609**

The total amount of written off receivables under financial leasing and loans as of 30/06/2021 amounted to BAM 7.6 million BAM and is much lower compared to December 31, 2020, by BAM 13.5 million or 64%. This was caused by a reduced amount of written of receivables with one leasing company of BAM 13.7 million or 77%. This decrease of written off receivables was mostly contributed by a significant increase of permanent write offs of BAM 12,3 million that almost entirely refers to one leasing company, as well as by an increase of collection of written off receivables of BAM 470 ths and a reduction of new write offs of BAM 1.8 million or 85.4%.

The appraised market value of foreclosed leasing objects, due to termination of leasing contracts with lessees as of 30/06/2021 at the level of the FB&H leasing sector, amounted to BAM 1.1 million, up by BAM 144 ths or 15.8% compared to 31.12.2020. There was a total of 34 foreclosed objects, with a posted increase of the number of foreclosed objects by 5 objects or 17.2%. Out of the total reported amount of appraised market value of foreclosed items in the FB&H leasing sector as of 30/06/2021, 47.3% refers to passenger vehicles and business vehicles, while 1.7% relates to machinery and equipment. In addition, 51% 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 30/06/2021, the market value of foreclosed leasing items amounted to BAM 4.9 million and it increased by BAM 0.1 million or 2.1% compared to December 31, 2020. Out of the above amount of foreclosed leasing items, items foreclosed by the bank that is performing leasing activities correspond to BAM 3.9 million, i.e. 78.7% of the total market value of foreclosed items reported at the level of the leasing system.

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, 2021, a positive financial result of BAM 2.3 million was reported, which represents an increase by BAM 0.5 million compared to the same period in 2020. This increase of the business result of the leasing sector mostly results from significantly improved business result of one leasing company of BAM 0.9 million. Total net profit was posted in an amount of BAM 3.0 million (by three leasing companies), while loss was posted by one leasing company in an amount of BAM 0.7 million.

The aggregate income statement for leasing companies in the FB&H for the period 01/01/2021 to 30/06/2021 is provided in the Annex 17.

Total income of the FB&H leasing sector for the period 01/01/2021 to 30/06/2021 amounted to BAM 18.9 million, up by BAM 1.6 million or 9% compared to the same period of the previous year.

The level and structure of total income with the comparative data for the same period of the preceding financial year are shown in the following Table No. 51:

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Table 51: Structure of total income

No.	Structure of total income	01.01.-30.06.2020		01.01.-30.06.2021		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	202	1.2	44	0.2	22
1.2.	Interest on placements to banks	5,158	29.7	5,688	30.1	110
1.3.	Other interest income	843	4.8	907	4.8	108
	Total	**6,203**	**35.7**	**6,639**	**35.1**	**107**
2.	**Operating income**					
2.1.	Operating lease charges	8,442	48.6	9,393	49.6	111
2.2.	Service fees	1	0.0	1	0.0	100
2.3.	Other operating income	2,716	15.7	2,900	15.3	107
	Total	**11,159**	**64.3**	**12,294**	**64.9**	**110**
3.	**Income from release of reserves for losses**	**0**	**0.0**	**0**	**0.0**	**-**
	Total income (1+2+3)	**17,362**	**100**	**18,933**	**100**	**109**

The FB&H leasing sector's interest and similar income in the January 1 – June 30, 2021 period amounted to BAM 6.6 million, thus constituting 35.1% of total income of the leasing sector. It increased by BAM 0.4 million, i.e. 7%, 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 5.7 million and it is by BAM 0.5 million, i.e. 10.3%, higher compared to the same period of the preceding financial year.

Operating income amounted to BAM 12.3 million with a share of 64.9% in total income of the leasing sector. Compared to the same period last year, it is higher by BAM 1.1 million, i.e. 10.2%. Operating lease charges, as dominant item of operating income, rose by BAM 1.0 million or 11.3%, while other operating income rose by BAM 0.2 million or 6.8%.

Total expenses for the period 01/01/2021 to 30/06/2021 amounted to BAM 16.6 million and are higher by BAM 1.0 million or 6.7% compared to the same period of the preceding year.

The level and structure of total expenses with comparative data for the same period over the previous business year are shown in the following Table No. 52:

- BAM 000

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Table 52: Structure of total expenses

No.	Structure of total expenses	01.01.-30.06.2020		01.01.-30.06.2021		Index
		Amount	% share	Amount	% share	(5/3)
1	2	3	4	5	6	7
1.	**Interest expenses and similar expenses**					
1.1.	Interest on borrowed funds	2,064	13.3	2,018	12.2	98
1.2.	Fees for processing loans	52	0.3	39	0.2	75
1.3.	Other interest expenses	1	0.0	1	0.0	100
	Total	**2,117**	**13.6**	**2,058**	**12.4**	**97**
2.	**Operating expenses**					
2.1.	Salary and contribution costs	2,506	16.1	2,349	14.1	94
2.2.	Business premises costs	5,656	36.3	6,171	37.1	109
2.3.	Other costs	4,751	30.4	3,729	22.4	78
	Total	**12,913**	**82.8**	**12,249**	**73.6**	**95**
3.	**Costs of reserves**	**559**	**3.6**	**2,322**	**14.0**	**415**
4.	**Profit tax**	**0**	**0.0**	**0**	**0.0**	**-**
	Total expenses (1+2+3)	**15,589**	**100**	**16,629**	**100**	**107**

In the period from 01/01/2021 to 30/06/2021, interest and similar expenses of the leasing sector amounted to BAM 2.1 million and represented 12.4% of total expenses of the leasing sector. This is lower by BAM 59 ths or 2.8% vs. the same period of the previous financial year. Interest expenses under loans taken (as their dominant item) posted a drop by BAM 46 ths or 2.2%.

Over the observed period, total operating expenses of the leasing sector stood at BAM 12.2 million with a share in total expenses of the leasing sector of 73.6%. This is lower by BAM 0.7 million or 5.1% compared to the same period of the year before, whereas their structure reflects reduced costs of salaries and contributions by 6.3% and other costs by 21.5%, while costs of business premises rose by 9.1% due to higher depreciation costs of operational lease by 11.2%. Total costs of loss reserves stood at BAM 2.3 million, constituting 14% of total expenses of the leasing sector. They saw an increase by BAM 1.7 million or 315.4%. This was largely a result of an increase of one item with two leasing companies.

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, 2021, amounts to BAM 106.1 million and is higher by BAM 29.9 million or 39.2%, compared to the same period of the preceding financial year. Thereof, BAM 102.7 million or 96.8% of the total value of newly concluded contracts at the leasing system level refers to the leasing sector (consisting of four leasing companies).

The number of newly concluded leasing contracts at the leasing system level in the same period was 2,206, which was by 591 contracts or 36.6% higher compared to the same period last year. Thereof, 2,144 contracts or 97.2% of the total number of newly concluded contracts at the leasing system level refers to the leasing sector. The average value of contracts at the level of the leasing system concluded in the period from 01/01/2021 – 30/06/2021 amounted to BAM 48.1 ths and it is higher by 1.9% compared to the same period last year, when it amounted to BAM 47.2 ths. Therein, the average value of contracts at the leasing sector level was BAM 47.9 ths, which is 5.7% more than in the same period in 2020 when it stood at BAM 45.3 ths.

Out of the total generated value of newly concluded contracts in the period from 01/01/2021 to 30/06/2021, the amount of BAM 86.4 million, i.e. 81.4% relates to financial leasing contracts and BAM 19.7 million or 18.6% to operational leasing contracts.

The following Table No. 53 shows a comparative overview of the realized volume of newly concluded contracts in the period from 01/01/2021 to 30/06/2021 and in the same period of the preceding financial year, as well as the comparative overview of the number of concluded contracts in the same period:

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Table 53: Structure of the number of concluded contracts and financing amount of the leasing system

No	Description	01.01.-30.06.2020						01.01.-30.06.2021					
		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	1,127	50,894	424	15,815	1,551	66,709	1,605	71,854	493	19,718	2,098	91,572
2.	Equipment	64	9,515	0	0	64	9,515	108	14,529	0	0	108	14,529
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	**1,191**	**60,409**	**424**	**15,815**	**1,615**	**76,224**	**1,713**	**86,383**	**493**	**19,718**	**2,206**	**106,101**

The total amount of new financing in the first half of 2021 was achieved by four leasing companies and one bank, which performs financial leasing activities (the legal successor of a leasing company that merged with that bank).

The structure of new placements is, according to type of lessee, dominated by placements to legal persons, which represent 89.4% of the total amount of financing in the first half of 2021. One of key reasons for this rests with the fact that financing through leasing for natural persons is less favorable compared to loans because of liability to pay VAT on interest, which is an additional cost for clients that are not VAT taxpayers.

Weighted NIR and EIR

Total average NIR for financial leasing contracts concluded in the period from 01/01/2021 to 30/06/2021 was 3.80% for short term contracts and 3.91% for long term contracts, while EIR for short term contracts was 6.37 and 7.14% for long term contracts during the same period. Total average weighted NIR was 3.91% and EIR was 7.14%. Compared to the same period in 2020 when total average weighted NIR was 4.05% and EIR 7.02%, there is an evident decrease of NIR by 0.14 percentage points, while EIR rose by 0.12 percentage points.

Annex 18 provides an overview of average weighted NIR and EIR on financial leasing contracts concluded in the period from 01/01/2021 to 30/06/2021 (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 in the upcoming period:

- monitoring effects of FBA's special measures aimed at recovery from negative consequences caused by the pandemic;
- ongoing supervision of business operations of the leasing sector, i.e. system, in the FB&H, through reports and onsite examinations;
- preservation of capital adequacy of the FB&H leasing sector and strengthening of internal processes for defining the parameters of capital protection in the entities of the FB&H leasing sector;
- monitoring and evaluating efficiency of the established risk management systems in the leasing sector, i.e. system, in the FB&H and quality of overall governance;
- further cooperation with BiHALC, in terms of providing professional assistance in the application of laws and regulations for leasing companies, as well as cooperation with other supervisory and controlling institutions, and with the CBB&H in respect of data structures and quality related to exposures under financial leasing in CLR;
- support to improvement of the business environment for operations of the FB&H leasing sector etc.

Within its competence for supervision of business operations of leasing companies, the FBA expects of leasing system 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 which are focused on:

- consistent implementation of special measures adopted by the FBA for purpose of recovery from negative consequences caused by the 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. FACTORING 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 30/06/2021, factoring system consisted of 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

As of 30/06/2021, 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 remained the same.

As of 30/06/2021, there were 186 concluded contracts on factoring with recourse right or 97.4% and 5 contracts on factoring without recourse right or 2.6%. Over the observed period, factoring service providers performed no services of redemption of monetary claims in foreign factoring or deals related to factoring.

As of 30/06/2021, the total redeemed nominal amount of monetary claims and nominal amount of settled payables of buyers towards suppliers at the FB&H factoring system level was BAM 79.9 million. Compared to the same period of the previous year, this represents an increase by BAM 23.2 million or 40.9%.

The values of redeemed monetary claims and settled payables of buyers to towards suppliers in the FB&H by type of factoring and domicile status (with comparative data and trends in reporting periods) are shown in the following Table No. 54:

- BAM 000 -

Table 54: Redeemed monetary claims and settled payables of buyers to suppliers in the FB&H - by type of factoring and domicile status

No.	Type of factoring/ domicile status	Volume of redeemed monetary claims and settled payables of buyers towards suppliers				
		01.01. - 30.06.2020		01.01. - 30.06.2021		Index
		Amount	Share (in %)	Amount	Share (in %)	(5/3)
1	2	3	4	5	6	7
1.	Factoring with right to recourse	24,200	42.7	37,417	46.8	155
2.	Factoring without right to recourse	32,480	57.3	42,477	53.2	131
3.	Reversed (supplier) factoring	0	0.0	0	0	-
	Total	**56,680**	**100**	**79,894**	**100**	**141**
4.	Domestic factoring	56,680	100	79,894	100	141
5.	Foreign factoring	0	0.0	0	0	-
	Total	**56,680**	**100**	**79,894**	**100**	**141**

As of 30/06/2021, the change to the structure of redeemed monetary claims by factoring types referred to the share of factoring with and without recourse right, while reverse (supplier) factoring was not effected. The structure according to the domicile status remained unchanged.

Looking into the factoring contracts according to contractual maturity, the highest share in the total volume as of 30/06/2021 of 91% corresponds to redeemed monetary claims with contractual maturity of 60 days, followed by the share of 6.8% with contractual maturity of 91-180 days and 2.2% with contractual maturity of 61-90 days. Over the same period of the year before, the highest share was with claims with maturity of up to 60 days (80%).

Looking into the sector structure of buyers (with respect to the recourse right), the highest share was with public companies since the value of redeemed claims as of 30/06/2021 was BAM 43.4 million, thus constituting 54.4% of total value at the FB&H factoring system level. This is followed by BAM 36.3 million or 45.3% redeemed from private companies and enterprises at the FB&H factoring system level, while BAM 224 ths or 0.3% of monetary claims was redeemed from government institutions.

According to the sector structure in the segment of private enterprises and companies, total advances paid to suppliers (sellers of receivables) equaled BAM 76.8 million or 98.4%. if observing domestic factoring by type of recourse in the segment of private enterprises and companies, an amount of BAM 42.4 million or 55.2% related to factoring without recourse right and BAM 34.4 million or 44.8% to factoring with recourse right. As for the segment of public companies, total advances paid to suppliers amount to BAM 1.3 million or 1.6% of the total advances paid. Therein, the entire value in this segment refers to the factoring with recourse right.

On the basis of factoring contracts as of 30/06/2021, banks claimed the total of BAM 20.9 million, fully in domestic factoring, of which BAM 11.7 million or 56% relates to factoring with right to recourse, while BAM 9.2 million or 44% relates to factoring without right to recourse. The structure of the mentioned amount of redeemed claims by contractual maturities is the following: with contractual maturity of up to 60 days – 90.1%, of 61 to 90 days – 3.3%, of 91 to 180 days – 6.6%.

Total income of the factoring service providers in the FB&H as of June 30, 2021 amounted to BAM 610 ths (income from interest, fees and administrative fees), up by BAM 86 ths or 16.4% compared to the same period the year before. In the structure of the reported total income, 48% refers to factoring with right to recourse and 52% to factoring without right to recourse.

3.3.3. RECOMMENDATIONS FOR THE FACTORING BUSINESS

Factoring business as of 30/06/2021 was conducted solely through the function of financing. There was neither any recorded provision of services of securing collection and receivables management service, nor performance of activities related to factoring, which confirms that this activity is still beginning to develop in the FB&H market within the legislative and institutional frameworks defined under the LoF and the FBA regulations governing factoring operations in more detail.

Considering that the need for short term financing and management of cash receivables, as well as securing receivables, are all becoming increasingly significant in the real sector, it can be expected in the coming period that factoring, as one of the reliable tools for solving liquidity problems in the FB&H, will certainly be in use as an effective instrument for accelerating cash flows in much larger volume than insofar.

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

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

- continuous supervision of the factoring system in the FB&H via off-site and on-site supervision aimed at preserving financial stability in the FB&H;
- providing technical assistance in implementation of laws and regulations by entities performing factoring operations, as well as cooperation with supervisory and control institutions, to include also cooperation with CBB&H regarding the structure and quality of data in CLR referring to factoring exposures;

- supporting improvements to the business environment in the context of the FB&H factoring system, as well as supporting establishment of confidence in factoring service providers, etc.

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

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

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

4.1. BANKS' OPERATIONS IN THE PAYMENTS SEGMENT

Total value of payments in banks seated in the FB&H and in banks seated in the RS, but doing business in the FB&H as well (based on DP and FXP transactions) was BAM 105.5 billion (transactions performed in all currencies, BAM equivalent) as of 30/06/2021. The volume of DP and FXP is shown in the Table No. 55 below.

Table 55: Volume of DP and FXP

No.	Effected payment transactions	01.01. - 30.06.2020[29]		01.01. - 30.06.2021		Index	
		Number	Value (BAM 000)	Number	Value (BAM 000)		
1	2	3	4	5	6	7 (5/3)	8 (6/4)
1.	FXP	1,312,114	11,899,941	1,367,769	17,051,530	104	143
2.	DP	36,535,083	52,726,007	40,733,276	88,451,630	111	168
	Total	**37,847,197**	**64,625,948**	**42,101,045**	**105,503,160**	**111**	**163**

An analysis of banks' reports on effected FXP transactions (collection/inflows and payments/outflows to and from abroad) in the period from 01/01/2021 to 30/06/2020 has shown that the FB&H banks and RS banks doing business in the FB&H registered the following FXP volume by currencies (EUR, USD, other currencies). A comparative overview of this against the same period last year is shown in the Table 56 below:

[29] Banks seated in the RS, but doing business in the FB&H, have not been captured here.

Table 56: Volume of FXP

No.	01.01. - 30.06.2020				01.01. - 30.06.2021				Currency
	Inflow		Outflow		Inflow		Outflow		
	Number	Value (BAM 000)	Number	Value (BAM 000)	Number	Value (BAM 000)	Number	Value (BAM 000)	
1	2	3	4	5	6	7	8	9	10
1.	803,111	4,600,625	329,210	5,053,658	822,968	7,162,021	351,108	7,165,782	EUR
2.	26,325	334,875	15,799	466,391	24,248	544,890	16,903	632,288	USD
3.	89,820	422,909	47,849	1,021,483	98,774	444,333	53,768	1,102,216	Other currencies
Total	**919,256**	**5,358,409**	**392,858**	**6,541,532**	**945,990**	**8,151,244**	**421,779**	**8,900,286**	

Within the structure of FXP transactions, the share of inflows from abroad in the total number of FXP transactions is 69.2%, while outflows to abroad hold a share of 30.8%. Observing the value of FXP transactions, the share of inflows from abroad is 47.8%, while outflows to abroad take on a share of 52.2%. Out of total value of performed FXP transactions, 84% was effected in EUR.

Table No. 57 provides a comparative overview of DP volume of banks doing business in the FB&H (by transaction types):

Table 57: Volume of DP

No.	Transaction type	01.01. - 30.06.2020		01.01. - 30.06.2021		Index	
		Number	Value (BAM 000)	Number	Value (BAM 000)		
1	2	3	4	5	6	7 (5/3)	8 (6/4)
1.	Cash	4,491,954	4,904,151	4,933,301	6,955,202	110	142
2.	Non-cash [30]	32,043,129	47,821,855	35,799,975	81,496,428	112	170
	Total	**36,535,083**	**52,726,006**	**40,733,276**	**88,451,630**	**111**	**168**

An analysis of data as of 30/16/2020 in the Registry of Foreign Exchange Deals of Banks has shown that 87 authorised exchange offices with 500 locations hold foreign exchange contracts with banks seated in the FB&H and banks seated in the RS, but doing business also in the FB&H.

The following Table No. 58 provides a comparative overview of the volume of foreign exchange deals of banks in the FB&H by currencies (EUR, USD, other currencies):

Table 58: Foreign exchange deals in banks

No.	01.01. - 30.06.2020[31]				01.01. - 30.06.2021				Currency
	Buy		Sell		Buy		Sell		
	Number	Value (BAM 000)	Number	Value (BAM 000)	Number	Value (BAM 000)	Number	Value (BAM 000)	
1	2	3	4	5	6	7	8	9	10
1.	469,968	278,359	48,611	61,685	455,401	360,187	52,638	75,030	EUR
2.	26,806	15,471	1,684	1,632	31,167	26,311	2,433	8,900	USD
3.	83,283	39,579	10,750	4,339	69,864	50,449	57,602	6,177	Other currencies
Total	**580,057**	**333,409**	**61,045**	**67,656**	**556,432**	**436,947**	**112,673**	**90,107**	

Out of the total number of exchange office transactions, buy transactions hold a share of 83.2% and sell transactions a share of 16.8%, while 82.9% of buy transactions is included in the total value of exchange office deals and 17.1% refers to sell transactions. Out of the total value of

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

[31] Banks seated in the RS, but doing business in the FB&H, have not been captured here.

effected exchange office transactions in banks seated in the FB&H, 82.6% of buy and sell transactions was effected in EUR.

The Table No. 59 below provides information on the volume of deals effected by authorised exchange offices in the period from 01/01/2020 to 30/16/2020 by currencies (EUR, USD, other currencies):

Table 59: Deals effected by authorised exchange offices

No.	01.01. - 30.06.2020[32]				01.01. - 30.06.2021				Currency
	Buy		Sell		Buy		Sell		
	Number	Value (BAM 000)	Number	Value (BAM 000)	Number	Value (BAM 000)	Number	Value (BAM 000)	
1	2	3	4	5	6	7	8	9	10
1.	538,363	243,763	19,702	8,723	881,169	475,641	39,005	23,532	EUR
2.	12,730	3,343	353	163	32,740	16,319	848	513	USD
3.	87,330	18,958	7,124	2,049	87,613	30,773	8,544	1,465	Other currencies
Total	**638,423**	**266,064**	**27,179**	**10,935**	**1,001,522**	**522,733**	**48,397**	**25,510**	

5.2. AML/CTF

In the period from 01/01/2021 to 30/06/2021, according to the Report on Cash Transactions of BAM 30 ths or above and on connected and suspicious transactions (SPNiFTA Form, Tables A to F being submitted to the FBA), banks have reported to FID a total of 136,610 transactions (11.2% more than the same period the year before). Total value of the said transactions was BAM 6.7 billion, which is 11% more than during the same period in the previous year.

In the same reporting period, banks have reported to FID on a total of 130 suspicious transactions (1.6% more than during the same period of the year before) in total value of BAM 21.5 million (35.7% less than in the previous year).

The following table Nos. 60 and 61 show the number and value of total reported transactions and reported suspicious transactions.

Table 60: Reported transactions by number and value - banks

No.	Description	01.01. - 30.06.2020		01.01. - 30.06.2021		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	2	258	14	3,701	700	1,434
2.	Transactions reported within 3 days	122,712	6,069,936	136,492	6,728,290	111	111
3.	Transactions reported after 3-day period	97	6,934	104	16,463	107	237
	Total	**122,811**	**6,077,128**	**136,610**	**6,748,454**	**111**	**111**

Table 61: Reported suspicious transactions by number and value - banks

No.	Description	01.01. -30.06.2020		01.01. - 30.06.2021		Index
		Number	Value (BAM 000)	Number	Value (BAM 000)	

[32] Authorised exchange offices seated in the RS, but doing business in the FB&H, have not been captured here.

1	2	3	4	5	6	7 (5/3)	8 (6/4)
1.	Transactions reported before their realisation	2	258	14	3,701	700	1.434
2.	Transactions reported within 3 days	46	26,990	23	1,977	50	7
3.	Transactions reported after 3-day period	80	6,193	93	15,809	116	255
	Total	**128**	**33,441**	**130**	**21,487**	**102**	**64**

According to the Report on Cash Transactions of BAM 30 ths or above and on connected and suspicious transactions (SPNiFTA Form, Tables A and B being submitted to the FBA), in the period from 01/01/2021 to 30/16/2021, MCOs have reported to FID a total of 189 transactions (170% more than during the same period of the year before) in total value of BAM 255 ths (27.8% less than in the same period of the previous year).

The following Table No. 62 shows reported suspicious transactions by number and value:

Table 62: Reported suspicious transactions by number and value – MCOs

No.	Description	01.01. - 30.06.2020		01.01. - 30.06.2021		Index	
		Number	Value (BAM 000)	Number	Value (BAM 000)		
1	2	3	4	5	6	7 (5/3)	8 (6/4)
1.	Transactions for which FID requested information	0	0	0	0	-	-
2.	Transactions for which FID did not request information	70	353	189	255	270	72
	Total	**70**	**353**	**189**	**255**	**270**	**72**

According to the Report on Cash Transactions of BAM 30 ths or above and on connected and suspicious transactions (SPNiFTA Form, Tables A and B being submitted to the FBA), in the period from 01/01/2021 to 30/16/2021, leasing companies have reported to FID 3 suspicious transactions in total value of BAM 45 ths (this is 65.9% less than in the same period the year before). FID did not ask for additional information regarding reported transactions.

CONCLUSION

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

Based on presented key performance indicators of the FB&H banking sector as of 30/06/2021, it may be concluded that it is stable and well capitalised. Over the first six months of 2021, there was an increase of assets, loans, securities and deposits, as well as profitability – all compared to the same period of the previous year. The share of non-performing loans (as a key indicator of loan quality) in total loans and in corporate loan portfolio posted a decrease, while retail loan portfolio posted a slight increase of this share. Measures prescribed by the FBA will increase chances of recovery of the economy and decrease negative economic effects of the pandemic. What is crucial here is the quality of the overall governance system in banks, adequate and efficient functioning of the risk management system and adequate capital buffers achieved through fulfillment of capital requirements related to the regulatory capital calculation.

Compared to the end of the previous year, operations of the microcredit sector in the FB&H were marked by a slight increase of total assets and gross micro loan portfolio, plus an increase of total capital, while liabilities based on loans taken have decreased. If observed against the same period the year before, placement of micro loans in the period from 01/01/2021 to 30/06/2021 saw a rise. Operations continued to bring positive financial result, thus being higher than the one recognised over the same period last year.

As of 30/06/2021, 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 and loan obligations, while capital of leasing companies dropped compared to 31/12/2020. The number and value of newly concluded leasing contracts posted an increase 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 as of 30/06/2021 solely via its financing function, whereas no collection service and receivables management service was posted or any deals related to factoring. This area is still beginning to develop in the FB&H. Its faster development calls for a legal reform being a limiting factor in its certain elements.

Further measures to be taken by the FBA will be aimed towards efficient risk management and consistent implementation of the effective regulatory framework. Special attention will be paid to risks related to the part of the portfolio subjected to special measures.

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ANNEXES – BANKING SECTOR

Annex 1 - Basic information on FB&H banks – 30/06/2021

No.	Bank	Web address	Number of employees	Management Chairperson
1.	ADDIKO BANK d.d. Sarajevo	www.addiko.ba	359	Sanela Pašić
2.	ASA BANKA d.d. Sarajevo	www.asabanka.ba	227	Samir Mustafić
3.	BOSNA BANK INTERNATIONAL d.d. Sarajevo	www.bbi.ba	446	Amer Bukvić
4.	INTESA SANPAOLO BANKA d.d. BiH Sarajevo	www.intesasanpaolobanka.ba	558	Marco Trevisan
5.	KOMERCIJALNO-INVESTICIONA BANKA d.d. Velika Kladuša	www.kib-banka.com.ba	82	Hasan Porčić
6.	NLB BANKA d.d. Sarajevo	www.nlb.ba	449	Lidija Žigić
7.	PRIVREDNA BANKA SARAJEVO d.d. Sarajevo	www.pbs.ba	180	Hamid Pršeš
8.	PROCREDIT BANK d.d. Sarajevo	www.procreditbank.ba	147	Almir Salkanović
9.	RAIFFEISEN BANK d.d. BiH Sarajevo	www.raiffeisenbank.ba	1.220	Edin Hrnjica, acting chairman of the Management Board

10.	SBERBANK BH d.d. Sarajevo	www.sberbank.ba	433	Jasmin Spahić
11.	SPARKASSE BANK d.d. BiH Sarajevo	www.sparkasse.ba	527	Amir Softić
12.	UNICREDIT BANK d.d. Mostar	www.unicreditbank.ba	1.206	Amina Mahmutović
13.	UNION BANKA d.d. Sarajevo	www.unionbank.ba	199	Vedran Hadžiahmetović
14.	VAKUFSKA BANKA d.d. Sarajevo	www.vakuba.ba	120	Edina Vuk
15.	ZIRAATBANK BH d.d. Sarajevo	www.ziraatbank.ba	305	Yusuf Dilaver
TOTAL			**6,458**	

Annex 2 - FB&H banks' balance sheet according to the FBA scheme (active sub-balance sheet) – 30/06/2021

- BAM 000 -

No.	Description		31.12.2020	%	30.06.2021	%	Index (5/3)
1	2		3	4	5	6	7
	ASSETS						
1.	Cash and deposit accounts with deposit institutions		7,414,615	30.4	6,995,890	28	94
	1.a.	Cash and non-interest bearing deposit accounts	3,609,270	14.8	3,631,425	14.5	101
	1.b.	Interest bearing deposit accounts	3,805,345	15.6	3,364,465	13.5	88
2.	Securities at fair value through profit or loss and at fair value in other comprehensive income		1,526,169	6.3	1,772,144	7.1	116
3.	Placements to other banks		275,941	1.1	329,964	1.3	120
4.	Loans, leasing type receivables and past-due receivables		15,254,651	62.5	16,059,822[33]	64.2	105
	4.a.	Loans	14,544,264	59.6	15,332,539	61.3	105
	4.b.	Leasing type receivables	55,091	0.2	46,837	0.2	85
	4.c.	Due receivables on loans and leasing type receivables	655,296	2.7	680,446	2.7	104
5.	Securities at amortized cost		161,290	0.7	176,146	0.7	109
6.	Business premises and other fixed assets		517,475	2.1	491,233	2	95
7.	Other real-estate		36,000	0.1	28,855	0.1	80
8.	Investments in subsidiaries and affiliates		15,944	0.1	15,944	0.1	100
9.	Other assets		376,169	1.5	325,804	1.3	87
10.	MINUS: Impairments		1,181,816	4.8	1,192,643	4.8	101
	10.a.	Impairments of items in position 4 of Assets	1,127,176	4.6	1,138,551	4.6	101
	10.b.	Impairments of assets items, except for position 4 of Assets	54,640	0.2	54,092	0.2	99
11.	**TOTAL ASSETS**		**24,396,438**	**100**	**25,003,159**	**100**	**102**
	LIABILITIES						
12.	Deposits		19,660,862	80.6	20,192,081	80.8	103
	12.a.	Interest-bearing deposits	13,634,083	55.9	13,681,756	54.7	100

[33] Loan portfolio structure is provided under Sub-heading 2.2.4. – Credit Risk

	12.b.	Non interest-bearing deposits	6,026,779	24.7	6,510,325	26.1	108
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		811,878	3.3	782,591	3.1	96
	16.a.	with residual maturity up to one year	210,081	0.9	362,094	1.4	172
	16.b.	with residual maturity over one year	601,797	2.4	420,497	1.7	70
17.	Subordinated debts and subordinated bonds		186,358	0.8	186,358	0.7	100
18.	Other liabilities		671,108	2.7	633,235	2.6	94
19.	**TOTAL LIABILITIES**		**21,330,356**	**87.4**	**21,794,415**	**87.2**	**102**
	CAPITAL				.		
20.	Permanent priority shares		365	0.0	365	0.0	100
21.	Common shares		1,299,335	5.3	1,299,335	5.2	100
22.	Issue premiums		137,290	0.6	137,290	0.5	100
	22.a.	on permanent priority shares	88	0.0	88	0.0	100
	22.b.	on common shares	137,202	0.6	137,202	0.5	100
23.	Undistributed profit and capital reserves		1,460,150	6.0	1,621,096	6.5	111
24.	Exchange rate differences		0	0.0	0	0.0	-
25.	Other capital		168,942	0.7	150,658	0.6	89
26.	Loan loss reserves created from profits		0	0.0	0	0.0	-
27.	**TOTAL CAPITAL: (20 to 25)**		**3,066,082**	**12.6**	**3,208,744**	**12.8**	**105**
28.	**TOTAL LIABILITIES AND CAPITAL: (19 + 27)**		**24,396,438**	**100**	**25,003,159**	**100**	**102**
PASSIVE AND NEUTRAL SUB-BALANCE SHEET			**703,769**		**704,964**		**100**
TOTAL			**25,100,207**		**25,708,123**		**102**

Annex 3 - Overview of assets, loans and deposits of FB&H banks – 30/06/2021

- BAM 000 -

No.	Bank	Assets		Loans		Deposits		Financial result
		Amount	%	Amount	%	Amount	%	Amount
1.	ADDIKO BANK d.d. Sarajevo	938,446	3.8	560,523	3.5	704,845	3.5	6,750
2.	ASA BANKA d.d. Sarajevo	655,779	2.6	438,839	2.7	579,723	2.9	4,012
3.	BOSNA BANK INTERNATIONAL d.d. Sarajevo	1,274,499	5.1	849,158	5.3	998,681	4.9	3,355
4.	INTESA SANPAOLO BANKA d.d. BiH Sarajevo	2,418,547	9.7	1,641,423	10.2	1,785,158	8.8	13,910
5.	KOMERCIJALNO-INVESTICIONA BANKA d.d. Velika Kladuša	114,820	0.5	53,932	0.3	82,620	0.4	494
6.	NLB BANKA d.d. Sarajevo	1,281,452	5.1	874,866	5.4	1,047,269	5.2	12,338
7.	PRIVREDNA BANKA SARAJEVO d.d. Sarajevo	535,443	2.1	304,469	1.9	443,808	2.2	4,440
8.	PROCREDIT BANK d.d. Sarajevo	626,024	2.5	491,966	3.1	357,084	1.8	408
9.	RAIFFEISEN BANK d.d. BiH Sarajevo	5,073,043	20.3	2,570,819	16.0	4,185,319	20.7	35,616
10.	SBERBANK BH d.d. Sarajevo	1,606,013	6.4	1,085,877	6.8	1,376,533	6.8	7,999
11.	SPARKASSE BANK d.d. BiH Sarajevo	1,805,340	7.2	1,225,673	7.6	1,509,525	7.5	11,337
12.	UNICREDIT BANK d.d. Mostar	6,335,608	25.3	4,565,151	28.4	5,173,055	25.6	44,757
13.	UNION BANKA d.d. Sarajevo	899,503	3.6	335,683	2.1	786,998	3.9	951
14.	VAKUFSKA BANKA d.d. Sarajevo	308,158	1.2	185,725	1.2	277,166	1.4	3,006
15.	ZIRAATBANK BH d.d. Sarajevo	1,130,484	4.6	875,718	5.5	884,297	4.4	1,284
TOTAL		**25,003,159**	**100**	**16,059,822**	**100**	**20,192,081**	**100**	**150,657**

Annex 4 - Sector Structure of Loans in the FB&H and ECL – 30/06/2021

- BAM 000 -

Description	Credit risk grade 1	Credit risk grade 2	Credit risk grade 3	Total gross exposure by all credit risk grades	ECL for the credit risk grade 1	ECL for the credit risk grade 2	ECL for the credit risk grade 3	Total ECL
1	2	3	4	5	6	7	8	9
1. Total corporate loans (1.1. to 1.21.)	**6,879,598**	**1,209,304**	**507,617**	**8,596,519**	**66,902**	**161,636**	**399,673**	**628,211**
1.1. A Agriculture, forestry and fishing	78,759	15,625	25,486	119,870	798	1,546	20,164	22,508
1.2. B Mining and quarrying	84,338	27,311	184	111,833	1,009	6,051	133	7,193
1.3. C Processing industry	1,359,554	379,196	185,312	1,924,062	18,566	71,015	149,839	239,420
1.4. D Production and supply of electricity, gas, fumes and air conditioning	216,582	10,466	3,407	230,455	2,221	1,731	2,871	6,823
1.5. E Water supply, waste water drainage, commercial waste disposal and environmental recovery	25,105	5,083	1,412	31,600	258	444	1,402	2,104
1.6. F Construction	369,091	63,737	37,023	469,851	4,280	6,123	32,008	42,411
1.7. G Wholesale and retail trade; repair of motor vehicles and motorcycles	2,343,926	297,023	162,220	2,803,169	21,322	25,972	123,760	171,054
1.8. H Transport and warehousing	253,812	61,028	18,567	333,407	2,627	5,156	15,069	22,852
1.9. I Accommodation and catering (hotels and hospitalist business)	70,881	145,383	30,995	247,259	1,294	21,807	23,030	46,131
1.10. J Information and communication	94,732	16,015	6,199	116,946	1,227	1,522	3,568	6,317
1.11. K Financial and insurance business	1,351,317	3,697	28	1,355,042	4,407	184	9	4,600
1.12. L Real estate business	58,756	113,926	14,813	187,495	1,086	15,098	11,515	27,699
1.13. M Professional, scientific and technical activities	155,926	30,052	11,513	197,491	2,796	2,323	9,530	14,649
1.14. N Administrat. and auxiliary services	22,100	11,415	1,880	35,395	387	914	1,586	2,887

1.15. O Public administration and defence; social insurance	240,224	12,161	0	252,385	3,125	577	0	3,702
1.16. P Education	7,480	514	2,669	10,663	93	41	459	593
1.17. Q Health care and social welfare	73,530	9,162	1,667	84,359	726	729	892	2,347
1.18. R Art, entertainment and recreation	15,433	6,326	593	22,352	285	341	472	1,098
1.19. S Other services	58,049	1,184	3,649	62,882	395	62	3,366	3,823
1.20. T Activities of households as employers; activities of households manufacturing different goods and rendering different services for their own needs	0	0	0	0	0	0	0	0
1.21. U activities of extraterritorial organisations and bodies	3	0	0	3	0	0	0	0
2. Total Retail (2.1 + 2.2 + 2.3)	**6,554,563**	**446,805**	**461,935**	**7,463,303**	**80,700**	**58,504**	**371,136**	**510,340**
2.1. General consumption	5,125,635	386,671	410,385	5,922,691	70,277	52,230	332,082	454,589
2.2. Housing construction	1,359,921	49,792	44,505	1,454,218	9,469	5,544	33,497	48,510
2.3. Entrepreneurs	69,007	10,342	7,045	86,394	954	730	5,557	7,241
3. Total loans (1. + 2.)	**13,434,161**	**1,656,109**	**969,552**	**16,059,822**	**147,602**	**220,140**	**770,809**	**1,138,551**

Annex 5 - FB&H banks' income statement according to FBA's scheme – 30/06/2021

- BAM 000 -

No.		Description	30.06.2020	%	30.06.2021	%	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	1,638	0.3	408	0.1	25
	2)	Placements to other banks	1,356	0.3	1,662	0.3	123
	3)	Loans and leasing operations	313,259	61.3	308,590	57.2	99
	4)	Securities held to maturity	2,178	0.4	2,124	0.4	98
	5)	Equity securities	0	0.0	0	0.0	-
	6)	Receivables on paid off-balance sheet liabilities	1	0.0	2	0.0	200
	7)	Other interest income and similar income	31,209	6.1	32,623	6.1	105
	8)	**TOTAL INTEREST INCOME AND SIMILAR INCOME**	**349,641**	**68.4**	**345,409**	**64.1**	**99**
	b)	**Interest expenses and similar expenses**					
	1)	Deposits	46,650	9.1	40,357	7.5	87
	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	4,505	0.9	3,540	0.7	79
	5)	Subordinated debts and subordinated bonds	3,249	0.7	3,441	0.6	106
	6)	Other interest expenses and similar expenses	12,366	2.4	12,407	2.3	100
	7)	**TOTAL INTEREST EXPENSES AND SIMILAR EXPENSES**	**66,770**	**13.1**	**59,745**	**11.1**	**89**
		NET INTEREST AND SIMILAR INCOME	**282,871**	**55.3**	**285,664**	**53.0**	**101**
2.		**OPERATING INCOME**					
	a)	Income from foreign exchange operations	25,496	5.0	30,338	5.6	119
	b)	Loan fees	4,840	0.9	5,216	1.0	108
	c)	Off-balance sheet operation fees	11,611	2.3	11,556	2.1	100
	d)	Service fees	147,046	28.8	165,371	30.7	112
	e)	Income from trading operations	1,412	0.3	619	0.1	44
	f)	Other operating income	37,815	7.4	40,507	7.5	107
	g)	**TOTAL OPERATING INCOME a) through f)**	**228,220**	**44.7**	**253,607**	**47.0**	**111**

		TOTAL INCOME (1c + 2g)	**511,091**	**100**	**539,271**	**100**	**106**
3.		**NON-INTEREST EXPENSES**					
	a)	**Operating and direct expenses**					
	1)	Risk asset impairment costs, provisions for contingent liabilities and other value adjustments	82,714	16.2	50,331	9.3	61
	2)	Other operating and direct costs	65,320	12.8	72,009	13.4	110
	3)	TOTAL OPERATING AND DIRECT EXPENSES 1) + 2)	148,034	29.0	122,340	22.7	83
	b)	**Operating expenses**					
	1)	Salary and contribution costs	128,211	25.1	130,623	24.2	102
	2)	Business premises costs, other fixed assets and overheads	78,778	15.4	85,479	15.9	109
	3)	Other operating costs	50,605	9.9	49,160	9.1	97
	4)	TOTAL OPERATING EXPENSES 1) through 3)	257,594	50.4	265,262	49.2	103
	c)	**TOTAL NON-INTEREST EXPENSES**	**405,628**	**79.4**	**387,602**	**71.9**	**96**
		TOTAL EXPENSES (1b7+3c)	**472,398**		**447,347**		**95**
4.		PROFIT BEFORE TAXATION	105,937	20.7	151,669	28.1	143
5.		LOSS	474	0.1	0	0.0	0
6.		TAXES	652	0.1	969	0.2	149
7.		PROFIT ON INCREASE IN DEFERRED TAX ASSETS AND DECREASE IN DEFERRED TAX LIABILITIES	690	0.1	49	0.0	7
8.		LOSS ON DECREASE IN DEFERRED TAX ASSETS AND INCREASE IN DEFERRED TAX LIABILITES	13	0.0	92	0.0	708
9.		**NET PROFIT**	**105,962**	**20.7**	**150,657**	**27.9**	**142**
10.		**NET LOSS**	**474**	**0.1**	**0**	**0.0**	**0**
11.		**FINANCIAL PERFORMANCE (9-10)**	**105,488**		**150,657**		**143**

Annex 6 – Average weighted NIR and EIR on loans and deposits by periods

Average weighted NIR and EIR on loans by periods

- % -

No.	Description	30.06.2017		30.06.2018		30.06.2019		30.06.2020		30.06.2021	
		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**	**3.30**	**3.57**	**2.76**	**3.05**	**2.36**	**2.77**	**2.23**	**2.50**	**2.12**	**2.42**
1.1.	Corporate	3.24	3.45	2.70	2.93	2.32	2.66	2.19	2.40	2.07	2.29
1.2.	Retail	8.23	15.14	7.55	14.45	7.21	13.60	8.43	15.31	8.41	14.53
2.	**Weighted interest rates on long-term loans**	**5.61**	**6.68**	**4.84**	**5.87**	**4.63**	**5.57**	**4.52**	**5.39**	**4.58**	**5.46**
2.1.	Corporate	4.30	4.59	3.79	4.11	3.46	3.73	3.55	3.83	3.45	3.70
2.2.	Retail	6.50	8.08	5.66	7.26	5.37	6.74	5.43	6.84	5.34	6.65
3.	**Total weighted interest rates**	**4.31**	**4.92**	**3.69**	**4.32**	**3.34**	**3.98**	**3.09**	**3.59**	**3.29**	**3.86**
3.1.	Corporate	3.49	3.71	2.99	3.24	2.58	2.90	2.49	2.71	2.45	2.68
3.2.	Retail	6.53	8.22	5.70	7.41	5.40	6.87	5.49	7.00	5.38	6.76

Average Weighted NIR and EIR on deposits by periods

- % -

No.	Description	30.06.2017		30.06.2018		30.06.2019		30.06.2020		30.06.2021	
		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**	**0.36**	**0.36**	**0.30**	**0.29**	**0.33**	**0.32**	**0.35**	**0.35**	**0.20**	**0.20**
1.1.	Up to three months	0.34	0.34	0.31	0.29	0.33	0.32	0.20	0.20	0.13	0.13
1.2.	Up to one year	0.51	0.52	0.27	0.27	0.33	0.33	0.45	0.45	0.29	0.29
2.	**Weighted interest rates on long-term deposits**	**1.42**	**1.45**	**1.05**	**1.06**	**1.31**	**1.22**	**0.96**	**0.97**	**0.86**	**0.88**
2.1.	Up to three years	1.32	1.34	0.91	0.92	1.21	1.08	0.75	0.76	0.75	0.76
2.2.	Over three years	1.81	1.86	1.26	1.27	1.59	1.60	1.30	1.32	1.16	1.22

3.	**Total weighted interest rates on deposits**	**0.67**	**0.68**	**0.56**	**0.55**	**0.82**	**0.77**	**0.67**	**0.67**	**0.54**	**0.55**

ANNEXES - MICROCREDIT SECTOR

Annex 7 - Basic information on FB&H MCOs – 30/06/2021

No.	MCO Name	Web address	Director	Licence issuance date	Number of employees
1.	MKD „CREDO CENTAR“ d.o.o. Mostar	www.credo.centar.ba	Bernard Stojanović	12.09.2019	9
2.	MKD "EKI" d.o.o. Sarajevo	www.eki.ba	Almir Sultanović	04.02.2008	193
3.	MKF "EKI" Sarajevo	www.eki.ba	Esad Uzunić	20.08.2007	140
4.	MKD „IUTECREDIT BH“ d.o.o. Sarajevo	www.iutecredit.ba	v.d. direktora Jasmin Kukuljac	28.02.2019	49
5.	MKF "LIDER" Sarajevo	www.lider.ba	Džavid Sejfović	04.02.2008	70
6.	"LOK MKF" Sarajevo	www.lok.ba	Elma Čardaklija - Bašić	04.02.2008	59
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	200
9.	MKF "MIKRA" Sarajevo	www.mikra.ba	Sanin Čampara	19.03.2008	159

10.	MKF "MIKRO ALDI" Goražde	www.mikroaldi.org	Omar Softić	20.08.2007	34
11.	"PARTNER MKF" Tuzla	www.partner.ba	Senad Sinanović	20.08.2007	281
12.	"PRVA ISLAMSKA MKF" Sarajevo	www.mfi.ba	Edina Hadžimurtezić	10.12.2007	8
13.	MKF „SANI“ Zenica	-	Sulejman Haračić	09.10.2007	3
14.	MKF "SUNRISE" Sarajevo	www.microsunrise.ba	Samir Bajrović	20.08.2007	176
TOTAL					**1,387**

Annex 8 - MCFs' aggregate balance sheet – 30/06/2021

- BAM 000 -

No.	Description	31.12.2020	%	30.06.2021	%	Index (5/3)
1	**2**	**3**	**4**	**5**	**6**	**7**
	ASSETS					
1.	**Cash (1a+1b)**	42,575	8.6	44,187	9.0	104
1a)	Cash and non-interest bearing deposit accounts	28,525	5.8	29,970	6.1	105
1b)	Interest-bearing deposit accounts	14,050	2.8	14,217	2.9	101
2.	Placements to banks	110	0.0	110	0.0	100
3.	Loans	389,972	79.2	389,937	79.0	100
3a)	Loan loss reserves	4,108	0.8	4,027	0.8	98
3b)	Net loans (3-3a)	385,864	78.4	385,910	78.2	100
4.	Business premises and other fixed assets	26,764	5.5	26,014	5.3	97
5.	Long-term investments	33,061	6.7	33,061	6.7	100
6.	Other assets	3,565	0.8	3,880	0.8	109
7.	Minus: reserves on other asset items, except for loans	10	0.0	10	0.0	100
8.	**TOTAL ASSETS**	**491,929**	**100**	**493,152**	**100**	**100**
	LIABILITIES					
9a)	Liabilities on short-term loans taken out	20,476	4.2	13,994	2.9	68
9b)	Liabilities on long-term loans taken out	186,128	37.8	187,249	37.9	101
9c)	Liabilities based on interest due	899	0.2	974	0.2	108
10.	Other liabilities	23,130	4.7	22,564	4.6	98
11.	**TOTAL LIABILITIES**	**230,633**	**46.9**	**224,781**	**45.6**	**97**

12.	Donated capital	48,076	9.8	48,076	9.7	100
13.	Tier 1 capital	3,868	0.8	3,767	0.8	97
14.	Surplus of income over expenses	264,873	53.8	271,889	55.1	103
14a)	for previous years	252,283		264,764		105
14b)	for current year	12,590		7,125		57
15.	Shortfall of income over expenses	55,625	11.3	55,459	11.2	100
15a)	for previous years	55,251		55,278		100
15b)	for current year	374		181		48
16.	Other reserves	104	0.0	98	0.0	94
17.	**TOTAL CAPITAL**	**261,296**	**53.1**	**268,371**	**54.4**	**103**
18.	**TOTAL LIABILITIES**	**491,929**	**100**	**493,152**	**100**	**100**
	OFF-BALANCE SHEET RECORDS					
19.	Written-off loans	143,361		139,372		97
20.	Approved, but undrawn loan funds of creditors	6,373		9,859		155
21.	Commission operations	218		216		99
22.	Court disputes, orders by competent authorities posing contingent liability for MCO, but that have not yet been posted in balance sheet records, etc.	400		400		100
23.	Other (all other off-balance sheet items not covered above)	40,189		34,301		85

Annex 9 - MCCs' aggregate balance sheet – 30/06/2021

- BAM 000 –

No.	Description	31.12.2020	%	30.06.2021	%	Index (5/3)
1	2	3	4	5	6	7
	ASSETS					
1.	Cash (1a+1b)	12,356	7.4	7,914	4.7	64
1a)	Cash and non-interest bearing deposit accounts	12,106	7.3	7,664	4.6	63
1b)	Interest-bearing deposit accounts	250	0.1	250	0.1	100
2.	Placements to banks	0	0.0	0	0.0	-
3.	Loans	150,918	90.9	157,239	94.1	104
3a)	Loan loss reserves	2,936	1.8	3,613	2.2	123
3b)	Net loans (3-3a)	147,982	89.1	153,626	91.9	104
4.	Business premises and other fixed assets	4,540	2.7	4,219	2.6	93
5.	Long-term investments	0	0.0	0	0.0	-
6.	Other assets	1,248	0.8	1,381	0.8	111
7.	Minus: reserves on other asset items, except for loans	0	0.0	0	0.0	-
8.	**TOTAL ASSETS**	**166,126**	**100**	**167,140**	**100**	**101**
	LIABILITIES					
9a)	Liabilities on short-term loans taken out	360	0.2	2,500	1.5	694
9b)	Liabilities on long-term loans taken out	106,468	64.1	102,797	61.5	97
9c)	Liabilities based on interest due	1,092	0.6	1,184	0.7	108
10.	Other liabilities	7,928	4.8	7,117	4.3	90
11.	**TOTAL LIABILITIES**	**115,848**	**69.7**	**113,598**	**68.0**	**98**
12.	Donated capital	0	0.0	0	0.0	-

13.	Tier 1 capital	33,100	19.9	33,100	19.8	100
14.	Issue premium	0	0.0	0	0.0	-
15.	Unallocated profit (15a+15b)	9,168	5.5	13,187	7.9	144
15a)	Previous year	10,124		12,819		127
15b)	Current year	-956		368		-38
16.	Legal reserves	3,568	2.2	4,214	2.5	118
17.	Other reserves	4,442	2.7	3,041	1.8	68
18.	**TOTAL CAPITAL**	**50,278**	**30.3**	**53,542**	**32.0**	**106**
19.	**TOTAL LIABILITIES**	**166,126**	**100**	**167,140**	**100**	**101**
	OFF-BALANCE SHEET RECORDS					
20.	Written-off loans	6,181		8,568		139
21.	Approved, but undrawn loan funds of creditors	12,879		11,299		88
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)	16,741		13,443		80

Annex 10 - Overview of key indicators of MCOs in the FB&H – 30/06/2021

- BAM 000 -

No.	Name of MCO	Assets	Gross portfolio	Capital	Financial result	Placements
1.	MKD „CREDO CENTAR“ d.o.o. Mostar	2,754	2,049	2,139	39	723
2.	MKD "EKI" d.o.o. Sarajevo	158,158	147,080	50,724	3,191	56,810
3.	MKF "EKI" Sarajevo	105,591	50,783	71,766	1,133	26,244
4.	MKD „IUTECREDIT BH“ d.o.o. Sarajevo	6,228	6,377	679	-2,862	5,564
5.	MKF "LIDER" Sarajevo	26,602	24,902	12,369	414	12,930
6.	"LOK MKF" Sarajevo	6,930	4,851	3,361	11	1,258
7.	MKF "MELAHA" Sarajevo	1,033	738	332	-84	201
8.	MKF "MI-BOSPO" Tuzla	77,167	69,867	29,737	1,274	34,687
9.	MKF "MIKRA" Sarajevo	49,040	42,304	11,737	464	21,690
10.	MKF "MIKRO ALDI" Goražde	8,457	7,541	5,328	96	3,071
11.	"PARTNER MKF" Tuzla	159,880	138,940	100,600	2,914	46,643
12.	"PRVA ISLAMSKA MKF" Sarajevo	2,258	1,539	2,128	-38	1,004

13.	MKF "SANI" Zenica	12	20	12	-59	0
14.	MKF "SUNRISE" Sarajevo	56,182	44,592	31,001	812	26,375
TOTAL		**660,292**	**541,583**	**321,913**	**7,305**	**237,200**

Annex 11 - Overview of average weighted NIR and EIR for MCOs – 30/06/2021

No.	Description	MCOs seated in the FB&H -period 01.01.-30.06.2021-			
		Number of conclued contracts	Microloans disbursement (in BAM 000)	Weighted NIR (average) %	Weighted EIR (average) %
1	2	3		4	5
1.	**Short term microloans for:**	**23,479**	**30,337**	**20.28**	**30.60**
1.1.	service activities	863	1,684	20.71	28.35
1.2.	trade	198	588	19.52	26.27
1.3.	agriculture	2,942	4,544	20.43	25.76
1.4.	manufacturing	106	283	19.69	26.61
1.5.	housing needs	1,596	2,923	21.24	27.84
1.6.	general-basic needs	12,895	14,876	21.24	35.71
1.7.	other	4,879	5,439	16.98	23.52
2.	**Long term microloans for:**	**45,628**	**206,863**	**19.45**	**23.63**
2.1.	service activities	3,261	15,004	18.56	22.36
2.2.	trade	635	3,426	17.56	21.02
2.3.	agriculture	10,910	58,022	18.02	20.42
2.4.	manufacturing	457	2,649	17.79	21.13
2.5.	housing needs	9,337	53,297	19.77	23.17
2.6.	general-basic needs	11,210	39,923	21.10	25.45
2.7.	other	9,818	34,542	20.16	28.64
3.	**Total microloans**	**69,107**	**237,200**	**19.56**	**24.52**

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

- % -

Average weighted NIR on:	01.01.-30.06.2017	01.01.-30.06.2018	01.01.-30.06.2019	01.01.-30.06.2020	01.01.-30.06.2021
Short-term microloans	18.83	20.20	21.26	20.62	20.28
Long-term microloans	20.46	19.66	19.29	19.02	19.45
Total microloans	**20.20**	**19.74**	**19.58**	**19.22**	**19.56**
Average weighted EIR on:	**01.01.-30.06.2017**	**01.01.-30.06.2018**	**01.01.-30.06.2019**	**01.01.-30.06.2020**	**01.01.-30.06.2021**
Short-term microloans	28.08	27.00	29.83	31.87	30.60
Long-term microloans	24.30	23.34	22.98	23.13	23.63
Total microloans	**24.92**	**23.92**	**23.99**	**24.23**	**24.52**

Annex 12 - MCFs aggregate income statement – 30/06/2021

- BAM 000 -

No.	Description	For the period 01.01. - 30.06.2020	%	For the period 01.01. - 30.06.2021	%	Index (5/3)
1	2	3	4	5	6	7
	INTEREST INCOME AND EXPENSES					
1.	Interest and similar income	37,303	90.7	38,365	90.1	103
2.	Interest and similar expenses	3,864	10.7	3,840	10.8	99
3.	**Net interest and similar income (1. - 2.)**	**33,439**	**81.3**	**34,525**	**81.1**	**103**
	OPERATING INCOME AND EXPENSES					
4.	Operating income	3,413	8.3	3,674	8.6	108
5.	Operating expenses	27,304	75.6	29,083	81.6	107
	OTHER OPERATING INCOME AND EXPENSES					
6.	Other operating income	392	1.0	551	1.3	141
7.	Other operating expenses	296	0.8	210	0.6	71
8.	Costs of provisions for loan and other losses	4,001	11.1	1,934	5.4	48
9.	**Surplus/shortfall of income over expenses before taxes (3.+4.-5.+6.-7.-8.)**	**5,643**		**7,523**		**133**
10.	Tax on surplus income over expenses	638	1.8	586	1.6	92
11.	**Net surplus/shortfall of income over expenses (9.-10.)**	**5,005**		**6,937**		**139**

Annex 13 - MCCs aggregate income statement – 30/06/2021

- BAM 000 -

No.	Description	For the period 01.01. - 30.06.2020	%	For the period 01.01. - 30.06.2021	%	Index (5/3)
1	2	3	4	5	6	7
	INTEREST INCOME AND EXPENSES					
1.	Interest and similar income	12,949	98.8	15,150	97.6	117
2.	Interest and similar expenses	2,780	17.7	3,175	20.9	114
3.	**Net interest and similar income (1. - 2.)**	**10,169**	**77.6**	**11,975**	**77.2**	**118**
	OPERATING INCOME AND EXPENSES					
4.	Operating income	55	0.4	268	1.7	487
5.	Operating expenses	7,983	50.9	8,745	57.7	110
	OTHER OPERATING INCOME AND EXPENSES					
6.	Other operating income	103	0.8	99	0.7	96
7.	Other operating expenses	257	1.6	38	0.3	15
8.	Costs of provisions for loan and other losses	4,682	29.8	2,832	18.7	60
9.	**Profit/loss before taxes (3.+4.-5.+6.-7.-8.)**	**-2,595**		**727**		**-28**
10.	Income tax	0	0.0	359	2.4	-
11.	**Net profit/loss (9.-10.)**	**-2,595**		**368**		**-14**

ANNEXES – LEASING SECTOR

Annex 14 - Basic information on leasing companies in the FB&H – 30/06/2021

No.	Leasing company name	Web address	Director	License issuance date	No. of employees
1.	MOGO d.o.o. Sarajevo	www.mogo.ba	Artis Pukitis	01.06.2018	13
2.	PORSCHE LEASING d.o.o. Sarajevo	www.porscheleasing.ba	Dejan Stupar	28.05.2015	22
3.	RAIFFEISEN LEASING d.o.o. Sarajevo	www.rlbh.ba	Maja Jurčević	19.01.2010	46
4.	SPARKASSE LEASING d.o.o. Sarajevo	www.s-leasing.ba	Elma Hošo	11.02.2010	25
TOTAL					**106**

Annex 15 - Leasing companies' aggregate balance sheet – 30/06/2021

- BAM 000 -

No.	Description	31.12.2020	%	30.06.2021	%	Index (5/3)
1	2	3	4	5	6	7
	ASSETS					
1.	Cash and cash equivalents	6,548	1.9	2,611	0.7	40
2.	Placements to banks	12,113	3.5	2,074	0.6	17
3.	Financial leasing type receivables, net (3a-3b-3c-3d)	256,770	74.7	278,377	77.6	108
3a)	Financial leasing type receivables, gross	280,723	81.7	306,595	85.5	109
3b)	Loss reserves	2,126	0.6	5,609	1.6	264
3c)	Deferred interest income	21,584	6.3	22,314	6.2	103
3d)	Deferred fee income	243	0.1	295	0.1	121
4.	Receivables from subsidiaries	0	0.0	0	0.0	-
5.	Tangible and intangible assets, net (5a+5b-5c-5d)	55,565	16.2	62,960	17.6	113
5a)	Tangible and intangible assets –own funds	3,562	1.0	3,792	1.1	106
5b)	Tangible and intangible assets –of operational leasing	73,103	21.3	82,177	22.9	112
5c)	Impairment -own resources	1,961	0.6	2,117	0.6	108
5d)	Impairment-operating leasing	19,139	5.5	20,892	5.8	109
6.	Long-term investments	309	0.1	311	0.1	101
7.	Other assets (7a+7b)	12,521	3.6	12,195	3.4	97
7a)	Loans, net (7a1-7a2)	4,982	1.4	4,800	1.3	96
7a1)	Loans (past-due receivables+outstanding principal)	4,984	1.4	4,802	1.3	96
7a2)	Loan reserves	2	0.0	2	0.0	100
7b)	Inventory	912	0.3	1,057	0.3	116
7c)	Other assets	6,627	1.9	6,338	1.8	96
	TOTAL ASSETS	**343,826**	**100**	**358,528**	**100**	**104**
	LIABILITIES					
8.	Liabilities on loans, net (8a+8b-8c)	307,877	89.5	323,056	90.1	105
8a)	Liabilities on short-term loans	1,956	0.5	9,790	2.7	501
8b)	Liabilities on long-term loans	306,085	89.0	313,410	87.4	102
8c)	Advanced costs and fees	164	0.0	144	0.0	88
9.	Other liabilities	8,174	2.4	8,524	2.4	104
	TOTAL LIABILITIES	**316,051**	**91.9**	**331,580**	**92.5**	**105**
10.	Tier 1 capital	16,458	4.8	16,827	4.7	**102**
11.	Reserves	7,060	2.1	7,818	2.2	**111**
12.	Accumulated profit/loss	4,257	1.2	2,303	0.6	**54**
	TOTAL CAPITAL	**27,775**	**8.1**	**26,948**	**7.5**	**97**
	TOTAL LIABILITIES	**343,826**	**100**	**358,528**	**100**	**104**
	Written off receivables (opening balance)	19,880		21,020		106
	New write off (+)	2,115		309		15
	Recovery (-)	61		531		870
	Permanent write off (-)	914		13,241		1.449
	Written off receivables (closing balance)	21,020		7,557		36
	Other off-balance sheet records	68,554		90,760		132

Annex 16 - Basic indicators of leasing companies in the FB&H – 30/06/2021

- BAM 000 -

No.	Name	Balance sheet total	Financial leasing receivables	Net balance of funds granted under operational leasing	Total capital	Financial result	Placements
1.	MOGO d.o.o. Sarajevo	1,837	1,004	0	1,295	-697	8
2.	PORSCHE LEASING d.o.o. Sarajevo	143,298	91,571	46,988	5,417	1,504	41,879
3.	RAIFFEISEN LEASING d.o.o. Sarajevo	112,757	92,050	9,673	12,249	799	27,551
4.	SPARKASSE LEASING d.o.o. Sarajevo	100,636	93,752	4,624	7,987	698	33,309
TOTAL		**358,528**	**278,377**	**61,285**	**26,948**	**2,304**	**102,747**

Annex 17 - Leasing companies' aggregate income statement – 30/06/2021

- BAM 000 -

No.	Description	01.01.-30.06.2020	%	01.01.-30.06.2021	%	Index (5/3)
1	2	3	4	5	6	7
	Financial income and expenses					
1.	**Interest income**	**6,203**	**35.7**	**6,639**	**35.1**	**107**
1a)	Interest on financial leasing	202	1.2	44	0.2	22
1b)	Interest on placements to banks	5,158	29.7	5,688	30.1	110
1c)	Fees (for leasing application processing, etc.)	417	2.4	436	2.3	105
1d)	Other interest income	426	2.4	471	2.5	111
2.	**Interest expenses**	**2,117**	**13.6**	**2,058**	**12.4**	**97**
2a)	Interest on borrowed funds	2,064	13.3	2,018	12.2	98
2b)	Loan processing fees	52	0.3	39	0.2	75
2c)	Other interest expenses	1	0.0	1	0.0	100
3.	**Net interest income**	**4,086**	**23.5**	**4,581**	**24.2**	**112**
	Operating income and expenses					
4.	**Operating income**	**11,159**	**64.3**	**12,294**	**64.9**	**110**
4a)	Service fees	1	0.0	1	0.0	100
4b)	Operating lease fee	8,442	48.6	9,393	49.6	111
4c)	Income from sale of leasing object	0	0.0	0	0.0	-
4d)	Other operating income	2,716	15.7	2,900	15.3	107
4d)1	Income from recovered written off receivables	105	0.7	222	1.2	211
4d)2	Income from collection letters	6	0.0	11	0.0	183
4d)3	Other	2,605	15.0	2,667	14.1	102
5.	**Operating expenses**	**12,913**	**82.8**	**12,249**	**73.6**	**95**
5a)	Salary and contribution costs	2,506	16.1	2,349	14.1	94
5b)	Business premises costs	5,656	36.3	6,171	37.1	109
5c)	Other costs	4,751	30.4	3,729	22.4	78
6.	**Costs of loss reserves**	**559**	**3.6**	**2,322**	**14.0**	**415**
7.	**Profit before tax**	**1,773**		**2,304**		**130**
8.	**Corporate income tax**	0	0.0	0	0.0	-
9.	**Net profit/loss**	**1,773**		**2,304**		**130**

Annex 18 - Overview of weighted NIR and EIR for financial leasing contracts – 30/06/2021

No.	Description	For the period 01.01.-30.06.2021			
		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:**	**6**	**314**	**3.80**	**6.37**
a.	Passenger vehicles	4	213	4.17	7.37
b.	Vehicles for performing business activity (cargo and passenger vehicles)	2	101	3.00	4.26
c.	Machines and equipment	0	0	0.00	0.00
d.	Real estate	0	0	0.00	0.00
e.	Other	0	0	0.00	0.00
1.1.	**Short-term leasing contract by lessees:**	**6**	**314**	**3.80**	**6.37**
a.	Corporate	6	314	3.80	6.37
b.	Entrepreneurs	0	0	0.00	0.00
c.	Retail	0	0	0.00	0.00
2.	**Long-term leasing contract by leasing objects:**	**1,707**	**86,069**	**3.91**	**7.14**
a.	Passenger vehicles	1,027	45,674	3.76	7.11
b.	Vehicles for performing business activity (cargo and passenger vehicles)	572	25,866	3.98	7.29
c.	Machines and equipment	108	14,529	4.26	6.96
d.	Real estate	0	0	0.00	0.00
e.	Other	0	0	0.00	0.00
2.1.	**Long-term leasing contract by lessees:**	**1,707**	**86,069**	**3.91**	**7.14**
a.	Corporate	1,436	76,903	3.84	6.31
b.	Entrepreneurs	82	3,121	3.93	5.74
c.	Retail	189	6,045	4.79	18.47
	Total (1+2)	**1,713**	**86,383**	**3.91**	**7.14**

Annex 18a - Comparative overview of average weighted NIR and EIR for financial leasing contracts

- % -

No.	Description	30.06.2017		30.06.2018		30.06.2019		30.06.2020		30.06.2021	
		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:**	**3.39**	**5.57**	**4.60**	**12.16**	**8.93**	**17.98**	**4.12**	**8.34**	**3.80**	**6.37**
1.1.	Corporate	3.38	5.52	4.49	8.51	3.13	5.53	4.12	8.34	3.80	6.37
1.2	Entrepreneurs	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1.3.	Retail	4.99	11.36	5.82	51.36	33.04	69.75	0.00	0.00	0.00	0.00
2.	**Long-term leasing contracts:**	**4.71**	**7.27**	**4.31**	**6.84**	**6.47**	**9.96**	**4.05**	**7.01**	**3.91**	**7.14**
2.1.	Corporate	4.68	6.74	4.26	6.14	4.05	5.88	3.97	6.21	3.84	6.31
2.2.	Entrepreneurs	5.82	8.06	5.25	7.59	4.90	6.91	4.80	7.76	3.93	5.74
2.3.	Retail	4.95	17.44	5.02	19.11	25.74	42.68	4.84	18.00	4.79	18.47
	Total	**4.69**	**7.25**	**4.31**	**6.86**	**6.48**	**10.01**	**4.05**	**7.02**	**3.91**	**7.14**

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