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AGENCIJA ZA BANKARSTVO
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INFORMATION

ON THE BANKING SYSTEM ENTITIES OF THE FEDERATION OF
BOSNIA AND HERZEGOVINA AS OF 31.03.2019

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BANKING AGENCY OF THE FEDERATION OF BOSNIA AND HERZEGOVINA

Zmaja od Bosne 47b

71000 Sarajevo, Bosna i Hercegovina

Tel. +387 33 72 14 00

Fax +387 33 66 88 11

Web site: www.fba.ba

E-mail: agencija@fba.ba

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For all information, please contact:

BANKING AGENCY OF THE FEDERATION OF BOSNIA AND HERZEGOVINA

Abbreviations and terms:

BD	Brčko District of Bosnia and Herzegovina
BiH	Bosnia and Herzegovina
CAMELS	Single internal system for assessment of banks that includes basic components: capital, asset quality, governance and management, profitability, liquidity and vulnerability to market risks
CBBH	Central Bank of Bosnia and Herzegovina
CEDB	Council of Europe Development Bank
CRK	Central Registry of Credits in BiH
DEG	Deutsche Investitions - und Entwicklungsgesellschaft
EBA	European Banking Authority
EBRD	European Bank for Reconstruction and Development
ECB	European Central Bank
EIB	European Investment Bank
EIR	Effective Interest Rate
EU	European Union
FBA	Banking Agency of the Federation of Bosnia and Herzegovina
FBiH	Federation of Bosnia and Herzegovina
FMF	Federal Ministry of Finance
FSAP	Financial Sector Assessment Program
FX risk	Foreign Exchange Risk
LCR	Liquidity Coverage Ratio
MCC	Microcredit company
MCF	Microcredit foundation
MCO	Microcredit organisation
IMF	International Monetary Fund
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
NIR	Nominal interest rate
NPLs	Non performing loans
GCR	General credit risk
PLL	Potential loan losses
LLP	Loan loss provisions
RS	Republika Srpska
WB	World Bank
BSE	Banking system entities of the FBiH: banks, banking groups, development banks, MCOs, leasing companies, factoring companies, exchange offices and other financial organisations which operate under the FBA supervision.
SREP	Supervisory Review and Evaluation Process
BA BiH	Banks Association of Bosnia and Herzegovina
ALC BiH	Association of Leasing Companies of BiH
MB	Management Board of the Banking Agency of the FBiH
LoBA	Law on the Banking Agency of the Federation of Bosnia and Herzegovina
BL	Banking Law
LoF	Law on Factoring
LoL	Law on Leasing
LoMCO	Law on Microcredit Organisations

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INTRODUCTION

The FBA was established in 1996 as an independent and autonomous institution, which exercises its competences in accordance to the provisions laid down by the LoBA, the international standards, principles of supervision and professional rules. The MB performs general supervision on the FBA operations and undertake measures for effective performance of the activities from the FBA's scope in accordance to its competences prescribed by the law and it is responsible to the Parliament of the FBiH for its performances.

In accordance to the Article 50 of the LoBA, the FBA shall submit to the Parliament of the FBiH the Business Performance Report, through the Government of the FBiH, within six months since the end of the reporting year, which shall be approved by the MB and it contains in particular the analyse of the BSEs and activities conducted during the reporting year.

In the context of regular performance of competences prescribed by the law, the FBA compiles and disclose to the public a quarterly Information on the BSEs, authorized by the Management Board of the FBA.

In accordance with the aforementioned, the Information on BSEs with situation as of 31.03.2019, has complied on the basis of the reference sources, made of revised reporting data which BSEs submit to the FBA in the prescribed formats and deadlines, as well as other data and information submitted by BSEs to the FBA which are used in the regular supervision of the BSEs.

In terms of the content, the Information is divided into two parts. The first part includes a detailed analysis of the banking sector of the FBiH, relating to the banking supervision, its structure, financial performance indicators. An overview of average weighted NIRs and EIRs on approved loans, received deposits and overdrafts and call deposits is presented with the aim of better transparency and easier comparability for users of financial services through an annex, which is an integral part of this Information.

The second part relates to a detailed analysis of the sector of non-deposit financial institutions, within which the micro-credit sector, leasing sector and factoring sector in the FBiH were treated as separate segments, with related recommendations. This section also provides an overview of average weighted NIRs and EIRs for non-deposit financial institutions (microcredit and leasing sectors in the FBiH) in the period 01.01.-31.03.2019 through the annexes which form an integral part of this Information.

The part of the Information relating to the supervision of leasing companies operations in the FBiH the terms leasing system and leasing sector are used, whereby the leasing system assume the aggregate data on the leasing sector (data of leasing companies in FBiH holding the FBA license to conduct leasing operations) and data presented in the reports of banks in the FBiH that have financial leasing receivables in their portfolio.

In the part of Information related to supervision of factoring sector, the data presented refers to banks which perform factoring operations and factoring company, which has concluded the first factoring contracts. Factoring service providers are required to submit to the FBA the prescribed quarterly reports on interest rate and fees, according to which data on interest rates, fees and administrative fees are entered according to the amount applicable at the last day of the reporting period.

Data expressed as a percentage in the Information are generally presented with one decimal place, except for the NIRs and EIRs with the BSEs in the FBiH and other relevant data.

SUMMARY

Key Business Performance Indicators of the Banking Sector in the FBiH

As of 31.03.2019, there were 15 commercial banks operating in the FBiH, with 536 organisational units where 6 717 persons were employed.

Total net assets at the level of the banking sector in the FBiH amounted to BAM 22.5 billion as of 31.03.2019 and is up by BAM 362.4 million or 1.6% compared to 31.12.2018.

Loans, with a share of 64.9% in the structure of total assets, recorded an increase in the amount of BAM 257.2 million or 1.8% compared to the end of 2018, thus amounting BAM 14.6 billion as of 31.03.2019. Compared to the end of 2018, the credit growth over the first quarter of 2019 has achieved with loans approved to banking institutions, private companies, retail and public companies, while there was a decrease with loans approved to non-banking financial institutions, government institutions, as well as to other sectors.

Loans granted to legal entities recorded a growth of BAM 124,4 million or 1.7%, thus amounting to BAM 7.6 billion as of 31.03.2019, holding a share of 52.1% in the total loans. Over the same period, the loans approved to retail recorded a growth of BAM 132,8 million or 1,9%, holding a share of 47,9% in the total loans and amount to BAM 7,0 billion as of 31.03.2019.

The share of NPLs decreased from 8,5% to 8,2%, mainly as a result of credit growth and activities conducted on collection. The share of NPLs with corporates in relation to total corporate loans amounts to 10.1%, and the share of NPLs with retail loans in relation to total retail loans is 6.2%.

Cash funds amount to BAM 6.8 billion or 30,1% of the total assets and are up by BAM 170,3 million or 2,6% compared to the end of 2018.

Investments in securities amount to BAM 1.3 billion as of 31.03.2019, holding 5.8% share in assets, and they are slightly increased by 0,3% compared to the end of 2018.

Deposits reached the amount of BAM 17.8 billion, having recorded an increase in the amount of BAM 1196,9 million or 1,1% and they remain the most significant source of funding, with a 79.3% share in total liabilities. Savings deposits, as the most significant and the largest segment of the deposit and financial potential of banks, increased by BAM 255,0 million or 2,9% amounting to BAM 9,1 billion

Loan funds amount to BAM 844,2 million and hold 3.7% share in the total liabilities, being down by BAM 18,7 million or 2,2% compared to the end of 2018.

As of 31.03.2019, the total capital of banks in the FBiH amounts to BAM 3,1 billion, with share capital accounting for BAM 1.3 billion thereof having recorded growth of BAM 97,8 million or 3,3% compared to the end of 2018. The share of total capital in sources at the level of the banking sector amounts to 13.7%. Regulatory capital amounts to BAM 2.5 billion and it is increased by BAM 59,2 million or 2,4% compared to the end of 2018. Tier 1 capital increased by BAM 58,8 million or 2,5%, while additional capital is up by BAM 400,0 thousands of 0,3%.

As of 31.03.2019, the regulatory capital ratio of the banking sector in the FBiH accounts for 17.2% and is higher than the legally prescribed minimum of 12%. It is by 3.0 percentage points lower compared to the end of 2018. At the level of banking sector in the FBiH the others capital ratios are also higher than the required minimum (Common Equity Tier 1 and Tier 1 capital ratios).

As of 31.03.2019, the financial leverage ratio at the level of the banking sector of the FBiH amounts to 10.3% (regulatory minimum 6%) and is slightly up compared to the end of the previous year (10,1%).

Considering the basic indicators of liquidity, qualitative and quantitative requirements, as well as other factors affecting the position of banks' liquidity, it can be concluded that the liquidity of the banking sector in the FBiH as of 31.03.2019 is satisfactory.

At the level of the banking sector in the FBiH, according to the reporting data of banks as of 31.03.2019 the positive financial result was recorded - profit in the amount of BAM 89.8 million, which is BAM 3.2 million or 3.7% up compared to the first quarter of 2018.

Key Business Performance Indicators of the Microcredit Sector in the FBiH

As of 31.03.2019 there were 13 MCOs with the operating license issued by the FBA, of which 11 MCFs (non-profit organizations) and two MCCs (for-profit organizations). Compared to 12/31/2018, the FBA license was granted to a new MCC in February 2019, which did not commence business activities in the first quarter of 2019. The microcredit sector operates through a total of 366 registered organizational units of MCOs with headquarters in FBiH. Compared to the data as of 31.12.2018, the number of registered organizational units increased by four or 1.0%. As of 03/31/2019, five MCCs based in the RS operate in the FBiH through 46 organizational units, which compared to 31.12.2018 represents an increase of one organizational unit or 2.0%. The FBiH micro-credit sector employs 1 490 persons.

Total assets of the micro-credit sector as of 31.03.2019 amounted to BAM 598.8 million and was up by BAM 18.4 million or 3.2% compared to 31.12.2018. Over the period observed, the growth of total MCCs assets amounted to BAM 5.4 million or 3.7%, and the growth of total MCF assets amounted to BAM 13.0 million or 3.0%

Total net microloans amounted to BAM 464.5 million, accounting for 77.6% of total assets of the microcredit sector in the FBiH and they increased by BAM 10.5 million or 2.3% compared to the end of the previous year. The growth of net microloans in MCC amounted to BAM 4.1 million or 3.1%, while at the level of MCF the growth presented is in the total amount of BAM 6.4 million or 2.0% compared to 31.12.2018.

Total loan commitments of the micro-credit sector as of 31.03.2019 amounted to BAM 285.3 million, with a share of 47.6% in total liabilities and they increased by BAM 5.6 million or 2.0% compared to 31.12.2018. Over the period observed, loan commitments of MCC increased by BAM 1.5 million or 1.5%, and of MCFs by BAM 4.1 million or 2.3%

Total capital at the level of micro-credit sector as of 31.03.2019 amounted to BAM 277.7 million or 46.4% of total liabilities and it increased by BAM 4.8 million or 1.8% compared to the end of 2018, where over the period observed the increase of total MCC capital account for BAM 8 million or 37.5% of the total capital increase of the micro-credit sector, and the amount of BAM 3.0 million or 62.5% relate to MCF.

At the level of the micro-credit sector at the end of the first quarter of 2019, a positive financial result was reported in the amount of BAM 5.1 million, which is BAM 0.4 million or 8.7% up compared to the same period of the previous year. MCC reported a net profit of BAM 1.8 million, which is an increase of BAM 0.8 million or 83.8% compared to the same period of the previous business year. MCFs recorded an excess of income over expenditure in the total amount of BAM 3.3 million, which compared to 31.12.2018 represents a decrease of BAM 0.4 million or 10.9%. As of 31.03.2019 the operational efficiency of micro-credit sector of the FBiH is 18.4%, which is within the prescribed indicator of up to 45%, and the reported return on assets, adjusted for inflation, the capital market price and donations is positive and amounts to 2.90%, which is in line with the prescribed limit.

Based on the above presented basic indicators of the micro-credit sector FBiH, it can be concluded that the operations of this sector are characterized by growth of total assets, micro-credit portfolio, number of employees, total capital, positive financial result, with unchanged quality indicators of placements in the period observed.

Key Business Performance Indicators of the Leasing Sector in the FBiH

As of 31.03.2019 the leasing system in the FBiH consists of seven leasing companies ((the leasing sector) and one commercial bank that performs financial leasing operations. There are 123 persons employed in the leasing sector of the FBiH, as of 31.03.2019.

Total assets of the leasing sector in the FBiH as of 31.03.2019, amounted to BAM 288.5 million and decreased by BAM 8.6 million or 2.9% compared to 31.12.2018. In the same period, net receivables from financial leasing, as the most significant item in the structure of total assets, amounted to BAM 218.6 million or 75.8% of total assets and compared to 31.12.2018 they increased by BAM 3.9 million or 1.8%. Asset quality indicators in the first quarter of 2019 indicate a continuation of business stabilization, that is, no deterioration in the quality of the portfolio related to financial leasing receivables occurred.

As of 31.03.2019, in the structure of total liabilities of the leasing sector in the FBiH, the largest item are loan commitments in the amount of BAM 249.2 million, which are in full of a long-term nature and account for 86.4% of total liabilities. Compared to 12/31/2018, loan commitments decreased by BAM 3.2 million or 1.3%. The total number and value of newly concluded leasing contracts increased by 20.6%, respectively 42.3%.

Total capital of the leasing sector in the FBiH as of 31.03.2019 amounted to BAM 30.6 million, which is 10.6% of the total liabilities of the leasing sector of the FBiH and compared to 31.12.2018 it decreased by the total amount of BAM 6.2 million or 16.8%.

In the period 01.01.-31.03.2019, at the level of the leasing sector in the FBiH, net profit of BAM 0.3 million was reported, which compared to the same period of the previous business year decreased by BAM 2.6 million or 88.7%.

Key indicators of the factoring sector in the FBiH

As of 31.03.2019 the factoring system in the FBiH is consisted of one factoring company licensed by the FBA to perform factoring operations and which started operations in the first quarter of 2018 (factoring sector) and three commercial banks, members of international banking groups based in EU Member States, through conclusion of contracts for the purchase of monetary claims.

At the level of the factoring system of the FBiH, the total volume (amount) of purchased monetary claims in the first quarter of 2019 is BAM 34.4 million, of which BAM 34.1 million or 99.0% refers to banks, and the amount of 0. BAM 3 million or 1.0% to a factoring company.

In the first quarter of 2019, factoring service providers did not perform purchasing of monetary claims in foreign factoring, or factoring related activities.

The total number of factoring contracts concluded in the first quarter of 2019 decreased by 24.6% compared to the same period in 2018, and the number of active factoring contracts increased by 5.6% over the period observed.

Total income of factoring service providers at the level of factoring system in the FBiH for the period 01.01. - 31.03.2019 amounted to BAM 0.4 million, of which bank revenues accounted for 97.7% of the total reported income of the factoring system in the FBiH.

1. BANKING SECTOR

1.1. THE STRUCTURE OF BANKING SECTOR IN THE FBiH

1.1.1. Status, Number and Branching

As of 31.03.2019, there were 15 commercial banks holding a banking licence in the FBiH. The number of banks is the same as of 31.12.2018. A special law regulates the establishment and operations of the Development Bank of the Federation of BiH, which is the legal successor of the Investment Bank of the Federation of BiH d.d. Sarajevo since 01.07.2008 and its supervision is performed in accordance to the Regulation on criteria and methods of supervision of the activities of the Development Bank of the FBiH, thus information relating to its operations are not included in this Information.

The Annex 1 provides general information about banks in the FBiH as of 31.03.2019.

As of 31.03.2019, banks from the FBiH had a total of 536 organizational units, which is down by 2.4% compared to 31.12.2018. There are 479 organizational units in the FBiH. Seven banks from the FBiH had 48 organizational units in the RS, and eight banks had nine organizational units in the BD.

Three banks from RS have organizational units in the FBiH. The number of organizational units of banks from RS in the FBiH is 24 and it is decreased compared to the end of 2018 (25).

As of 31.03.2019 all banks had the license to perform interbanking transactions in internal payment operations, as well as secured deposits.

1.1.2. Ownership Structure and Market Share

The ownership structure of banks¹ in the FBiH as of 31.03.2019, assessed on the basis of available information and self-reviews conducted in the banks, is the following:

- Private or mostly private ownership - 14 banks,
- State or mostly state ownership² - one bank.

Out of 14 banks in the mostly private ownership, four banks are in majority ownership of domestic legal and natural persons (residents), and ten banks have majority foreign ownership.

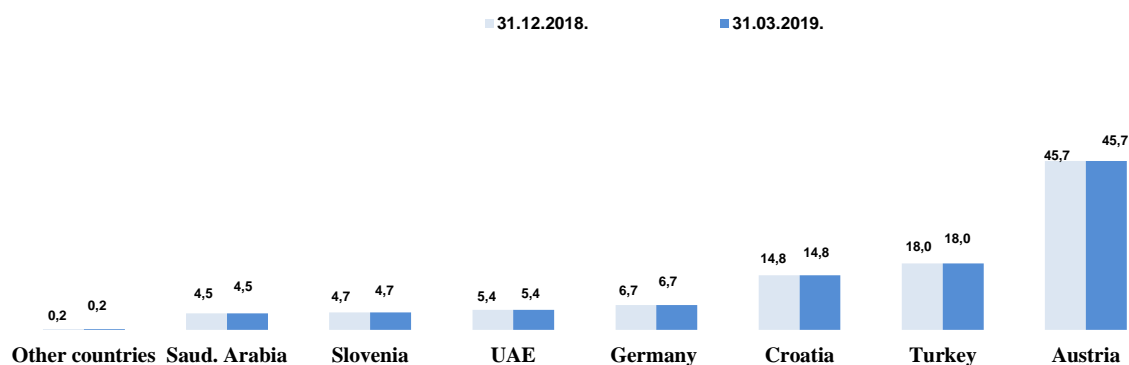
When only foreign capital is analyzed, according to the criterion of the country of origin of the shareholders, as of 31.03.2019 the situation is unchanged compared to the end of 2018, since the largest share of foreign capital is still held by shareholders from Austria, followed by Turkey and Croatia, while other countries have no significant individual share (below 7%).

The structure of foreign capital by countries is presented in the graph below:

¹ The criterion for bank classification is ownership of share capital in banks

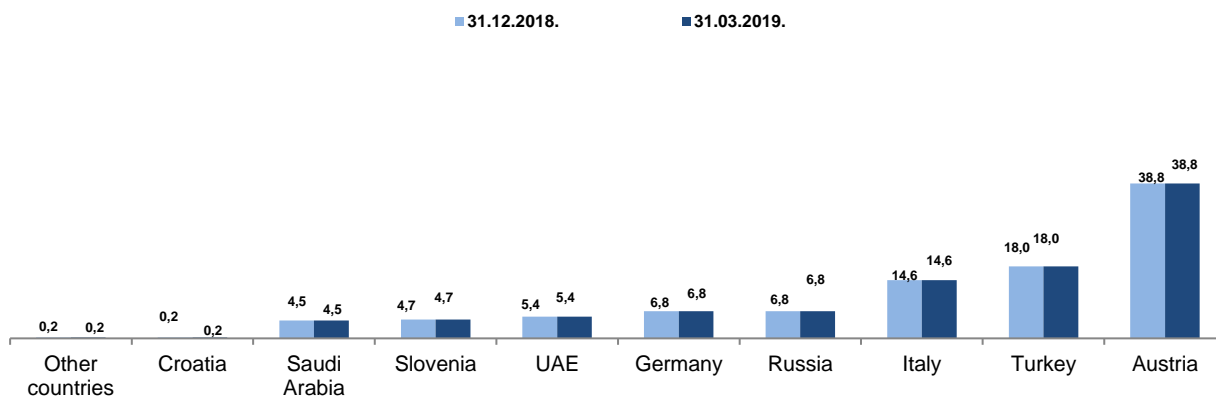
² State ownership refers to state-owned capital of the FBiH

Graph 1: The structure of foreign capital by countries



If capital relations taken into account, the structure of foreign capital can be observed using the criterion of the home country of the parent bank or banking group having majority ownership (direct or indirect via group members) of the bank in the FBiH. According to this criterion, the situation is unchanged compared to the end of 2018, since the largest share have the banking groups and banks from Austria, followed by Turkey and Italy, where the banking groups and banks from other countries have no significant individual share (below 7%).

The structure of foreign capital by country – seat of the group is presented in the graph below:

Graph 2: The structure of foreign capital by country – seat of the group³

The structure of ownership by total capital value is presented in the table below:

-in 000 BAM-

Table 1: The structure of ownership by total capital value

Banks	31.12.2017.		31.12.2018.		31.03.2019.		Index	
1	2		3		4		5 (3/2)	6 (4/3)
State-owned banks	53.507	1,9%	61.488	2,1%	62.870	2,0%	115	102
Private banks	2.811.542	98,1%	2.909.598	97,9%	3.006.007	98,0%	103	103
Total	2.865.049	100%	2.971.086	100%	3.068.877	100%	104	103

³ In addition to home countries of parent banking groups whose members are banks from the FBiH, the graph also outlines countries of all other foreign shareholders of banks in the FBiH

Over the first quarter of 2019, at the level of the banking sector in the FBiH, total capital increased by 3.3% compared to the end of 2018, amounting to BAM 3.1 billion. An increase in total capital of BAM 97.8 million was made on the basis of the current financial result of BAM 89.8 million and an increase in the value of securities classified at fair value through other comprehensive income of BAM 8 million.

When observed from the perspective of the state-owned, private and foreign capital share in the share capital of banks, the result is a more detailed analytical overview of the structure of capital ownership of banks in the FBiH, which is shown in the table below:

-in 000 BAM-

Share Capital	31.12.2017.		31.12.2018.		31.03.2019.		Index	
	Amount	Share	Amount	Share	Amount	Share	(4/2)	(6/4)
1	2	3	4	5	6	7	8	9
State-owned capital	31.619	2,6%	41.619	3,2%	41.619	3,2%	132	100
Private capital (residents)	142.109	11,6%	139.637	10,7%	139.645	10,7%	98	100
Foreign capital (non-residents)	1.052.061	85,8%	1.118.444	86,1%	1.118.436	86,1%	106	100
Total	1.225.789	100%	1.299.700	100%	1.299.700	100%	106	100

In the first quarter of 2019, the share of state capital, private equity (residents) and foreign capital (non-residents) remained unchanged compared to the end of 2018.

1.1.3. Staff structure

As of 31.03.2019, at the level of the banking sector the number of employees is 6 717 and it is by 22 employees or 0.3% decreased compared to the end of 2018. The decrease in the number of employees is present with seven banks, where three banks recorded an increase in the number of employees, and the number of employees remained unchanged with five banks in the banking sector of the FBiH compared to the end of 2018.

An overview of the qualification structure of employees at the level of the banking sector in the FBiH is given in the following table:

Level of qualifications	No. of employees					Index		
	31.12.2017.		31.12.2018.		31.03.2019.		(4/2)	(6/4)
1	2	3	4	5	6	7	8	9
University degree	3.970	59,7%	4.102	60,9%	4.111	61,2%	103	100
Two-year post-secondary school qualification	525	7,9%	520	7,7%	513	7,7%	99	99
Secondary School	2.149	32,3%	2.108	31,3%	2.084	31,0	98	99
Other	11	0,2%	9	0,1%	9	0,1	82	100
Total	6.655	100%	6.739	100%	6.717	100%	101	100

Decrease of the number of employees in the banking sector of the FBiH as of 31.03.2019 and compared to the end of 2018, is present among employees who possess two-year post-secondary school and secondary education.

One of the indicators affecting the business performance assessment of individual bank and the banking sector is the ratio of assets over the number of employees, i.e. assets per employee, where a higher ratio is an indicator of better efficiency of bank operations and the entire sector.

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

-in 000 BAM-

Banks	31.12.2017.			31.12.2018.			31.03.2019.		
	No. of employees.	Assets	Assets per Employee.	No. of employees.	Assets	Assets per Employee.	No. of employees.	Assets	Assets per Employee.
State-owned	192	654.373	3.408	195	775.490	3.977	195	770.728	3.952
Private	6.463	19.555.478	3.026	6.544	21.318.645	3.258	6.522	21.685.771	3.325
Total	6.655	20.209.851	3.037	6.739	22.094.135	3.279	6.717	22.456.499	3.343

1.2. FINANCIAL PERFORMANCE INDICATORS

1.2.1. Balance Sheet

The presented financial performance indicators for banks in the FBiH and analysis of the banking sector include indicators from active sub-balance of one bank with majority state-owned capital⁴, that is in accordance with the provisions of the Law on Opening Balance Sheet of Companies and Banks in the FBiH, where the banks with majority state-owned capital are required to report to the FBA on the basis of the “total” balance sheet divided into: liabilities, neutral items and active sub-balance.

In that regard, the data are presented in the Annex 2 of this Information – Balance sheet of Banks in the FBiH According to the FBA Model (Active Sub-Balance).

The Annex 3 provides an overview of the assets, loans, deposits and financial performance of banks in the FBiH as of 31.03.2019.

The table below provides an overview of the banking sector balance sheet:

-000 BAM-

Description	31.12.2017.		31.12.2018.		31.03.2019.		Index	
	Amount	Share %	Amount	Share %	Amount	Share %	8=(4/2)	9=(6/4)
1	2	3	4	5	6	7	8=(4/2)	9=(6/4)
ASSETS:								
Cash Funds	5.794.664	28,7	6.591.117	29,8	6.761.379	30,1	114	103
Securities	1.228.432	6,1	1.304.626	5,9	1.308.464	5,8	106	100
Placements to other banks	350.980	1,7	270.604	1,2	156.431	0,7	77	58
Loans	13.178.860	65,2	14.325.634	64,8	14.582.816	64,9	109	102
Value adjustment	1.166.804	5,8	1.190.760	5,4	1.188.873	5,3	102	100
Net loans (loans minus value adjust.)	12.012.056	59,4	13.134.874	59,5	13.393.943	59,6	109	102
Business premises and other fixed assets	529.941	2,6	531.767	2,4	600.200	2,7	100	113
Other assets	293.778	1,5	261.147	1,2	236.082	1,1	89	90
TOTAL ASSETS	20.209.851	100	22.094.135	100	22.456.499	100	109	102
LIABILITIES:								
Deposits	15.814.723	78,3	17.604.487	79,7	17.801.351	79,3	111	101
Borrowings from other banks	0	0,0	0	0,0	0	0,0	0	0
Loan commitments	835.667	4,1	862.931	3,9	844.235	3,7	103	98
Other liabilities	694.412	3,4	655.631	3,0	742.036	3,3	94	113
CAPITAL								
Capital	2.865.049	14,2	2.971.086	13,4	3.068.877	13,7	104	103
TOTAL LIABILITIES (LIABILITIES AND CAPITAL)	20.209.851	100	22.094.135	100	22.456.499	100	109	102

⁴ Majority state-owned banks in the "total" balance show passive and neutral items, which will be taken over by the state after the implementation of the privatization program, and they amount to BAM 710 million

Total net assets at the level of banking sector level in the FBiH amounts to BAM 22.5 billion as of 31.03.2019 which represent an increase of BAM 362.4 million or 1.6% compared to the end of 2018.

Net loans of banks account for the largest share of banks' balance sheet assets (59.6%), followed by cash funds (30.1%), securities (5.8%), fixed assets (2.7%) and other assets (placements to other banks and other assets participating with 1.8%).

Deposits (79.3%) have the largest share of banks' balance sheet liabilities, followed by capital (13.7%), loan commitments (3.7%) and other liabilities (3.3%).

Compared to the end of 2018, in the first quarter of 2019 there was an increase in the banks' balance sheet assets of cash funds by BAM 170.3 million or 2.6%, loans by BAM 257.2 million or 1.8%, and business premises and other fixed assets by BAM 68.4 million or 12.9%, and within the deposit liabilities by BAM 196.9 million or 1.1%, other liabilities by BAM 86.4 million or 13.2%, as well as the total capital by BAM 97.8 million or 3.3%

The table below shows an overview of banks' assets by ownership structure:

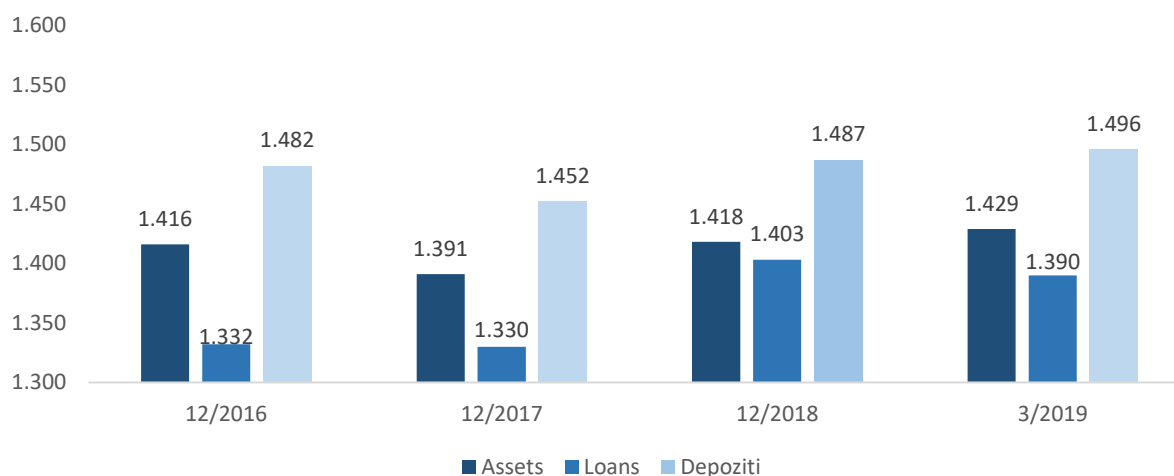
-000 BAM-

Banks	31.12.2017.			31.12.2018.			31.03.2019.			Index	
	No. of banks	Assets (000 BAM)	Share %	No. of banks	Assets (000 BAM)	Share %	No. of banks	Assets (000 BAM)	Share %	11=(6/3)	12=(9/6)
	2	3	4	5	6	7	8	9	10	11=(6/3)	12=(9/6)
State-owned	1	654.373	3,2%	1	775.490	3,5%	1	770.728	3,4%	119	99
Private	14	19.555.478	96,8%	14	21.318.645	96,5%	14	21.685.771	96,6%	109	102
Total	15	20.209.851	100%	15	22.094.135	100%	15	22.456.499	100%	109	102

In the first quarter of 2019, there was a slight increase in the share of 0.1 percentage points of banks with private equity, i.e. a decrease of 0.1 percent point of the state bank in the assets of the banking sector of the FBiH.

The concentration indicator used for the three key segments of banking operations: assets, loans and deposits is the value of Herfindahl index⁵. Its overview by period is provided in the graph below:

Graph 3: Herfindahl Index of Concentration in Assets, Loans and Deposits



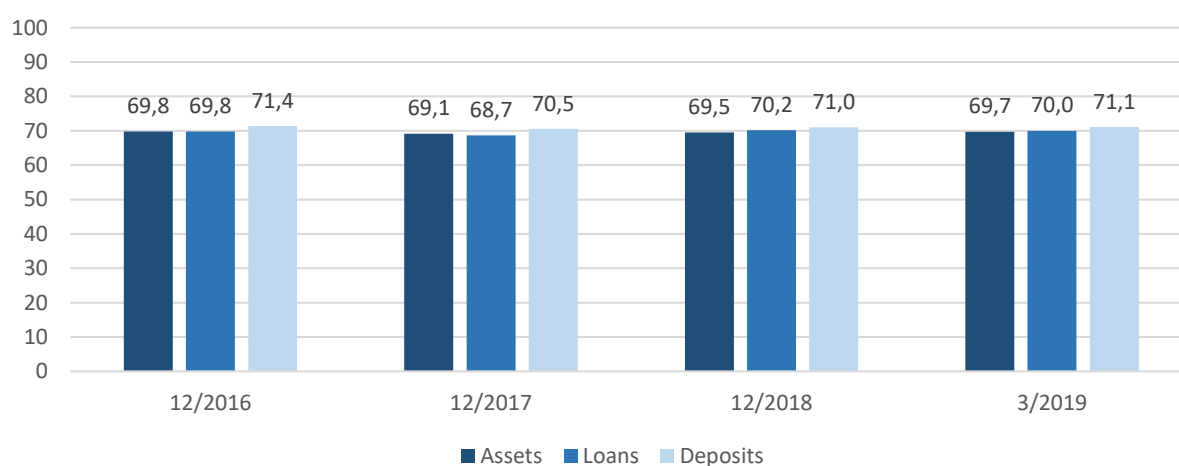
⁵ This index is also called Hirschmann-Herfindahl index or HHI and is calculated according to this formula: $HHI = \sum_{j=1}^n s_j^2$. It represents a sum of squares of percentage shares of specific elements (e.g. assets, deposits, loans) of all market participants in the system. It should be noted that this index does not grow linearly and that the value of e.g. 3 000 does not mean that the concentration in the system is 30%. Hypothetically, if there were just one bank in the entire system, the HHI would be 10 000 at most.

Over the first quarter of 2019, the Herfindahl index increased for assets by 11 units and 9 units for deposits, while there was a decrease of the index for loans by 13 units. The Herfindahl index of concentration for the period observed indicates a moderate concentration⁶ with all three relevant categories (assets, loans and deposits).

The second concentration indicator for the banking sector is the ratio of market concentrations, i.e. the concentration ratio⁷ (hereinafter: the CR), which shows the total share of the largest banks in the sector in selected relevant categories: assets, loans and deposits. When the total share of the five largest banks in sector observed – CR 5 in the first quarter of 2019 compared to the end of 2018, it is slightly increased for market share categories by 0.2 percentage points and for deposits by 0.1 percentage points, while there is a 0.2 percentage point decrease in the share of loans. The two largest banks in the sector account for 47.1% of the market (assets 47.3%, loans 45.1% and deposits 48.8%).

An overview of the concentration ratio for the five largest banks in the sector is shown in the graph below:

Graph 4: Concentration ratio of the five largest banks - CR5: assets, loans and deposits



The banking sector may also be analysed on the basis of the group affiliations criterion, set up on the basis of asset size⁸. As of 31.03.2019 in the banking sector of the FBiH, by assets size, three banks with a share of 56.7% are dominant, which make up the I group of banks with assets over BAM 2.0 billion. Over the period observed and compared to the end of 2018, there was a change in the structure, that is, the participation of banking groups in relation to the total assets of the banking sector of the FBiH with the II group of banks (share decreased by 4.5 percentage points) due to the transition of one bank to III group of banks and with group IV of banks (decrease of share by 0.6 percentage points) due to the transition of one bank to group V of banks (assets below BAM 100 million).

⁶If the value of the HHI is below 1 000, this shows no presence of the concentration on the market, while an index value between 1 000 and 1 800 shows moderate concentration, and a HHI value above 1 800 shows high concentration on the market.

⁷Concentration ratio (CR), is determined by number of banks included in calculation.

⁸Banks are divided into five groups depends on the asset size.

The table below provides an overview of the amounts and shares of groups of banks in total assets by period:

-000 BAM-

Assets size	31.12.2017.			31.12.2018.			31.03.2019.		
	Amount	Share%	No.of banks	Amount	Share%	No.of banks	Amount	Share%	No.of banks
I (over BAM 2 billion)	9.404.805	46,5	2	12.456.111	56,4	3	12.734.420	56,7	3
II (BAM 1-2 billion)	6.626.507	32,8	5	6.075.157	27,5	5	5.172.070	23,0	4
III (BAM 0,5-1 billion)	2.465.564	12,2	3	2.168.293	9,8	3	3.166.597	14,1	4
IV (BAM 0,1-0,5 billion)	1.613.136	8	4	1.394.200	6,3	4	1.283.669	5,7	3
V (below BAM 0,1 billion)	99.839	0,5	1	0	0,0	0	99.743	0,5	1
Total	20.209.851	100	15	22.093.761	100	15	22.456.499	100	15

Cash funds at the level of the banking sector of the FBiH amounted to BAM 6.8 billion as of 31.03.2019 and their overview is provided in the following table:

-in 000 BAM-

Cash Funds	31.12.2017.		31.12.2018.		31.03.2019.		Index	
	Amount	Share %	Amount	Share %	Amount	Share %	(4/2)	(6/4)
1	2	3	4	5	6	7	8	9
Cash	800.215	13,8	910.481	13,8	854.571	12,6	114	94
Reserve account with CBBH	3.823.980	66,0	4.002.281	60,7	3.872.733	57,3	105	97
Accounts at deposit institutions in BiH	41.411	0,7	38.746	0,6	43.995	0,7	94	114
Accounts at deposit institutions abroad.	1.127.877	19,5	1.639.544	24,9	1.990.009	29,4	145	121
Cash funds in the process of collection	1.181	0,0	65	0,0	71	0,0	6	109
Total	5.794.664	100	6.591.117	100	6.761.379	100	114	103

In the first quarter of 2019 there were no significant changes in the structure of banks' cash funds compared to the end of 2018.

The most significant increase of cash funds over the first quarter of 2019 compared to the end of 2018 is present in banks' funds on accounts with deposit institutions abroad, an increase of BAM 350.5 million or 21.4%.

As of 31.03.2019, the currency structure of cash funds has changed compared to the end of 2018. The share of domestic currency decreased from 71.3% to 67.5%, while the share of foreign currency assets increased from 28.7% to 32.5%

As of 31.03.2019 the securities portfolio amounted to BAM 1.3 billion, which is 0.3% increase compared to the end of 2018, with a share in assets of 5.8%.

The following Tables provide an overview of the portfolio by type of instrument and issuer:

- 000 BAM -

Investments in Securities	31.12.2017.		31.12.2018.		31.03.2019.		Index	
	Amount	Share %	Amount	Share %	Amount	Share %	4/2	6/4
1	2	3	4	5	6	7	8	9
Equity securities	1.773	0,1	5.281	0,4	6.524	0,5	298	124
Debt securities:	1.226.659	99,9	1.299.345	99,6	1.301.940	99,5	106	100
- BiH securities of all levels of government in BiH	751.163	61,2	619.536	47,5	654.129	50,0	82	106
- Government securities (other countries)	400.855	32,6	533.666	40,9	495.656	37,9	133	93

- Corporate bonds ⁹	74.641	6,1	146.143	11,2	152.155	11,6	196	104
Total	1.228.432	100,0	1.304.626	100,0	1.308.464	100,0	106	100

The most important item are securities of the entity governments, in particular securities issued by the FBiH¹⁰ in the total amount of BAM 438.3 million, followed by securities issued by RS in the amount of BAM 201.3 million. It is evident trend of increased investment into debt securities issued by RS.

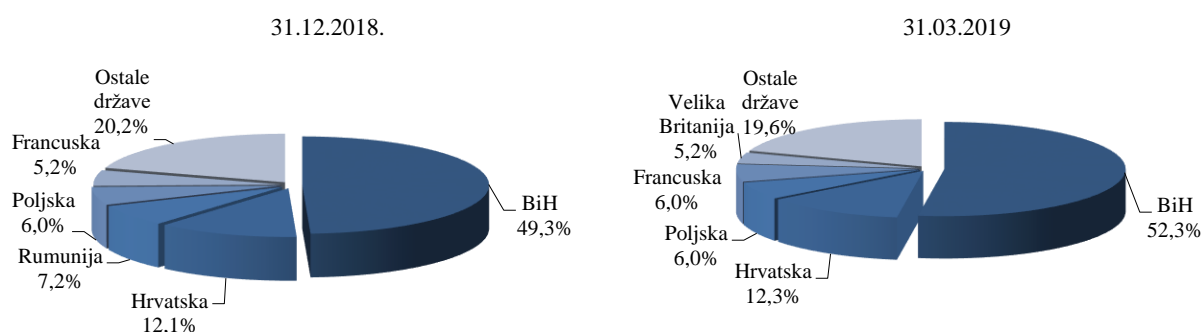
- 000 BAM -

Table 10: Securities of the Entity Governments of BiH

Investments in Securities	31.12.2017.		31.12.2018.		31.03.2019.		Index	
	Amount	Share %	Amount	Share %	Amount	Share %	4/2	6/4
1	2	3	4	5	6	7	8	9
Debt securities issued by the FBiH:	587.687	78,9	436.164	73,2	438.272	68,5	74	100
- Treasury bills	99.949	13,4	35.179	6,1	35.035	5,5	35	100
- Bonds	487.738	65,5	400.985	67,1	403.237	63,0	82	101
Debt securities issued by RS:	157.353	21,1	175.395	26,8	201.270	31,5	111	115
- Treasury bills	65.848	8,8	0	0,0	14.995	2,3	0	0
- Bonds	91.505	12,3	175.395	26,8	186.275	29,2	192	106
Total	745.040	100,0	611.559	100,0	639.542	100,0	82	105

If the total investments in securities were analysed according to exposure by country, the largest share of 52.3% refers to issuers from BiH, followed by Croatia with share of 12.3%, Poland 6.0%, France 6.0%, Great Britain 5.2%, etc.

Graph 5: Structure of Investments in Securities According to the Criterion of the Issuing Country



1.2.2. Liabilities

At the end of the first quarter of 2019 the share of deposits as the most significant source of funding for banks decreased to 79.3% (- 0.4 percentage points), same as the share of loan commitments, the second-largest source, which amounted to 3.7% (-0,2 percentage points).

Loan commitments of banks with amount of BAM 844.2 million and 3.7% share, have a downward trend of BAM 18.7 million or 2.2% compared to the end of 2018. If subordinated loans of BAM 124.2 million are also added to loan commitments, total loan funds in the sources account for 4.2%.

As of 31.03.2019 banks held the largest commitments towards the following creditors, which account for almost 93% of total loan commitments: the EIB, TC Ziraat Bankasi a.s, Procredit Holding AG, the European Fund for Southeastern Europe, Procredit Bank AG Frankfurt, EBRD and Nova Ljubljanska banka dd Ljubljana.

⁹ The largest part, of almost 75%, relates to the bonds of EU banks, and the remaining part to the bonds of EU and BiH companies

¹⁰ Any type of securities of the issued by the FBiH issuer.

Deposits have an upward trend compared to the end of 2018 of BAM 196.9 million or 1.1% and amounted to BAM 17.8 billion as of 31.03.2019. According to the data submitted data by banks, out of the total amount of deposits at the end of the observed period, 5.9% refers to deposits collected in organizational parts of banks from FBiH in RS and BD.

The deposit structure by sector is shown in the table below:

-in 000 BAM-

Table 11: Deposit structure by sector

Sectors	31.12.2017.		31.12.2018.		31.03.2019.		Index	
	Amount	Share %	Amount	Share %	Amount	Share %	(4/2)	(6/4)
1	2	3	4	5	6	7	8	9
Government institutions	1.482.708	9,4	1.778.835	10,1	1.879.184	10,6	120	106
Public companies	1.310.610	8,3	1.538.501	8,7	1.673.201	9,4	117	109
Private companies and enterprises	2.612.441	16,5	2.834.717	16,1	2.659.351	14,9	109	94
Banking institutions	847.965	5,4	1.215.334	6,9	1.090.677	6,1	143	90
Non-banking financial institutions.	655.360	4,1	746.690	4,3	731.725	4,1	114	98
Retail	8.500.668	53,8	9.071.061	51,5	9.321.979	52,4	107	103
Other	404.971	2,6	419.349	2,4	445.234	2,5	104	106
Total	15.814.723	100	17.604.487	100	17.801.351	100	104	101

Over the first quarter of 2019 changes were recorded in the deposit structure by sector.

Retail deposits accounted for the largest share in the sectoral structure of deposits, with 52.4% of the total deposits of the banking sector of the FBiH and they increased by 0.9 percentage points compared to the end of 2018. Retail deposits as of 31.03.2019 amounted to BAM 9.3 billion. There were no significant changes in the share of deposits by sectors in the first quarter of 2019 compared to the end of 2018.

The growth of deposits in the first quarter of 2019 compared to the end of 2018 was recorded with deposits of government institutions by BAM 100.3 million or 5.6%, deposits by public companies by BAM 134.7 million or 8.8%, retail deposits by BAM 250.9 million or 2.8%, as well as other deposits by BAM 25.9 million or 6.2%

The decrease of deposits in the first quarter of 2019 compared to the end of 2018 was recorded with deposits of private companies by BAM 175.3 million or 6.2%, deposits by banking institutions by BAM 124.6 million or 10.3%, and for deposits of non-banking financial institutions by BAM 15.0 million or 2.0%. The financial support from the banking group is present with seven banks in the FBiH, so that almost 89% of the total deposits of banking institutions refer to the financial support of the banking groups.

Currency structure of deposits as of 31.03.2019 slightly changed compared to the end of 2018. Deposits in BAM increased by BAM 196.2 million or 1.9%, while those in foreign currencies increased by BAM 0.7 million or 0.01%. Compared to the end of 2018, the currency structure of deposits changed by 0.5 percentage points, i.e. the share of deposits in domestic currency increased to 59.2% and the share of deposits in foreign currency decreased to 40.8%.

Structure of deposits, by domicile status of depositors, as of 31.03.2019 has changed compared to the end of 2018 and has the following structure: resident funds in the amount of BAM 16.4 billion have a share of 92.2% (+0.8 percentage points) and deposits of non-residents amount to BAM 1.4 billion, which is 7.8% of total deposits (-0.8 percentage points). Changes in the structure are the result of an increase in resident deposits (BAM 313.9 million or 1.9%) and a decrease in non-resident deposits (BAM 117.0 million or 7.8%)..

The long-standing trend of increase in savings deposits, as the most significant segment of the deposit and financial potential of banks, has been continued over the first quarter of 2019, since its growth account for BAM 255.0 million or 2.9% amounting to BAM 9.1 billion as of 31.03.2019.

The trend of retail savings is shown in the table and graph below:

-in 000 BAM-

Banks	Amount			Index	
	31.12.2017.	31.12.2018.	31.03.2019.	(3/2)	(4/3)
1	2	3	4	5	6
State-owned	83.530	91.645	92.173	110	101
Private	8.166.750	8.712.454	8.966.908	107	103
Total	8.250.280	8.804.099	9.059.081	107	103

Graph 6: Retail Savings By Period



The two largest banks hold 54.6% of savings, while five banks hold individual shares of less than 2.0%, which amounts to 5.6% of total savings at the sector level. Out of the total amount of savings, 46.4% refers to saving deposits in domestic currency and 53.6% to savings deposits in foreign currency.

Compared to the end of 2018, the maturity structure of savings deposits has changed due to an increase in short-term deposits by 5% or BAM 249.0 million, which resulted by increase of their share by 1.2 percentage points, as it can be seen in the table below:

-in 000 BAM-

	31.12.2017.		31.12.2018.		31.03.2019.		Index	
	Amount	Share %	Amount	Share %	Amount	Share %	(4/2)	(6/4)
1	2	3	4	5	6	7	8	9
Short-term savings deposits	4.460.734	54,1%	4.977.201	56,5%	5.226.241	57,7%	112	105
Long-term savings deposits	3.789.546	45,9%	3.826.898	43,5%	3.832.840	42,3%	101	100
Total	8.250.280	100%	8.804.099	100%	9.059.081	100%	107	103

1.2.3. Capital and Capital Adequacy

In the process of harmonisation the FBA regulations with a new legislation, a new Decision on Calculation of Capital in Banks entered into force at the end of 2017. During 2018, a parallel reporting method was in force, as of the end of 2018.

In accordance with the Decision on the calculation of capital in banks, the content and forms of regulatory reports have been changed. The most significant changes relate to the method of calculating regulatory capital, applying the appropriate methodology for calculating capital requirements for credit, market and operational risk, new methodologies for maintaining capital buffers and calculating financial leverage.

At the end of the first quarter of 2019, the total capital of banks amounted to BAM 3.1 billion, where an increase of BAM 97.8 million or a growth rate of 3.3% was recorded compared to the end of 2018 (more details provided under subheading 1.1.2. - Ownership structure and market share).

The following table provides the report on the situation, i.e. the structure of banks' regulatory capital in the FBiH under the new single framework for banks' regulatory reporting in the FBiH:

-in 000 BAM-

<i>Table 14: Report on Regulatory Capital</i>				
No.	Description	31.12.2018.	31.03.2019.	Index
1.	Regulatory capital	2.478.985	2.538.225	102
1.1.	Tier 1 capital	2.351.425	2.410.266	103
1.1.1.	Common Equity Tier 1	2.351.425	2.410.266	103
1.1.1.1.	Paid up capital instruments	1.290.878	1.299.341	101
1.1.1.2.	Share premium	137.290	137.290	100
1.1.1.3.	(-) Own Common Equity Tier 1 instruments	-215	-215	100
1.1.1.4.	Retained profit for the previous years	238.344	256.952	108
1.1.1.5.	Recognised gain or loss	-34.743	-34.875	100
1.1.1.6.	Accumulated other comprehensive income	10.296	18.260	177
1.1.1.7.	Other reserves	876.626	906.492	103
1.1.1.8.	(-) Ostala nematerijalna imovina	-56.116	-56.875	101
1.1.1.9.	(-) Deferred tax assets that rely in future profitability and not arise from temporary differences net of associated tax liabilities.	-101	-18	18
1.1.1.10.	(-)Deferred tax assets which may be deducted that rely in future profitability and arise from temporary differences	-1.625	-1.684	104
1.1.1.11.	(-) Common Equity Tier 1 instruments of financial sector entities if the bank have a significant investment	-12.118	-11.898	98
1.1.1.12.	CET1 capital elements or deductions - other	-97.091	-102.504	106
1.1.2.	Additional Tier 1	0	0	0
1.2.	Tier 2 capital	127.560	127.960	100
1.2.1.	Paid up capital instruments and subordinated debts	105.592	94.617	90
1.2.2.	(-) Own Tier 2 instruments	-14	-14	100
1.2.3.	General Credit Risk Adjustments under the standardised approach	153.706	158.687	103
1.2.4.	T2 capital elements or deductions — other	-131.724	-125.330	95

As of 31.03.2019 regulatory capital of banks in the FBiH amount to BAM 2.5 billion and it has increased by BAM 59.2 million or 2.4% compared to the end of 2018. During the reporting period, the banks' Tier 1 capital amounted to BAM 2.4 billion, with an increase of BAM 58.8 million or

2.5% and additional capital BAM 128.0 million, with an increase of BAM 400.0 thousand or 0.3% compared to the end of 2018.

The increase of regulatory capital was most influenced by the change, that is, increase in share of Tier 1 capital which is based on the distribution of profit from 2018 into Tier 1 capital in the amount of BAM 46.4 million, transfer of reserves for credit losses formed from profit to Tier 1 capital in accordance with the decisions of the Shareholders Assembly with two banks in the amount of BAM 1.9 million and an increase in the value of securities classified at fair value through other comprehensive income in the amount of BAM eight million.

The total amount of risk exposure in accordance with the Decision on calculation of capital in banks is the sum of the risk weighted exposures for credit, market, operational risk, settlement / free delivery risk and the risk associated with large exposures arising from trading book items.

Total risk exposure of the banking sector of the FBiH amounted to BAM 14.8 billion as of 31.03.2019, and its structure is presented in the following table:

-in 000 BAM-

Table 15: Struktura izloženosti riziku

No.	Description	31.12.2018.		31.03.2019.		Index
		Amount	Share %	Amount	Share %	
1.	Risk weighted exposures for credit risk	12.296.292	86,7	12.694.872	85,9	103
2.	Exposures to settlement / free delivery risk	0	0,0	0	0,0	0
3.	Exposures to market risk (position and FX risk)	223.778	1,6	373.461	2,5	167
4.	Exposures for operational risk	1.657.561	11,7	1.710.293	11,6	103
5.	Total amount of risk exposures	14.177.630	100	14.778.626	100	104

The total amount of risk exposure at the level of the FBiH banking sector over the observed period increased by BAM 601.0 million or 4.2% compared to the end of 2018. The most significant increase was recorded for the market risk exposure by BAM 149.7 million or 66.9%, which, according to reporting data at the banking sector level, is mostly related to the increase of the currency position.

As of 31.03.2019, the banks were mostly exposed to credit risk (85.9% share), which is dominant in the banking sector of the FBiH. Over the observed period, there was a change in participation by individual types of risk, that is, an increase in the share of market risk exposures (position and currency risk) by 0.9 percentage points, which was reflected through a decrease of share in credit risk-weighted exposures by 0.8 percentage points and operational risk exposures by 0.1 percentage points.

Over the last years the capital adequacy of banking sector is continuously above 15% which is satisfactory capitalization at the level of sector. Decision on calculation of capital in banks stipulates that the bank must meet capital requirements at all times with respect to the Common Equity Tier 1 Capital Ratio of 6.75%, the Tier 1 ratio of 9% and the regulatory capital ratio of 12%. Also, banks are required to maintain a capital buffer as regulatory capital in the form of Common Equity Tier 1 in the amount of 2.5% of the total risk exposure amount.

Capital adequacy indicators of the banking sector of the FBiH as of 31.03.2019 are given in the following table:

-in 000 BAM-

Table 16: Pokazatelji adekvatnosti kapitala

No.	Description	% and amount of surplus or deficit of the required minimum	% and amount of surplus or deficit of the required minimum
		31.12.2018.	31.03.2019.
1.	Common Equity Tier 1 Capital Ratio	16,6%	16,3%
2.	Surplus (+) / deficit manjak (-) of the Common Equity Tier 1 Capital	1.394.434	1.412.709
3.	Tier 1 Capital Ratio	16,6%	16,3%
4.	Surplus (+) / deficit (-) of Tier 1	1.075.438	1.080.187
5.	Regulatory Capital Ratio	17,5%	17,2%
6.	Surplus (+) / deficit (-) of the Regulatory capital	777.668	764.789

As of 31.03.2019 the Regulatory Capital Ratio amounts to 17.2% and it is significantly higher than the statutory minimum of 12%. Compared to the end of 2018, the regulatory capital ratio slightly decreased by 0.3 percentage points with the first quarter of 2019.

As of 31.03.2019, 11 banks have regulatory capital below the banking sector average and four banks above the banking sector average. Also, at the level of the banking sector, other capital ratios are reported to be higher in relation to the prescribed minimum (the Common Equity Tier 1 ratio and Tier 1 ratio).

The Decision on the calculation of capital in banks also stipulates a new methodology for calculation and a regulatory framework for monitoring the amount of financial leverage. Banks are required to provide and maintain a financial leverage ratio, as a ratio between Tier 1 and a measure of total exposure of at least 6%. The following overview provides the financial leverage ratio of the FBiH banking sector as of 31.03.2019:

-in 000 BAM-

Table 17: Stopa finansijske poluge

No.	Exposure value	31.12.2018.	31.03.2019.
1.	Exposures of financial leverage ratio – pursuant to Article 37, paragraph (4) of Decision on calculation of capital in banks	23.162.644	23.488.675
2.	Tier 1 capital - pursuant to Article 37, paragraph (3) of Decision on calculation of capital in banks	2.351.425	2.410.266
3.	Financial Leverage Ratio – pursuant to Article 37, paragraph (2) of Decision on calculation of capital in banks	10,1%	10,3%

As of 31.03.2019 the financial leverage ratio at the banking sector level is 10.3% and it is by 0.2 percentage points higher than at the end of 2018. As of 31.03.2019, seven banks have a financial leverage ratio above and eight banks below the FBiH banking sector average. Individually by bank, the financial leverage ratio ranges from 7.4% to 25.3%..

1.2.4. Asset and Asset Quality

The Decision on Minimum Standards for Credit Risk Management and Asset Classification in Banks defines criteria for the assessment of banks' exposure to credit risk by means of asset quality assessment and assessment of adequacy of reserves for loan losses and other losses as per risk level of loans and balance sheet and off-balance sheet assets items. When assessing banks' exposure to credit risk, banks are required to continue calculating LLP in accordance with the criteria from the aforementioned Decision, thereby considering already formed value adjustments of balance sheet assets and loss provisions for off-balance sheet items recorded in the banks' books (calculated in accordance with the applicable IAS and IFRS), while also taking into account LLP formed from profit (found on capital accounts).

Starting as of 01.01.2018, banks are required to apply the new financial reporting standard IFRS 9 – Financial Instruments, which has replaced the IAS 39.

The following table provides an overview of assets, LLP according to the regulator and value adjustments according to IFRS:

-in 000 BAM-

Description	31.12.2017.			31.12.2018.			31.03.2019.		
	1	2	3	4	5=(3/2)	6=(4/3)	7	8=(7/5)	9=(8/6)
1. Risk-weighted assets ¹¹		17.224.329	18.468.934	18.553.304	107	100			
2. Calculated regulatory reserves for loan losses		1.492.475	1.479.654	1.478.931	99	100			
3. Value adjustment and reserves for off-balance sheet items		1.262.277	1.311.031	1.309.813	104	100			
4. Required regulatory reserves formed from profit for assessed losses		402.640	404.539	400.357	100	100			
5. Formed regulatory reserves from profit for assessed losses		315.734	181.480	180.004	57	99			
6. Shortfall of regulatory reserves formed from profit for assessed losses		198.771	228.816	227.835	115	100			
7. Non-risk weighted items		7.699.195	8.874.457	8.950.569	115	101			
8. Total assets (1+7)		24.923.524	27.343.391	27.503.873	110	101			

Total assets with off-balance sheet items (assets)¹² of banks in the FBiH, as of 31.03.2019 amounted to BAM 27.5 billion and it is up by BAM 160.5 million or 0.6% compared to the end of 2018. Risk-weighted assets amount to BAM 18.6 billion and it is up by BAM 84.4 million or 0.5%, and non-risk weighted items amount to BAM 9.0 billion and they are up by BAM 76.1 million or 0.9% compared to the end of 2018. The following table shows an overview of total assets, gross balance sheet assets, risk-weighted and non-risk weighted assets items at the level of the banking sector:

-in 000 BAM-

Description	31.12.2017.		31.12.2018.		31.03.2019.		Indeks	
	Amount	Share %	Amount	Share %	Amount	Share %	8=(4/2)	9=(6/4)
Loans	11.910.826	83,5	12.762.366	83,8	12.982.700	84,4	107	102
Interests	66.894	0,5	91.669	0,6	92.707	0,6	137	101
Past due receivables	1.036.949	7,3	992.177	6,5	1.040.366	6,8	96	105
Receivables on paid guarantees	31.080	0,2	30.127	0,2	29.911	0,2	97	99
Other facilities	400.584	2,8	511.914	3,4	400.823	2,6	128	78
Other assets	814.496	5,7	835.125	5,5	832.833	5,4	103	100
1. Risk-weighted balance sheet assets	14.260.829	100	15.223.378	100	15.379.340	100	107	101
2. Non-risk weighted balance sheet assets	7.172.606		8.140.926		8.344.310		113	102
3. Gross balance sheet assets (1+2)	21.433.435		23.364.304		23.723.650		109	101
4. Risk-weighted off-bs items	2.963.500		3.245.556		3.173.964		110	98
5. Non-risk weighted off-bs items	526.589		733.531		606.259		139	83
6. Total off-bs items (4+5)	3.490.089		3.979.087		3.780.223		114	95
7. Risk-weighted assets with off-bs item (1+4)	17.224.329		18.468.934		18.553.304		107	100
8. Non-risk weighted items (2+5)	7.699.195		8.874.457		8.950.569		115	101
9. Assets with off-bs items (3+6)	24.923.524		27.343.391		27.503.873		110	101

Over the first quarter of 2019, there were no significant changes compared to the end of 2018 in the share of items in total risk-weighted assets of banks.

Gross balance sheet assets¹³ amount to BAM 23.7 billion and it is up by BAM 359.3 million or 1,5% compared to the end of 2018, where the risk-weighted balance sheet assets amount to BAM 15.4 billion, that is 64.8% of the gross balance sheet assets, with an increase of BAM 156.0 million

¹¹ The amount of placements and contingent liabilities of BAM 257.3 million secured by a cash deposit is excluded

¹² Assets defined in Article 2 of the Decision on Minimum Standards for Credit Risk Management and Classification of Banks' Assets (Official Gazette of the Federation of BiH, No. 85/11 - consolidated text 33/12-correction, 15/13)

¹³ Excluded loan amount of BAM 209.4 million covered by cash deposit (included in risk-free balance sheet assets)

or 1.0%, and non-risk weighted balance sheet assets amount to BAM 8.3 billion and it is up by BAM 203.4 million or 2.5%.

Unlike risk-weighted and non-risk-weighted balance sheet assets, over the first quarter of 2019 there was a decrease in risk-weighted and non-risk-weighted off-balance sheet items compared to the end of 2018. Off-balance sheet risk-weighted items amount to BAM 3.2 billion and are reduced by BAM 71.6 million or 2.2% and non-risk-weighted balance sheet items amount to BAM 606.3 million, with a decrease of BAM 127.3 million or 17.4% compared to the end of 2018.

As of 31.03.2019 loans amounted to BAM 14.6 billion and grew up by BAM 257.2 million or 1.8% compared to the end of 2018. The trend and change in the shares of individual sectors in the overall structure of loans is given in the following table

-in 000 BAM-

Sectors	31.12.2017.		31.12.2018.		31.03.2019.		Index	
	Amount	Share%	Amount	Share%	Amount	Share%	8=(4/2)	9=(6/4)
1	2	3	4	5	6	7		
Government institutions	245.102	1,9	216.596	1,5	202.116	1,4	88	93
Public companies	210.461	1,6	321.493	2,3	324.354	2,2	153	101
Private companies and enterprises.	6.295.558	47,8	6.625.641	46,3	6.753.865	46,3	105	102
Banking institutions	12	0,0	217.706	1,5	235.001	1,6	1814217	108
Non-banking financial institutions	58.992	0,4	75.804	0,5	69.060	0,5	128	91
Retail	6.358.707	48,2	6.853.979	47,8	6.986.731	47,9	108	102
Other	10.028	0,1	14.415	0,1	11.689	0,1	144	81
Total	13.178.860	100	14.325.634	100	14.582.816	100	109	102

In the first quarter of 2019 and compared to the end of 2018, there were no significant changes in the share of loans by sectors.

The growth of loans in the first quarter of 2019 compared to the end of 2018 was achieved with loans granted to banking institutions by BAM 17.3 million or 7.9%, to private enterprises by BAM 128.2 million or 1.9%, to retail by BAM 132.8 million or 1.9%, as well as loans to public companies by BAM 2.3 million or 0.9%..

The decrease of loans in the first quarter of 2019 compared to the end of 2018 was recorded for loans to other sectors by BAM 2.7 million or 18.9%, to non-banking financial institutions by BAM 6.7 million or 8.9%, as well as for loans to government institutions by BAM 14.5 million or 6.7%.

In terms of the currency structure of loans, the largest share of 49.3% or BAM 7.2 billion account for loans with the currency clause (EUR: BAM 7.2 billion or 99.7%, CHF: BAM 24.4 million or 0.3%), local currency loans 48.6% or BAM 7.1 billion, and the lowest share of 2.1% or BAM 307.8 million account for loans with foreign currency clause (out of it BAM 306.6 million or 99.6% refers to EUR). The total amount of loans with CHF currency clause amount to BAM 24.5 million holding a share of 0.25 in the total loan portfolio of the sector and the whole amount refers to one bank in the sector.

The table below provides an overview of the quality of assets and off-balance sheet risk weighted items, GCR, PLL by classification category:

-in 000 BAM-

Classification category	31.12.2017.			31.12.2018.			31.03.2019.			Index
	Classified assets	Share %	GCR PLL	Classified assets	Share %	GCR PLL	Classified assets	Share %	GCR PLL	

1	2	3	4	5	6	7	8	9	10	11=(5/2)	12=(8/5)
A	14.834.609	86,1	296.693	16.225.548	87,9	324.512	16.322.306	88,0	326.446	109	101
B	1.032.373	6,0	82.700	919.119	4,9	72.972	921.739	4,9	73.772	89	100
C	166.456	1,0	45.486	140.776	0,8	40.189	127.792	0,7	38.438	85	91
D	301.598	1,8	178.304	345.526	1,9	204.017	347.468	1,9	206.275	115	101
E	889.293	5,2	889.292	837.965	4,5	837.964	833.999	4,5	834.000	94	100
Risk-weighted assets (A-E)	17.224.329	100	1.492.475	18.468.934	100	1.479.654	18.553.304	100	1.478.931	107	100
Classified (B-E)	2.389.720	13,9	1.195.782	2.243.386	12,1	1.155.142	2.230.998	12,0	1.152.485	94	99
Non-performing (C-E)	1.357.347	7,9	1.113.082	1.324.267	7,2	1.082.170	1.309.259	7,1	1.078.713	98	99
Non-risk weighted assets ¹⁴	7.699.195			8.874.457			8.950.569			115	101
Total (risk-weighted and non-risk weighted)	24.923.524			27.343.391			27.503.873			110	101

As of 31.03.2019, past due receivables amounted to BAM 1.0 billion, which is up by 4.7% or BAM 48.0 million compared to the end of 2018, and the share increased from 7.1% to 7.3% in relation to the total loans of the banking sector of the FBiH.

The Annexes 4 and 4a provide a classification of balance sheet assets and off-balance sheet risk weighted items.

As of 31.03.2019, classified assets (categories B-E) amounted to BAM 2.2 billion, non-performing assets (categories C-E) to BAM 1.3 billion. As of the first quarter of 2019, compared to the end of 2018, classified assets decreased by the amount of BAM 12.4 million or 0.6%. Non-performing assets also decreased over the period observed by the amount of BAM 15.0 million or 1.1%, as the result of decrease in non-performing assets with majority of banks and due to permanent assets write-offs in the amount of BAM 8.6 million.

As of 31.03.2019 the trend of decrease of 0.1 percentage points compared to the end of 2018 was achieved with the following indicators of the assets quality of the banking sector of the FBiH: the ratio of non-performing and risk-weighted assets amounting to 7.1% and the share of classified assets in risk-weighted assets amounting to 12.0 %.

Sector-level data analysis is based on loan quality indicators for two key sectors: corporate and retail.

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

-in 000 BAM-

Classification category	31.12.2018.						31.03.2019.						Index
	Retail	Share%	Corporate	Share%	Total Amount	Total Share%	Retail	Share%	Corporate	Share%	Total Amount	Total Share%	
1	2	3	4	5	6 (2+4)	7	8	9	10	11	12=(8+10)	13	14=(12/6)
A	6.275.311	91,5	6.107.597	81,7	12.382.908	86,4	6.396.782	91,6	6.253.941	82,3	12.650.723	86,8	102
B	151.062	2,2	573.795	7,7	724.857	5,1	158.818	2,3	572.183	7,6	731.001	5,0	101
C	60.150	0,9	73.815	1,0	133.965	0,9	58.862	0,8	61.600	0,8	120.462	0,8	90
D	46.055	0,7	288.575	3,9	334.630	2,3	47.080	0,7	288.494	3,8	335.574	2,3	100
E	321.401	4,7	427.873	5,7	749.274	5,3	325.189	4,6	419.867	5,5	745.056	5,1	99
Total	6.853.979	100	7.471.655	100	14.325.634	100	6.986.731	100	7.596.085	100	14.582.816	100	102
Class loans B-E	578.668	8,4	1.364.058	18,2	1.942.726	13,6	589.949	8,4	1.342.144	17,7	1.932.093	13,2	99
NPL's C-E	427.606	6,2	790.263	10,6	1.217.869	8,5	431.131	6,2	769.961	10,1	1.201.092	8,2	99
		47,8		52,2		100		47,9		52,1		100	
Individual sector's share in classified loans, non-performing loans and category B:													
Categories B-E		29,8		70,2		100		30,5		69,5		100	
NPL's C-E		35,1		64,9		100		35,9		64,1		100	
Categories B		20,8		79,2		100		21,7		78,3		100	

¹⁴ In accordance with Article 2, paragraph 2 of the Decision on Minimum Standards for Credit Risk Management and Asset Classification in Banks, assets items that are not classified and items for which no general LLP of 2% are calculated (as per Article 22, paragraph 8 of the same Decision)

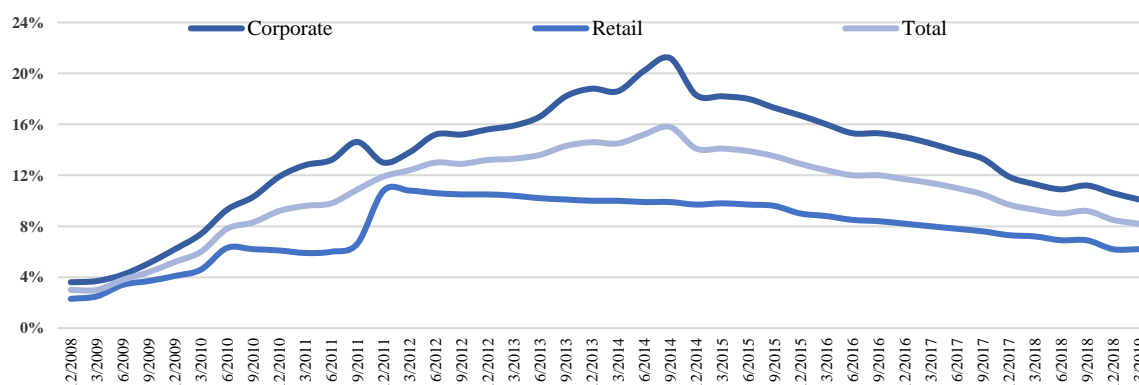
As of 31.03.2019, the share of classified loans decreased to 13.2% (-0.4 percentage points). Classified retail loans increased by BAM 11.3 million or 1.9%, while classified corporate loans decreased by BAM 21.9 million or 1.6%.

The share of NPLs decreased from 8.5% to 8.2%, mainly as a result of the credit growth and activities on collection. Out of the total approved corporate loans, BAM 770.0 million or 10.1% refers to NPLs, that's is by 0.5 percentage points lower compared to the end of 2018. For retail sector, NPL accounts for BAM 431.1 million or 6.2%, and the share remain at the same level as at the of 2018.

As of 31.03.2019, non-performing loans decreased by the amount of BAM 16.8 million or 1.4%. Within non-performing loans, an increase in category D was recorded in the amount of BAM 0.9 million, while non-performing loans in categories C and E decreased by BAM 13.5 million and BAM 4.2 million, respectively.

An overview of NPLs by period is provided in the graph below:

Graph 7: NPLs



A more detailed and comprehensive analysis of NPLs is based on data on loan concentration by industry sector for the corporate segment (by sector) and for the retail segment (by purpose) and it is presented in the following table:

-in 000 BAM-

Description	31.12.2018.				31.03.2019.				Index	
	Total loans		Non-performing Loans		Total Loans		Non-performing Loans			
	Amount	Share %	Amount	Share %	Amount	Share %	Amount	Share %		
1	2	3	4	5=(4/2)	6	7	8	9=(8/6)	10=(6/2)	11=(8/4)
1. Corporate Loans for::										
Agriculture (AGR)	187.278	1,3	36.311	19,4	176.343	1,2	36.101	20,5	94	99
Industry (IND)	2.130.781	14,9	269.505	12,6	2.155.113	14,8	262.051	12,2	101	97
Construction (CON)	441.833	3,1	74.092	16,8	442.792	3,1	72.252	16,3	100	97
Trade(TRD)	2.642.599	18,4	274.333	10,4	2.775.915	19,0	268.845	9,7	105	98
Hospitality, Tourism, Recreation (HTR)	268.239	1,9	16.074	6,0	264.438	1,8	16.430	6,2	99	102
Other ¹⁵	1.800.925	12,6	119.948	6,6	1.781.484	12,2	114.282	6,4	99	95
Total 1	7.471.655	52,2	790.263	10,6	7.596.085	52,1	769.961	10,1	102	97
2. Retail loans for :										
Housing	5.574.057	38,9	326.714	5,9	5.698.113	39,1	352.425	6,2	102	108

¹⁵ The following sectors included: transport, storage and communication (TRC); financial intermediation (FIN); Real estate, renting and business activities (RER); public administration and defense, compulsory social insurance (GOV) and other.

Business activities (small business owners)	1.178.483	8,2	87.273	7,4	1.187.184	8,1	65.538	5,5	101	75
Housing	101.439	0,7	13.619	13,4	101.434	0,7	13.168	13,0	100	97
Total 2	6.853.979	47,8	427.606	6,2	6.986.731	47,9	431.131	6,2	102	101
Total (1+2)	14.325.634	100	1.217.869	8,5	14.582.816	100	1.201.092	8,2	102	99

The largest share in total corporate loans refers to the trade sector (19.0 %) and production (14,8%).

Loans granted to the production sector in the amount of BAM 2.2 billion increased in the first quarter of 2019 compared to the end of 2018 by BAM 24.3 million or 1.1%, while NPLs with these loans amount to BAM 262.1 million and they down by BAM 7.5 million or 2.8% but their share is still at a high level of 12.2% (decrease by 0.4 percentage points compared to the end of 2018).

Loans to the trade sector in the first quarter of 2019 amounted to BAM 2.8 billion and they increased compared to the end of 2018 by BAM 133.3 million or 5.0%, while NPLs amounted to BAM 268.8 million and decreased by BAM 5.5 million or 2.0%, and their share also decreased by 0.7 percentage points or 9.7%, which is a better indicator than with the production sector.

For loans granted to corporate legal entities, the largest share of NPLs as of the first quarter of 2019 is present with loans granted for agriculture of 20.5% (an increase of 1.1 percentage points compared to the end of 2018) and for loans granted to the construction sector of 16.3% (decrease by 0.5 percentage points compared to the end of 2018).

The largest share of loans granted to retail, in relation to the total loans was granted for general consumption loans (39.1%) and for housing loans (8.1%). As of the first quarter of 2019, general consumption loans increased by BAM 124.1 million, or 2.2%, as well as a 0.3 percentage point increase in NPLs compared to the end of 2018. Loans granted for housing construction increased by BAM 8.7 million or 0.7%, with a decrease of 1.9 percentage points in NPLs compared to the end of 2018.

The GCR level and estimated PLL by classification category determined in accordance with the criteria and methodology defined by the FBA decisions, along with their trend and structure at the banking sector level, is provided in the table below:

-in 000 BAM-

Classification category	Amount (in 000 BAM) and structure (in %)						Index	
	31.12.2017.	%	31.12.2018.	%	31.03.2019.	%	8=(4/2)	9=(6/4)
1	2	3	4	5	6	7		
A	296.693	19,9	324.512	22,0	326.446	22,1	109	101
B	82.700	5,5	72.972	4,9	73.772	5,0	88	101
C	45.486	3,0	40.189	2,7	38.438	2,6	88	96
D	178.304	11,9	204.017	13,8	206.275	13,9	114	101
E	889.292	59,6	837.964	56,6	834.000	56,4	94	100
Total	1.492.475	100	1.479.654	100	1.478.931	100	99	99

The total level of calculated GCR as of 31.03.2019 amounted to BAM 1.5 billion and compared to the end of 2018 there is decrease recorded in the amount of BAM 0.7 million, and individually by categories, there was GCR increase for categories A, B and D, while in other categories there was GCR decrease compared to the end of 2018. Reserves for category A increased by 0.6%, for category B by 1.1% and for category D by 1.1%, while there was GCR decrease for categories C by 4.4% and category E by 0.5%.

One of the key indicators of asset quality is the ratio between PLL and risk-weighted assets with off-balance sheet items and this ratio amounts to 6.2% and it has not changed compared to the end of 2018. As of 31.03.2019, banks are at the approximately same level as at the end of 2018,

calculated reserves in the amount of 8% for category B, for category C 30%, for category D 59% and for category E 100%¹⁶ (increase by 1.0 percentage point with category C).

The credit risk is a dominant risk in the banking sector in the FBiH, why the focus of the supervisor is on the assessment of practices for credit risk management i.e. identification, measuring, monitoring and controlling of credit risk and assets classification. Key indicators of asset quality of the FBiH banking sector indicate that asset quality improved in the first quarter of 2019.

1.2.5. Profitability

Banks' profitability is most significantly influenced by the asset quality, structure, diversification and expenses of funding sources, cost efficiency, external factors specific to the banking or financial sector in the FBiH (financial system development, regulatory characteristics, industrial concentration, etc.) and external macroeconomic factors (economic growth, interest rates on world market, employment and unemployment rate, salary trend, inflation etc.).

In addition to credit risk which is measured by the quality of credit portfolio, the financial performance of the banking sector in the FBiH is influenced by price and interest rate risk. These risks are reflected in the availability of sources and price movements of banks' funding sources, and the possibility of achieving an adequate level of net interest margin.

From a supervisory perspective, the profitability of the banking sector in the FBiH, as well as individual banks in the sector, is viewed in the context of sustainability, that is, stability of the level and quality of earnings and strengthening the capital base through retained earnings. The ability of banks to generate acceptable, sustainable and stable profit is linked to the risks of their business models, i.e. factors that affect the viability of the business model and the ability to generate profits derived from adequate sources of funding and capital and a moderate risk appetite through a well-rounded business and economic a cycle that is adequately presented as a result of the proper, complete and consistent application of IAS and IFRS.

In the following period, along to gradual transition to new SREP framework, the focus of supervisory actions and procedures in the profitability segment shall be directed to the assessment of banks business models in terms of their viability and sustainability, i.e. banks' ability to generate acceptable refund over proper timeframe, i.e. over the entire business i.e. economic cycle. .

The following part of this Information presents data and information on profitability of the banking sector in the FBiH, on the basis of reporting data submitted by banks with situation as of 31.03.2019, which were analysed in the context of the existing elements for assessment of quality and profitability level and ranking criteria of the basic components of financial and operational situation of banks (CAMELS).

1.2.5.1. Profit level, quality and trend of the banking sector in the FBiH

At the level of the banking sector in the FBiH for the period 01.01.-31.03.2019 a positive financial result of BAM 89.8 million was reported, which is by BAM 3.2 million or 3.7% more than in the same period in 2018. In the first quarter of 2019, the total net profit at the level of the banking sector in the FBiH was BAM 89.9 million (14 banks), and the net loss of BAM 0.1 million relates to one bank, which is in the same period of 2018 reported a minimal net profit. Comparing data

¹⁶ According to the Decision on Minimum Standards for Credit Risk Management and Classification of Bank Assets, banks are obliged to calculate LLPs by classification categories in the following percentages:: A-2%, B 5-15%, C 16-40%, D 41-60% i E 100%

with the same period in 2018, it can be noticed that the reported loss at the sector level in the first quarter of 2019 is at approximately the same level, with one bank reporting a loss in the first quarter of the previous year, while it has reported a profit of BAM 0.5 million as of 31.03.2019.

Analyzing the structure of incomes and expenditures at the level of the banking sector in the FBiH for the period 01.01.-31.03.2019 in relation to the same period of 2018, it is evident that the reported positive financial result-net profit of BAM 89.8 million is a result of the impact of the following changes:

- an increase in total operating income by BAM 3.8 million or 3.7%, where in their structure it is evident increase of income from foreign exchange operations, fees for services rendered, off-balance sheet fees and trading operations income, while other operating income and income based on credit fees decreased;
- a slight decrease in total non-interest expenses by BAM 0.9 million or 0.5%, where are presented a lower total operating and direct expenses by BAM 3.0 million or 7.1% and higher total operating expenses by an amount of BAM 2.2 million or 1.8%; and
- a slight decrease in net interest and similar income by BAM 0.9 million or 0.6%, representing a net effect of a decrease in total interest and similar income by BAM 3.6 million or 2.0% and a simultaneous decrease in total interest and similar expenses for BAM 2.7 million or 8.0%.

In the structure of total interest and similar income, interest income on loans and leasing operations decreased by BAM 3.9 million or 2.4% compared to the first quarter of 2018, as well as other interest income and similar income by BAM 0.9 million or 5.1%, while other categories of interest and similar income recorded growth, which in relative terms was most evident with interest income on placements to other banks, by 121.8%. This increase is significantly related to one bank that increased the volume of call deposits with other banks, with an overall effect on interest income of BAM 0.7 million. At the same time, in the structure of total interest and similar expenses, interest expense on deposits, as a dominant item, decreased by BAM 3.8 million or 13.8% compared to the first quarter of 2018.

Over the period observed, in the structure of total business and direct expenses at the level of the banking sector of the FBiH, which decreased by BAM 3.0 million or 7.1% compared to the first quarter of 2018, the expenses of value adjustment for risk-weighted assets, reserves for potential liabilities and other value adjustments decreased for a total of BAM 6.0 million or 36.9%. Of the total amount of the decrease, two banks saw a significant decrease with this expense position, which was caused by a lower inflow of risk-weighted assets in default and improved collection (with one bank), and improved portfolio quality and a decrease in bond exposures (with the other bank). At the same time, other business and direct expenses increased by BAM 3.0 million or 11.2%, mostly due to the fees paid by banks for settlement services for card operations, which increased fees for domestic and international payment transactions, as well as an increase in deposit insurance premiums due to the growth of deposits over the period observed.

In the structure of total operating expenses, which are higher by BAM 2.2 million or 1.8% compared to the first quarter of 2018, the increase of expenses on the basis of salaries and contributions is BAM 1.8 million or 2.9%, expenses for business premises, other fixed assets and utilities are at almost the same level, with a slight increase in other operating expenses. This is related to the fact that there was no significant expansion of the network of organizational units of banks in the FBiH. The presented increase in costs on the basis of salaries and contributions is linked with an increase in the number of employees by 0.8%, where in relative terms the growth of this expenses category (2.9%) is higher than the growth of the number of employees in the banking sector of the FBiH over the observed period.

Annex 5 shows the aggregated balance sheet of banks in the FBiH for the period 01.01.-31.03.2019

according to the FBA model, with a comparative data for the same reporting period of 2018.

1.2.5.2. Total income of the banking sector in the FBiH

According to the reporting data from banks, the total income at the level of the banking sector in the FBiH amounts to BAM 287.2 million as of 31.03.2019, which compared to 31.03.2018 slightly increased by BAM 0.1 million, that in relative term is an increase of less than 1%.

-000 BAM-

Table 25: Total income structure

Total Income Structure	31.03.2018.		31.03.2019.		Index
	Amount	%	Amount	%	
1	2	3	4	5	6=(4/2)
I Interest income and similar income					
Interest-bearing dep. acc at dep.institutions	960	0,3	1.206	0,4	126
Loans and leasing facilities	164.118	57,2	160.231	55,8	98
Other interest income	18.901	6,6	18.910	6,6	100
Total I	183.979	64,1	180.347	62,8	98
II Operating income					
Service fees	66.804	23,3	72.488	25,2	109
Income from FX deals	12.242	4,2	12.833	4,5	105
Other operating income	24.005	8,4	21.491	7,5	89
Total II	103.051	35,9	106.812	37,2	104
Total Income (I+II)	287.030	100	287.159	100	100

Total interest and similar income recorded a decrease over the period observed, which is a consequence of the decrease in interest income on loans and leasing operations, whose percentage share in total income decreased from 57.2% to 55.8%. At the same time, the share of loans and receivables under leasing transactions in the total assets increased slightly, from 64.8% to 64.9%. The largest growth was recorded with interest income on deposit accounts with deposit institutions, which account for less than 1% of total income, with their share in total income slightly increasing, with the share of interest bearing deposit accounts with deposit institutions increasing in total assets from 16.4% to 17.3% in the total assets of the banking sector of the FBiH over the period observed. Within interest income, there was an increase at the position of interest income on securities that are recorded at amortized cost, due to the increase of this securities portfolio with one bank (by BAM 57 million) compared to 31.03.2018.

Over the period observed the total operating income increased and their share in total incomes increased from 35.9% to 37.2%.

1.2.5.3. Total expenditures of the banking sector of the FBiH

According to the reporting data received from banks as of 03/31/2019, total expenditures at the level of the banking sector of the FBiH amounted to BAM 196.9 million, which compared to 31.03.2018 decreased by BAM 3.5 million or 1.8%.

The structure of total expenditures of the banking sector of the FBiH over the observed period is given in the following table:

-000 BAM-

Structure of total expenditures	31.03.2018.		31.03.2019.		Index
	Amount	%	Amount	%	
1	2	3	4	5	6=(4/2)
I Interest expenses and similar expenses					
Deposits	27.525	13,8	23.726	12,0	86
Loan commitments and other borrowings ¹⁷	4.215	2,1	4.071	2,1	97
Other interest expenses	1.868	0,9	3.131	1,6	168
Total I	33.608	16,8	30.928	15,7	92
II Total non-interest bearing expenses					
Costs of value adjustment of risk-weighted assets and provisions for contingent liabilities and other value	16.303	8,1	10.290	5,2	63
Costs of salaries and contributions	61.572	30,7	63.335	32,2	103
Costs of business premises and depreciation	37.615	18,8	37.656	19,1	100
Other business expenses and direct expenses	26.631	13,3	29.610	15,1	111
Other operating expenses	24.679	12,3	25.054	12,7	102
Total II	166.800	83,2	165.945	84,3	99
Total expenditures (I+II)	200.408	100	196.873	100	98

In the observed period, interest and similar expenses were reduced, primarily as a result of a decrease in interest expenses on deposits, as the dominant source of funding for the banking sector in FBiH, with a slight decrease in interest expenses on loans and other borrowings, and a significant increase of other interest and similar expenses, resulting from an increase with 13 banks (ranging from 2.0% to 107.0%) and their decrease with two banks. The reason for the increase in these banks is the introduction of IFRS 16, based on the incremental interest rate on financial liabilities - the cost of financing, and an increase in the balance of deposits with foreign banks that carry a negative interest rate, as well as balances above the required reserve with the CBBH. Apart from the above, at one bank other interest expenses have been increased on the basis of repo transactions performed since the fourth quarter of 2018 (repo loan with a negative interest rate).

At the level of the banking sector in the FBiH, there was a decrease in total non-interest expenses over the observed period, with the most significant structural changes being a decrease in the value adjustments of risk-weighted assets and reservations for potential liabilities and other value adjustments, while a growth rate of more than 10% was recorded by other business and direct expenses.

1.2.5.4. Profitability, Productivity and Efficiency Ratios of the banking sector FBiH operations by Period

The table below provides an overview of key ratios for the assessment of profitability, productivity and efficiency of banks' operations in the FBiH:

-in %-

Ratio	31.03.2017.	31.03.2018.	31.03.2019.
Profit from average assets	0,4	0,4	0,4
Profit from average total capital	2,9	3,0	3,0
Profit from average share capital	6,5	6,8	6,9
Net interest income/average assets	0,8	0,7	0,7
Operating income/average assets	0,6	0,5	0,5
Total income/average assets	1,4	1,3	1,2

¹⁷Including interests by subordinated debts, which over period observed amounted to BAM: 1.9 million in the first quarter of 2018, i.e. BAM 1.8 million in the first quarter of 2019.

Business expenses and direct expenses / average assets ¹⁸	0,3	0,2	0,2
Operating expenses/average assets	0,7	0,6	0,6
Total non-interest expenses/average assets	0,9	0,8	0,7

When analysing the presented indicators for the banking sector of the FBiH it should be taken into account period observed was marked by a continuous growth of total, i.e. average assets and the total and share capital, which are the basis for calculation of those ratios. The assets growth was more evident in relation to the growth of total and share capital, and total income, where net interest and similar income in the first quarter of 2019 compared to the same period of 2018 recorded decrease.

Return on average assets, average total and share capital is stable over the observed periods. The indicators of observed income and expenditure against the average assets shows a slight declining, i.e. stagnant trend over the period observed.

One of the indicators used to assess bank performance, i.e. banking sector in the FBiH is efficiency per employee, which over the observed periods record a constant growth, indicating raise of the operational efficiency in the banking sector of the FBiH.

1.2.6. Weighted NIR and EIR

To ensure a greater transparency and to facilitate comparability of banks' loan approval and deposit taking terms, as well as to ensure customer protection by means of introduction of transparent disclosure of loan approval costs, i.e. deposit income, all in accordance with the international standards, criteria and practices in other countries, the FBA has prescribed a uniform manner of calculating and disclosing the EIR for all banks seated in the FBiH as well as the organizational units of banks seated in RS and operating on the territory of the FBiH including a mandatory reporting to the FBA on weighted NIR and EIR on loans approved and taken deposits for the reporting month, all of it in accordance with the prescribed methodology¹⁹.

For the needs of loan users, when analysing a trend of interest rates it is relevant to follow up a trend of weighted EIR, since it includes all costs that user should pay, and which are directly connected to the loan i.e. conditions for the loan approval and which are also included in the calculation of loan price (for instance, loan processing costs, cost of the insurance premium with natural persons if it is one of the conditions for loan approval, then other costs related to additional services paid by the client, and which presents condition for loan approval).

The Annex 6 provided average weighted NIR and EIR for loans and deposits as of 31.03.2019.

Weighted average EIR on loans at the banking sector level in the FBiH as of 31.03.2019. year compared to 31.12.2018 showed a downward trend in weighted EIRs for short-term loans from 2.97% to 2.65% or 0.32 percentage points and for long-term loans after the downward trend, as of 31.03.2019 there was a slight increase in the weighted average EIR on long-term loans from 5.62% to 5.65% or by 0.03 percentage points. Total weighted EIR on loans over the first quarter of 2019 is 3.94%, which is down by 0.21 percentage points compared to the end of 2018 (4.15%).

¹⁸ Expenses include value adjustments expenditures

¹⁹ Decision on Uniform Method of Calculation and Disclosure of Effective Interest Rate on Loans and Deposits (Official Gazette of Federation of BiH, No. 81/17) and Instructions for Calculation of Weighted Nominal and Effective Interest Rate

For weighted average EIR on short-term deposits after the upward trend, as of 31.03.2019 and compared to 31.12.2018 there was a slight decrease in EIR from 0.36% to 0.26% or by 0.10 percentage points, while for weighted average EIR on long-term deposits it increased from 1.16% to 1.29% or by 0.13 percentage points. The total weighted EIR on deposits with the first quarter of 2019 is 0.82% and it is 0.17 percentage points higher than at the end of 2018 (0.65%)..

Weighted EIRs on total overdraft loans for the banking sector in March 2019 compared to December 2018 decreased slightly from 6.28% to 6.26% or 0.02 percentage points, while weighted EIRs to call deposits remained at the same level as in December 2018 (0.02%)..

1.2.7. Liquidity

Along with credit risk management, liquidity risk management is one of the most important and most complex segments of banking operations. Liquidity maintenance within the market economy is a permanent obligation of the bank and the basic precondition for its sustainability at the financial market, and a key assumption for establishing and preserving trust in the banking sector of any country as well as in its stability and safety.

Given the high correlation between credit risk, the dominant risk in banks' operations, and liquidity risk, one of the most important factors impacting the liquidity position of banks is the banks' ability to adequately manage their assets and liabilities, which encompasses obtaining assets with good performances and the quality which ensures that bank loans, along with interest are repaid in accordance with maturity dates.

The Decision on Liquidity Risk Management in Banks stipulates the minimum qualitative requirements for liquidity risk management in banks, including required risk management standards in banks, quantitative requirements for banks in terms of the LCR and to ensure stable funding sources, as well as the use of additional mechanisms for liquidity risk monitoring and assessment.

The following table provides LCR development trends in the banking sector in the FBiH:

-000 BAM-

Description	30.09.2018.	31.12.2018.	31.03.2019.	Indeks		
	1	2	3	4	5 (3/2)	6 (4/3)
Liquidity buffer	4.034.644	4.325.281	4.144.502		107	96
Net liquidity outflows	1.353.143	1.392.629	1.291.454		103	93
LCR	298%	311%	321%		104	103

In the first quarter of 2019, the LCR at the level of the FBiH banking sector is 321% and it is increased by 10 percentage points compared to the end of 2018. All banks in the FBiH banking sector as of 31.03.2019 meet LCR requirements, and most banks are well above the required minimum.

In the structure of fundign sources of the banking sector as of 31.03.2019 the largest share of 79.3% account for deposits, followed by loans (including subordinated debts) with 4.2% share. Loans taken are with longer maturity periods and are a good source for long-term placements and they improve the maturity of financial assets and financial liabilities items, although there has been their downward trend for a long time.

The maturity structure of deposits is shown in the table below:

-in 000 BAM-

Deposits	31.12.2017.		31.12.2018.		31.03.2019.		Index	
	Amount	Share %	Amount	Share %	Amount	Share %	8=(4/2)	9=(6/4)
1	2	3	4	5	6	7		
Savings and call deposits (up to 7 days)	9.227.317	58,4	10.562.758	60,0	10.780.434	60,6	114	102
7-90 days	988.235	6,2	1.058.414	6,0	1.160.340	6,5	107	110
91 day up to one year	2.144.316	13,6	2.616.873	14,9	2.232.958	12,5	122	85
1. Total short-term	12.359.868	78,2	14.238.045	80,9	14.173.732	79,6	115	99
Up to 5 years	3.280.639	20,7	3.193.809	18,1	3.444.744	19,4	97	108
Over 5 years	174.216	1,1	172.783	1,0	183.025	1,0	99	106
2. Total long-term	3.454.855	21,8	3.366.592	19,1	3.627.769	20,4	97	108
Total (1 + 2)	15.814.723	100	17.604.637	100	17.801.501	100	111	101

As of 31.03.2019 the short-term deposits by remaining maturity had a share of 79.6% and long-term deposits of 20.4%, with a decrease in the share of short-term deposits, i.e. an increase in the share of long-term deposits by 1.3 percentage points compared to the end of 2018. Short-term deposits recorded decrease by BAM 64.3 million or 0.5%, while long-term deposits recorded a growth of BAM 261.2 million or 7.8%. Increase of long-term deposits was recorded with deposits up to 5 years (by BAM 250.9 million or 7.9%) and with deposits over 5 years (by BAM 10.2 million or 5.9%).

When analysing the structure of long-term deposits by remaining maturity, it is evident domination of deposits with remaining maturity of up to five years (95% of long-term deposits and 19.4% of total deposits).

An overview of the main liquidity indicators is given in the table below abeli:

-in %-

Ratios	31.12.2017.	31.12.2018.	31.03.2019.
1	2	3	4
Liquid Assets ²⁰ / total assets	30,2	30,8	30,4
Liquid assets/short-term financial liabilities	47,6	46,3	46,6
Short-term financial liabilities/total financial liabilities	74,9	77,7	76,5
Loans/ Deposits and loans taken ²¹	79,2	77,6	78,2
Loans/deposits, loans taken and subordinated debts ²²	78,5	77,1	77,7

Indicator - loans against deposits and loans taken as of 31.03.2019 is 78.2%, which is 0.6 percentage points more than at the end of 2018. With five banks, the indicator is higher than 85.0%. The share of short-term financial liabilities in total financial liabilities is still high, but the ratio of liquid assets to total assets is continuously satisfactory.

A very important aspect of the monitoring and analysis of the liquidity position is the maturity adjustment of remaining maturities of financial assets and liabilities items in accordance with the time scale created to capture a time horizon of 180 days²³. For the purpose of planning the required

²⁰ Strict liquid assets: cash and deposits and other financial assets with maturity up to three months, excluding inter-bank deposits

²¹ Empirical standards are: below 70% - very solid, 71%-75% - satisfactory, 76%-80% - marginal and marginally satisfactory, 81%-85% - unsatisfactory, over 85% - critical

²² Previous ratio expanded, sources include subordinated debts, that is more realistic indicator

²³ Article 41 of the Decision on Liquidity Risk Management in Banks (Official Gazette of the Federation of BiH, No. 81/17): „Until the introduction of the NSFR referred to in Article 34 of this Decision, as a mandatory quantitative requirement towards banks, banks shall apply and report on the maturity adjustment of financial assets and financial liabilities and the structure of the largest sources, and thus accordingly, Article 6, paragraph (3), item 1, Art. 6a, 6b, 11, paragraph (2) and 12 of the Decision on Minimum Standards for Liquidity Risk Management in Banks shall remain applicable (Official Gazette of the Federation of BiH, No. 48/12, 110/12 and 45/14)“. The prescribed percentages for the maturity adjustment of financial assets and liabilities are as follows: min. 85% of sources of funding with maturity of up to 30 days must be used for facilities with maturity of up to 30 days,

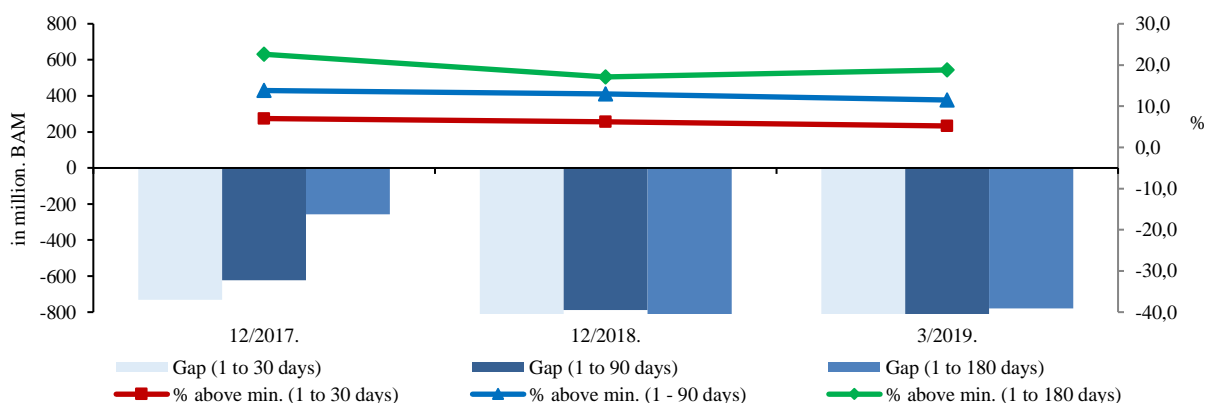
level of liquid assets, banks need to plan the sources of funding and structure of adequate liquidity potential, which is also tied to plans for their credit policy. Loan maturity, i.e. the maturity of the loan portfolio, is determined right by the maturity of sources of funding. Since maturity transformation of funds in banks is inherently related to the functional characteristics of banking operations, banks are required to continuously control and maintain maturity mismatches between sources of funding and loans in accordance with the prescribed minimum limits.

The table and graph below shows the review of the maturity adjustment of financial assets and liabilities up to 180 days:

-in 000 BAM-

Description	31.12.2017.	31.12.2018.	31.03.2019.	Index	
	Amount	Amount	Amount	5=(3/2)	6=(4/3)
1	2	3	4	5=(3/2)	6=(4/3)
I 1-30 days					
1. Financial assets	8.462.124	9.513.412	9.642.327	112	101
2. Financial liabilities	9.193.511	10.425.706	10.694.273	113	103
3. Difference (+ or -) = 1-2	-731.387	-912.294	-1.051.946	-	-
<i>Calculation of prescribed requirement in %</i>					
a) Actual %= no.1 /no.2	92,0%	91,2%	90,2%		
b) Prescribed minimum %	85,0%	85,0%	85,0%		
Plus (+) or minus (-) = a - b	7,0%	6,2%	5,2%		
II 1-90 days					
1. Financial assets	9.416.671	10.556.830	10.675.514	112	101
2. Financial liabilities	10.041.101	11.345.741	11.672.137	113	103
3. Difference (+ or -) = 1-2	-624.430	-788.911	-996.623	-	-
<i>Calculation of prescribed requirement in %</i>					
a) Actual %= no.1 /no.2	93,8%	93,0%	91,5%		
b) Prescribed minimum %	80,0%	80,0%	80,0%		
Plus (+) or minus (-) = a - b	13,8%	13,0%	11,5%		
III 1-180 days					
1. Financial assets	10.476.675	11.640.075	11.796.663	111	101
2. Financial liabilities	10.734.265	12.644.902	12.577.117	118	99
3. Difference (+ or -) = 1-2	-257.590	-1.004.827	-780.454	-	-
<i>Calculation of prescribed requirement in %</i>					
a) Actual %= no.1 /no.2	97,6%	92,1%	93,8%		
b) Prescribed minimum %	75,0%	75,0%	75,0%		
Plus (+) or minus (-) = a - b	22,6%	17,1%	18,8%		

Graph 8: Maturity Adjustment of Financial Assets and Financial Liabilities – up to 180 Days



min. 80% of sources of funding with maturity of up to 90 days must be used for facilities with maturity of up to 90 days, and min. 75% of sources of funding with maturity of up to 180 days must be used for facilities with maturity of up to 180 days% izvora sredstava s rokom dospjeća do 90 dana u plasmane s rokom dospjeća do 90 dana i najmanje 75% izvora sredstava s rokom dospjeća do 180 dana u plasmane s rokom dospjeća do 180 dana

As of 31.03.2019 the financial assets for all three intervals were lower than financial liabilities due to higher growth in financial liabilities, primarily deposits, than growth in financial assets. The achieved maturity adjustment percentages compliance are in the intervals of 1-30 and 1-90 days as of 31.03.2019 slightly lower (by -1.0 and -1.5 percentage points), and in the interval from 1-180 days higher (by +1.7 percentage points) compared to the end of 2018 and above the prescribed minimum, in the first interval by 5.2%, in the second by 11.5% and in the third by 18.8%.

Observing the basic indicators of liquidity, qualitative and quantitative requirements, as well as other factors affecting the position of banks' liquidity, it can be concluded that the liquidity of the banking sector in the FBiH as of 31.03.2019 is satisfactory.

As this business segment and the liquidity risk exposure level are in correlation with credit risk (lower inflows of liquid assets related to problems with loan collectability), and also considering other important factors (maturity structure of deposits, repayment of loan commitments due and significantly lower indebtedness with international financial institutions, which was the best source of funding for banks in the past years from the aspect of maturity), it should be emphasized that liquidity risk management and monitoring should be the focus of banks by means of establishing and implementing liquidity policies that will ensure the settlement of all liabilities due in a timely manner, and based on continuous planning of future liquidity needs, taking into account changes in operating, economic, regulatory and other conditions of the banks' business environment.

1.2.8. Foreign Exchange (FX) Risk

In their operations, banks are exposed to risks originating from possible losses related to balance sheet and off-balance sheet items, incurred due to market price changes. One of these risks is FX risk arising as a result of changes in exchange rates and/or unadjusted levels of assets, liabilities and off-balance sheet items denominated in the same currency – individual FX position or all currencies of the bank's operations together – total FX position of the bank. Decision on Foreign Currency Risk Management in Banks²⁴ stipulates the method for calculating the FX position and the maximum allowed exposure to foreign currency risk i.e. limits for the open individual and total FX position (long or short) calculated in relation to the eligible capital of the bank²⁵. To ensure that the FBA monitors the banks' compliance with the regulated limits and their exposure level to FX risk, banks are required to report to the FBA on a daily basis.

Based on the review, monitoring and analysis of the submitted reports, it can be concluded that banks adhere to regulated limits and conduct their FX activities within such limits..

As of 31.03.2019 at the banking sector level, in the currency structure of banks' assets, foreign currency items amounted to BAM 3.3 billion, with a share of 14.8% (at the end of 2018 BAM 3.2 billion or 14.4%). The currency structure of liabilities is significantly different, as the share of liabilities in foreign currency is much higher and amounts to BAM 8.3 billion or 37.0% (at the end of 2018 it was BAM 8.3 billion, with a share of 37.6%). The following table shows the structure of financial assets and financial liabilities and the foreign exchange position for EUR, as the most significant currency and the total foreign exchange position at the banking sector level:

²⁴ Official Gazette of the Federation of BiH, No. 81/17

²⁵ Article 3 of the Decision on Foreign Currency Risk Management in Banks defines the following limits: for the individual FX position – up to 30% of the eligible capital for EUR, up to 20% for other currencies and up to 30% of the eligible capital for the total FX position of the bank

-in BAM million-

Description	31.12.2018.				31.03.2019.				Index	
	EUR		Total		EUR		Total		EUR	Total
	Amount	Share %	Amount	Share %	Amount	Share %	Amount	Učešće %	(6/2)	(8/4)
1	2	3	4	5	6	7	8	9	10	11
I Financial Assets										
1. Cash	1.437	15,5	1.882	19,0	1.775	18,9	2.195	21,9	124	117
2. Loans	264	2,9	265	2,7	283	3,0	284	2,8	107	107
3. Loans with a currency clause	6.482	70,1	6.490	65,6	6.475	68,8	6.481	64,5	100	100
4. Other	843	9,1	1.029	10,4	641	6,8	851	8,5	76	83
5. Other financial assets with a currency clause.	225	2,4	225	2,3	235	2,5	235	2,3	104	104
Total I (1+2+3+4+5)	9.251	100	9.891	100	9.409	100	10.046	100	102	102
II Financial Liabilities										
1. Deposits	6.614	74,8	7.284	76,5	6.622	75,1	7.275	76,7	100	100
2. Loans taken	855	9,7	855	9,0	836	9,5	836	8,8	98	98
3. Deposits and loans with a currency clause.	1.204	13,6	1.204	12,7	1.179	13,4	1.179	12,5	98	98
4. Other	166	1,9	172	1,8	182	2,0	189	2,0	109	110
Total II (1+2+3+4)	8.839	100	9.515	100	8.819	100	9.479	100	100	100
III Off-balance sheet										
1. Assets	80		131		102		151			
2. Liabilities	456		463		483		502			
IV Position										
Long (amount)	37		44		210		215			
%	1,5%		1,8%		8,3%		8,5%			
Short										
%										
Allowed	30,0%		30,0%		30,0%		30,0%			
Below the allowed limit	28,5%		28,2%		21,7%		21,5%			

Observed by banks and overall at the level of the FBiH banking sector, it can be concluded that the exposure of banks and the FX sector to risk in the first quarter of 2019 was within the prescribed limits. As of 31.03.2019 the ten banks had a long foreign currency position and five banks had a short position. At the sector level, a long foreign currency position of 8.5% of total eligible capital of banks is reported, which is 21.5 percentage points less than allowed. The individual foreign exchange position for EUR amounted to 8.3%, which is 21.7 percentage points lower than allowed, with items of financial assets higher than financial liabilities (net long position).

If the structure of foreign currencies in the financial assets²⁷ the share of EUR 81.1% is dominant (December 31, 2018 it was 80.1%), with an increase of nominal amount by BAM 156.0 million or 6.1%. EUR's share in financial liabilities is 92.0%, which is up by BAM 5.0 million or 0.1% compared to the end of 2018. The basis for calculating the EUR's share in financial assets and financial liabilities does not include items with a foreign currency clause.

1.3. RECOMMENDATIONS FOR THE BANKING SECTOR

The previous period in banking supervision was marked by significant, demanding and extensive processes related to the reform of the regulatory framework for banking operations and supervision and the establishment of a new framework for bank resolution, implementation of a multi-year project of transition from the existing supervisory methodology based on CAMELS to a completely new supervisory framework - SREP, and the establishment of a new supervisory reporting framework. In this regard, the FBA continued to strengthen its supervisory capacities in

²⁶ Source: Form 5 – FX position

²⁷ Source: Report on FX position of the bank: financial assets (in foreign currencies denominated in BAM. Financial assets is presented on the net principle, i.e. decreased by value adjustments and reserves for potential liabilities.

order to implement the new regulatory framework, in accordance with the LoB, LoA and a set of regulations adopted on the basis of mentioned laws.

In accordance with statutory competences for banking supervision in the FBiH, the FBA will continue to carry out the measures and activities to preserve and strengthen the stability of the banking sector and protection of depositors, and to improve the safe, quality and legal operation of banks in the FBiH. These measures and activities will in particular focus on the continued supervision of banks, with a focus on:

- control of the dominant risk segments of banks' operation, control of systemically important banks for the development of lending activities and banks in which large amounts of savings and other deposits are concentrated, and control of applied practices in banks in the segment of protection of users of financial services and guarantors, etc;
- capital strengthening of banks, especially those with above-average assets growth and banks with a decrease in the capital adequacy ratios;
- monitoring the application of IAS/IFRS 9, with the aim of adequately evaluation of financial assets and allocating reserves for expected loan losses in the function of maintaining adequate capitalisation of banks in the FBiH;
- establishment, expansion and improvement of cooperation with competent supervisory bodies for supervision of EU banking groups whose members are seated in the FBiH, as well as other countries, with the aim of more efficient supervision and improvement of supervisory practices, as well as cooperation and exchange of information with the ECB and the EBA in terms of supervision and banking regulation, and with international financial institutions;
- improvement of cooperation through the signing of new Cooperation Agreements with relevant institutions in BiH that are included in the institutional framework for supervision, crisis management and systemic risk management, protection of users of financial services, and
- continuation of cooperation with the BA BiH with the aim of improving the operations of banks, the compliance of their operations with regulations, international standards and rules of the profession, as well as the requirements of the market, etc.

Following the prescribed competences, the FBA will continue to undertake measures and activities with the aim of implementation the measures of FSAP Mission, for the objective of improvement the quality of supervision of the banking sector, as well as the obligations anticipated by the Letter of Intent signed by the governments in BiH as part of the arrangement with the IMF, which refer to the entity banking agencies, the projects of strengthening banking supervision within the framework of technical assistance provided by the international financial institutions WB and IMF, and within the USAID FINRA project, etc.

The implementation of these activities is conditioned by continuous engagement and harmonised institutional actions of all parts of the system, judicial, legislative and executive authorities, efficient implementation of economic reforms in the real sector, in order to harmonise the achieved progress in the monetary sphere and the banking sector, improvement of legislation in the segments of accounting and auditing, asset management, establishment of a mechanism for out-of-court settlement of corporate debts, security and protection of monetary assets in treasuries and cash registers of banks and in transport, resolving or mitigating over indebted citizens, special court departments for the corporate segment, etc. which is a prerequisite for creating a more favourable overall economic environment that would stimulate the banking sector, the real corporate and retail sector.

The supervisory measures and activities assumes a continuous operational improvement of the information system as an essential prerequisite for efficient supervision of banking operations, i.e. information support in the function of warning and preventive actions in eliminating weaknesses in banking operations, permanent education and professional training of staff.

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

- credit support to the corporate and retail segment, applying the prescribed requirements in terms of credit risk management and maintaining adequate capitalisation in relation to the risk profile of the bank;
- efficiency of an integral risk management system and improvement of early identification system for increased credit risks, i.e. deterioration of loan portfolio quality, and more efficient management of NPLs;
- adjustment of business operations with the new regulatory requirements for banking operations and supervision; including requirements for recovery planning and bank resolution;
- consistent and full application of IFRS 9;
- Improvement of ICAAP and ILAAP in accordance to new regulatory requirements;
- consistent application of regulations in the AML/CTF segment, protection of users of financial services and guarantors, security and protection of money in the bank and in transport, and
- Active participation in the implementation of reform measures and measures to address the problem of over indebtedness of citizens, as well as financial consolidation of companies, etc

2. SECTOR OF NON-DEPOSIT FINANCIAL INSTITUTIONS

In accordance with the FBA statutory competences for the supervision of non-deposit financial institutions in the FBiH (MCOs, leasing companies and factoring companies whose establishment, operation, management, supervision and termination of work are regulated by special legal regulations), this section provides an overview of the structure and financial indicators of these non-deposit financial institutions in the FBiH in the first quarter of 2019.

In addition, for a better transparency and easier comparability of the terms of use of financial services and protection of clients - users of financial services through the introduction of transparent presentation of costs of micro-crediting, financing through leasing and factoring, in accordance with international standards, criteria and practices in other countries, the FBA has prescribed unique way of calculating and reporting EIR, namely: the Decision on the unique method of calculating and reporting the effective interest rate on loans and deposits, which refers to banks and MCOs, which submit the prescribed monthly reports on weighted NIR and EIR, and the Decision on the unique method of calculation and statement of the effective interest rate of the financial leasing contract relating to the leasing companies, which submit monthly reports on nominal and effective interest rates. Mandatory monthly reporting to FBA by MCOs and leasing companies is performed in accordance with FBA regulations which govern in more detail the manner and methodology by which the EIR is calculated and reported on micro-loans and financial leasing contracts, and the submission of reports. The FBA, within the framework of direct and indirect supervision, controls the compliance of MCOs and leasing companies with the prescribed provisions on the protection of users of financial services and the implementation of a unique method of calculation and reporting of EIR

For the needs of the users of financial services of microcredit and financing through financial leasing contracts, it is relevant to monitor the movement of weighted EIR, since it includes all costs paid by the user directly related to these types of financing (microcredit and financial leasing contracts) and which are included in the calculation of the price of the micro-credit, that is, the financial leasing contract (for example, the costs of processing the applications for micro-credit, i.e. financing through financial leasing and all other costs incurred as a condition for their approval, then other costs related to ancillary services paid by the client- the user of the financial service and the condition for using microcredit or financial leasing).

Providers of factoring services, i.e. factoring companies licensed by the FBA for conducting factoring operations, are obliged to submit the required quarterly reports to the Banking Agency of the FBiH in accordance with the Decision on Minimum Standards for the Structure, Content, Methods and Deadlines for Providing Factoring Companies and Factoring Reports interest rate and fee reports. According to the prescribed reporting form, data on interest rates, fees and administrative fees are entered according to the amount valid at the last day of the reporting period.

According to the reporting data as of 31.03.2019 the interest rate on the advance paid on the factoring market in the FBiH, which was valid at the last day of the reporting period for the first quarter of 2019 was 8.0%, while the discount interest rate was 5.0% and both were calculated in the domestic factoring. Comparing the reporting data presented on the last day of the 4th quarter of 2018, it is evident that the discount rate was unchanged and that the interest rate on the advance paid was 7.0%. All three banks which perform factoring operations and the Company charged a factoring fee, while only one bank and the Company charged an administrative fee for providing the factoring service.

In the next headings of this Information, the weighted NIRs and EIRs for non-deposit financial institutions (micro-credit and leasing sector in the FBiH) were processed for the period 01.01.-31.03.2019 with reference to the same period in 2018, an overview of which is given in the Annexes, which form an integral part of the Information.

Weighted NIR and EIR for microloans and financial leasing contracts

At the level of the total microcredit portfolio, the weighted NIRs in the observed period amounted to 19.56% and EIR 23.57%, where those for short-term microcredit amounted to 21.64% and 29.42% respectively, and long-term 19.22% or 22.61%. Weighted average EIR to total microcredit at the micro-credit sector level in the first quarter of 2019 decreased from 23.79% to 23.57% (by 0.22 percentage points) compared to the same period in 2018, with average weighted EIR on short-term microcredit increased from 26.78% to 29.42% (by 2.64 percentage points), while weighted EIR on long-term microcredit decreased from 23.26% to 22.61% (by 0.65 percentage points).

Annex 8 provides an overview of the weighted average NIRs and EIRs on microcredits, by maturity and by purpose, and by microcredit agreements concluded or disbursed in the period 01.01.-31.03.2019 with MCOs registered in FBiH

Annex 8a) provides an overview of the weighted average NIRs and EIRs on micro-credits, by maturity and by purpose, and by micro-credit agreements concluded or disbursed in the period 01.01.-31.03.2019 with MCOs registered in RS with branches in FBiH. It is evident that at the overall level, over the observed period, the weighted NCS amounted to 17.99%, and the EIR 21.82%, which are lower compared to the MCOs registered in FBiH, as well as to short-term microcredits, since the NIRs amounted to 18.64 %, and EIR 24.28%, as well as long-term microcredit for which they amounted to 17.74% and 20.88% respectively.

The total average NCS for financial leasing contracts concluded in the first quarter of 2019 was 8.60% for short-term contracts and 7.20% for long-term contracts, while the EIR for short-term contracts was 17.70% and for long-term 11.30 % over the first quarter of 2019. The total weighted NIRs in the first quarter of 2019 was 7.20% and the EIR 11.40% in the respective quarter.

Annex 15 provides an overview of the weighted NIRs and EIRs for financial leasing contracts concluded between 01.01.-31.03.2019, by maturity, the subject of leasing, i.e. the lessee.

Compared to the same period of the previous business year, when the total weighted NIR of 4.50% and EIR of 7.30% was presented, the growth of NIR and EIR is evident due to a significant increase in the amount of financing to leasing customers from the category of natural persons by one leasing company. which is market oriented to this type of leasing and which approves financing with higher interest rate than the average of the sector and system in general.

Significant differences in the amount of weighted EIRs against leasing users are caused by the fact that the calculation of EIRs on contracts concluded with natural persons is not identical to the calculation of the same in contracts concluded with legal entities, since they do not include a premium of casco insurance, which is legal obligation for contracts with natural persons. A significant difference between the NIR and the EIR is the consequence of the VAT on interest, which is a mandatory part of the financial leasing contract and is paid in advance by the lessee, as well as the creation of the financial leasing contract with the redemption value, and the additional costs of the leasing arrangements that are included in the calculation of the EIR.

Data on NIRs and EIRs for non-deposit financial institutions are presented for informative purposes for the needs of the users of this Information with respect to reviewing the actual relative price of microcredit and financial leasing agreements reported by MCOs and leasing companies in accordance with regulations.

2.1. MICROCREDIT SECTOR

2.1.1. THE STRUCTURE OF MICROCREDIT SECTOR IN THE FBiH

2.1.1.1. Status, Number and Branching

As of 31.03.2019, 13 MCOs have the FBA's operating licence, 11 of which are MCF (non-profit organisations) and two of which are the MCC (profit organisation). Compared to 31.12.2018 one new MCC obtain the operating license from the FBA in February 2019, which over the first quarter of 2019 did not start its activities. Microcredit sector operates through 366 registered organisational units of the MCOs seated in the FBiH. Compared to 31.12.2018, the number of organisational units is up by four or 1.0%. As of 31.03.2019 five MCC seated in RS perform their operations in the FBiH through 46 organisational units that is increase by one organisational unit compared to 31.12.2018.

Annex 7 includes the general information on MCF and MCC, which have the FBA's operating licence for micro lending business operations as of 31.12.2019.

2.1.1.2. Ownership structure

MCO is a legal entity which, in accordance with regulations, may be established and may operate as an MCF or an MCC. MCFs in the FBiH have been established by non-governmental, mostly humanitarian organizations, citizens' associations, and natural persons. The founders are entitled to be registered as founders without capital ownership rights on the basis of the donated capital for the establishment of MCFs, while MCC is 100% owned by one MCF. Newly registered MCC, which obtained the FBA license in the first quarter of 2019 is owned by three non-resident natural persons.

2.1.1.3. Structure of Human Resources

As of 31.03.2019 a total of 1,490 persons were employed in the micro-credit sector in FBiH, which is by 29 employees or 2.0% more than as of 31 December 2018. Out of the total number of employees in the micro-credit sector in the FBiH, 1,201 or 80.6% were employed in the MCF (11 of them), and 289 or 19.4% in the MCC. As of 31.03.2019 in the structure of employees, the highest share was recorded by employees with university education - 50.1%, followed by the employees with high school education - 40.3%, and with two-year post secondary education - 8.7%. The remaining share - 0.9% refers to low-skilled, skilled and highly skilled employees. Analyzing data on staff efficiency at the micro-credit sector level in FBiH as of 31.03.2019 it can be concluded that out of the total number of employees, 712 are microcredit officers or 47.8%, whereby the number of active microcredits per loan officer is 221, which is slightly less compared to 31.12.2018. (for six active microcredits or 2.6%).

2.1.2. FINANCIAL PERFORMANCE INDICATORS

2.1.2.1. Balance Sheet

Total assets of the micro-credit sector in the FBiH as of 31.03.2019 amounted to BAM 598.8 million, which is an increase of BAM 18.5 million or 3.2% compared to 31.12.2018²⁸. The growth of total MCC assets over the observed period amounts to BAM 5.4 million or 3.7%, while the growth of total MCF assets is BAM 13.0 million or 3.0%.

Annexes 9 and 10 of this Information show an overview of the aggregated balance sheet of MCFs and MCCs, while the Annex 11 shows an overview of the key financial indicators of MCOs as of 31.03.2019.

The aggregated balance sheet of microcredit sector as of 31.03.2019, with comparative data as of 31.12.2018 is presented in the table below:

-000 BAM-

No	Description	31.12.2018.			31.03.2019.			%	Index
		MCFs Balance	MCCs Balance	Total	MCFs Balance	MCCs Balance	Total		
1	2	3	4	5=(3+4)	6	7	8=(6+7)	9	10
ASSETS									
1.	Cash	48.291	9.107	57.398	45.910	8.103	54.013	9,0	94
2.	Facilities to banks	210	0	210	220	0	220	0,1	105
3.	Loans	322.369	134.551	456.920	328.962	138.751	467.713	78,1	102
4.	Loan loss provisions	-2.232	-672	-2.904	-2.425	-762	-3.187	-0,5	110
5.	Net loans	320.137	133.879	454.016	326.537	137.989	464.526	77,6	102
6.	Business premises and other fixed assets	24.918	1.751	26.669	29.582	4.061	33.643	5,6	126
7.	Long-term investment	33.061	0	33.061	33.061	0	33.061	5,5	100
8.	Other assets	6.900	2.270	9.170	11.262	2.290	13.552	2,2	148
9.	Provisions for other assets items, except loans	-135	-36	-171	-146	-46	-192	0,0	112
Total assets		433.382	146.971	580.353	446.426	152.397	598.823	100	103
LIABILITIES									
10.	Loan commitments	177.970	101.712	279.682	182.028	103.254	285.282	47,6	102
11.	Other commitments	21.647	6.155	27.802	27.599	8.249	35.848	6,0	129
12.	Capital	233.765	39.104	272.869	236.799	40.894	277.693	46,4	102
Total liabilities		433.382	146.971	580.353	446.426	152.397	598.823	100	103
13.	Off-balance sheet records	105.572	1.506	107.078	104.147	1.758	105.905	-	99

In the assets structure of the micro-credit sector of the FBiH as of 31.03.2019, the level and share of funds decreased, while other balance sheet items recorded an increase over the observed period. The largest growth was recorded with the positions of other assets and business premises and other fixed assets, which was mainly caused by the application of IFRS 16 - Leases, which is obligatory from 01.01.2019 and which is related to the growth of other liabilities.

Fixed assets rate in relation to total assets minus donated capital at the level of micro-credit sector as of 31.03.2019 account for 5.0%, which is within the prescribed limit (up to 10.0%), with one MCF showing a rate (60.4%) significantly higher than the standard indicator.

The net microcredit portfolio, as a dominant asset item of the microcredit sector with a share of 77.6%, recorded a growth in the absolute term of BAM 10.5 million or 2.3%, of which BAM 6.4 million or 2.0% refers to MCF and the amount of BAM 4.1 million or 3.1% to MCC compared to 31.12.2018. The level of reserves for credit losses increased by BAM 0.3 million or 9.7% over the

²⁸ The newly registered MCC did not start operations in the first quarter that is the reason why the balance sheet positions of this company are not presented.

observed period, with MCF amounting to BAM 0.2 million, with a growth rate of 8.6%, and MCC amounted to BAM 0.1 million, with a growth rate of 13.4%.

Total off-balance sheet records as of 31.13.2019 amounted to BAM 105.9 million and compared to 31.12.2018 it decreased by BAM 1.2 million or 1.1%, where MCF decreased by BAM 1.4 million or 1.3%, while MCC increased by BAM 0.2 million or 16.7%.

Out of the total amount of off-balance sheet records as of 31.03.2019 the largest item relates to the written - off principal on microcredits in the amount of BAM 93.6 million or 88.4%, and the written - off interest in the amount of BAM 10.1 million or 9.5%.

2.1.2.2. Capital and Liabilities

As of 31.03.2019 the largest items of liabilities of the micro-credit sector in FBiH refer to loan commitments, amounting to BAM 285.3 million or 47.6% of total liabilities and capital which amounts to BAM 277.7 million and accounting for 46.4% of total liabilities. The remaining amount of BAM 35.8 million, or 6.0%, relates to other liabilities (based on income taxes, to employees, suppliers, etc.).

Compared to 31.12.2018 over the first quarter of 2019, there was an evident increase of loan commitments by BAM 5.6 million or 2.0%. The maturity structure of loan commitments is given in the following table:

-000 BAM-

No.	Description	31.12.2018				31.03.2019				Index
		MCF	MCC	Total	%	MCF	MCC	Total	%	
1	2	3	4	5=(3+4)	6	7	8	9=(7+8)	10	11=9/5
1.	Liabilities on short-term loan	69.189	33.197	102.386	36,6	67.633	33.608	101.241	35,5	99
2.	Liabilities on long-term loans	108.781	68.515	177.296	63,4	114.395	69.646	184.041	64,5	104
	Total	177.970	101.712	279.682	100	182.028	103.254	285.282	100	102

In the structure of total liabilities on loan commitments as of 31.03.2019, the loan commitments of MCFs accounted for 63.8% and MCC for 36.2%. There were no significant changes in terms of maturity structure compared to 31.12.2018.

Over the observed period, at the level of the micro-credit sector in the FBiH, the total capital increase amounted to BAM 4.8 million or 1.8%, of which the amount of BAM 1.8 million or 37.5% of the total capital increase refers to MCC capital increase, while the capital of all MCFs in the observed period increased by BAM 3.0 million or 62.9% of the total capital increase of the micro-credit sector in the first quarter of 2019. The capital structure of the micro-credit sector in the FBiH is presented in the following table:

-000 BAM-

No.	Description	31.12.2018.					31.03.2019.					Index
		MCF balance	%	MCC balan	%	Total	MCF balance	%	MCC balance	%	Total	
1	2	3	4	5	6	7=(3+5)	8	9	10	11	12=(8+10)	13=12/7
1.	Donated capital	48.076	20,6	0	0,0	48.076	48.076	20,3	0	0	48.076	100
2.	Core capital	3.820	1,6	30.600	78,3	34.420	3.820	1,6	30.600	74,8	34.420	100
3.	Surplus/deficit of income over expens	181.168	77,5	0	0,0	181.168	184.206	77,8	0	0	184.206	102
4.	Issue premiums	0	0,0	0	0,0	0	0	0	0	0	0	0
5.	Unallocated profit	0	0,0	6.504	16,6	6.504	0	0	8.294	20,3	8.294	128
6.	Statutory reserves	0	0,0	2.000	5,1	2.000	0	0	2.000	4,9	2.000	100
7.	Other reserves	701	0,3	0	0,0	701	697	0,3	0	0	697	99
	Total capital	233.765	100	39.104	100	272.869	236.799	100	40.894	100	277.693	102

Of the total capital of the FBiH micro-credit sector, MCF capital amounted to BAM 236.8 million or 85.3%, with the largest items being excess of income over expenditures, which amounts to BAM 184.2 million, accounting for 77.8% of the total capital of the MCF and donated capital which amounts to BAM 48.1 million or 20.3%. Of the total donated capital, nine MCFs presented donations to the credit fund, of which 64.6% refers to three MCFs, 39.1% accounts for one MCF. The total capital of MCCs amounts to BAM 40.9 million, which makes 14.7% of the total capital of the micro-credit sector, and within its structure the largest items are: core capital in the amount of BAM 30.6 million or 74.8% and undistributed profit of BAM 8.3 million or 20.3%.

As of 31.03.2019 total capital of the micro-credit sector in the FBiH, less the total amount of donated capital amount to BAM 229.6 million, which is 38.3% of total liabilities, where in case of two MCFs total capital would have a negative value.

Observing the indicator of the capital ratio less donated capital in relation to assets, which as of 31.03.2019 at the level of the micro-credit sector account for 38.3%, it can be concluded that it is in accordance with the prescribed limit (more than 10%), where two MCFs are not in compliance with this standard, since this indicator has a negative value.

Other liabilities at the level of micro-credit sector, as of 31.03.2019, amounted to BAM 35.8 million, and compared to 31.12.2018 have increased by BAM 8.0 million or 28.9%, primarily as a result of the first application of IFRS 16 - Leases and it is associated with an increase in the position - Other assets, business premises and other fixed assets.

2.1.2.3. Assets and Asset Quality

Microcredit portfolio presented as a gross amount in the total balance sheet amount of the microcredit sector in the FBiH as of 31.03.2019 amounted to BAM 467.7 million or 78.1% of the total assets of the microcredit sector, that is, with a decrease for related LLP in the total amount of BAM 3.2 million or 0.5%, the net microcredit portfolio amounted to BAM 464.5 million or 77, 6% of total assets of the micro-credit sector in the FBiH. Compared to 31.12.2018 the gross microcredit portfolio increased by BAM 10.8 million or 2.4%, while the net microcredit portfolio increased by BAM 13.5 million or 3.0%. In the same period, the LLP level increased by BAM 0.3 million or 9.7%. LLP ratio against the total gross microcredit portfolio is 0.7% as of 31.03.2019, which compared to the same ratio on 31.12.2018 when it was 0.6%, present an increase of 0.1 percentage points.

In the structure of the total net micro-credit portfolio of the sector in the FBiH as of 31.03.2019, net micro - credits of MCFs amounted to BAM 326.5 million and accounted for 70.3% of the total net micro - credits at the sector level, while the amount of BAM 138.0 million or 29.7% of the total net micro - credits at the sector level refers to MCCs. Compared to 31.12.2018, net micro-credits of MCFs increased by BAM 6.4 million or 2.0%, while net micro-credits of MCCs increased by BAM 4.1 million or 3.1%.

Net micro-loans as of 31.03.2019, which comprise the total microloans minus LLP, are shown in the following table:

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No.	Opis	31.12.2018. godine			31.03.2019. godine			Index
		MCF	MCC	Total	MCF	MCC	Total	
1	2	3	4	5=(3+4)	6	7	8=(6+7)	9=8/5
1.	Microloans (gross)	322.369	134.551	456.920	328.962	138.751	467.713	102
2.	Loan Loss Provisions	2.232	672	2.904	2.425	762	3.187	110
3.	Net microloans (1.-2.)	320.137	133.879	454.016	326.537	137.989	464.526	102

In the maturity structure of the total microcredit portfolio as of 31.03.2019, presented on gross basis, the largest share account for long-term micro-credits with 93.3%, short-term micro-loans account for 6.4% and overdue claims on micro-credits with 0.3%.

Observing the sectoral structure, the share of micro-credits granted to natural persons is dominant with 97.1%, while the remaining 2.9% refers to micro-loans granted to legal entities. Within the microcredit portfolio of natural persons, the largest share of microcredit was approved for agriculture, which amounted to 34.1%, while for housing purposes it was approved 21.6%. In regard to the share other sectors followed with 20.9% and services with 18.3%, while trade share is 3.3% and production 1.8%.

As of 31.03.2019 MCOs had 157 041 active micro-credit parties, which is by 338 parties, or 0.2% more than at the end of the previous year. Average amount of microcredit at sector level as of 31.03.2019 amounted to BAM 2 998, which compared to 31.12.2018 is up by 2.1%. Analytically, the average amount of microcredit in MCF is BAM 2 601 and it is by 1.9% higher than on 31.12.2018, while in MCC it amounts to BAM 4 537 and it has increased by 2,5% over the period observed.

Analyzing the sectoral and maturity structure of microcredit, it can be concluded that microcredits mostly relate to long-term microcredits granted to individuals, which means that in most cases they are granted to persons who do not have access to traditional sources of financing, both because of the riskiness of the work they perform and due to lack of adequate collateral.

The provisions of the Decision on the Amount and Method of Forming and Maintaining Reserves for Covering Credit Losses of Microcredit Organizations, which has been in force since 2007, stipulate the obligation for MCOs to allocate microcredits and other receivables on a monthly basis to certain groups by applying the criteria for the number of days of repayment delay and that allocates reserves for each group to cover credit losses at the expense of operating expenses, according to established provisioning rates. Therby, the basis for calculating the amount of reserves is the amount of unpaid micro-credit, interest and fees due, and all other items where the MCO is exposed to the risk of inability to collect, i.e business failure. In that regard, MCOs are obliged to apply a system that allows for the creation and maintenance of reserves to cover credit losses, and to submit FBA reports using the prescribed forms. In accordance with the aforementioned reporting obligation, the following table gives an overview of receivables with related provisions by groups and number of days delay, as well as information on outstanding overdue receivables over 180 days, which were deducted from the balance sheet as of 31.03.2019:

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Table 37: LLP as of 31.03.2019

No.	Days past due	Provisioning rates	Loan amount	Share (%)	Interest due			Provisioning			Total provisions
					Provisioning rate	Interest amount	Amount of other assets items	By loans	By interest due	By other assets items	
1	2	3	4	5	6	7	8	9=(4x3)/100	10=(7x6)/100	11=(8x3)/100	12=(9+10+11)
1.	0	0%	459.069	98,1	0%	6	0	0	0	0	0
2.	1-15	2%	2.405	0,5	2%	35	0	49	1	0	50
3.	16-30	15%	2.734	0,6	100%	46	0	431	46	0	477
4.	31-60	50%	1.282	0,3	100%	35	0	641	35	0	676
5.	61-90	80%	787	0,2	100%	33	0	630	34	0	664
6.	91-180	100%	1.436	0,3	100%	75	0	1.437	75	0	1.512
Total			467.713	100		230		3.187	191	0	3.378
7.	over 180	Write-off	1.008		100%	84	0	0	0	0	0

In the overall microcredit portfolio, 98.1% refers to microloans which are not defaulted, while 1.9% refers to defaulted microloans, out of it 1.1% microloans defaulted up to 30 days, and 0.8% for microloans defaulted from 31 to 180 days. Microloans receivables which are defaulted more than 180 days' amount to BAM 1.0 million and account for 0.2% of the overall microcredit portfolio.

Out of the total amount of interest due (BAM 0.2 million), payment overdue up to 30 days make 37.8%, overdue between 31-90 days accounts for 62.2%. For the interest due which are not paid within period of 15 days, MCO is required to formulate 100% the reserves to cover credit losses. As of 31.03.2019 interest written-off amount to BAM 0.1 million. Out of the total amount of microloans provisioning, interest and other assets items as of 31.03.2019 (BAM 3.4 million), the largest item accounts for microloan reservations for overdue from 91 to 180 days, which amounts to BAM 1.5 million or 44.8% of the total amount of reservations. Total reservations for interest due amounts to BAM 0.2 million or 5.7% of the total amount of reservations.

Key Indicators of Microcredit Portfolio Quality

As of 31.03.2019 and compared to 31.12.2018, the gross microloan portfolio saw an increase in the absolute amount of BAM 10.8 million or 2.4%. In the same period, the coverage of gross microloans with loan loss reserves increased from 0.64%, as it was on 31.12.2018, to 0.68%, which is increase by 0.04 percentage points.

The indicator of the portfolio at risk exceeding 30 days past due (PAR>30 days) as of 31.03.2019 at the level of microcredit sector amounts 0.75% and it is up by 0.03 percentage points compared to 31.12.2018, when it amounted 0.72%. This risk indicator of microcredit portfolio at the level of sector is within regulatory standard (below 5%), where two MCFs do not meet requirements, since their indicator is 7.4% i.e. 18.4%.

The portfolio at risk for more than one day past due (PAR>1 day) at the level of microcredit sector as of 31.03.2019 amounts to 1.85% and it is increased by 0.26 percentage points compared to 31.12.2018 when amounted 1.59%.

At the level of microcredit sector, the rate of write-offs amounts to 0.87% as of 31.03.2019, which is within the FBA standard (below 3%). This indicator records a constant downward trend since the end of 2014, when it was above the mentioned standard. Therein, two MCFs do not meet this FBA standard, since their indicator is above 3% (5.4% i.e. 7.1%). The same MCFs also do not meet the standard related to portfolio at risk over 30 past due days.

As of 31.03.2019, the total amount of write-offs at the level of microcredit sector amounted to BAM 103.7 million, where BAM 93.6 million account for the written-off principal (natural persons - BAM 90.3 million and legal entities – BAM 3.3 million) and BAM 10.1 million account for written-off interest (natural persons – BAM 9.8 million and legal entities BAM 0.3 million). The number of written-off loan accounts is 38 711 which compared to 31.12.2018 decreased by 445 micocredit accounts or 1.1%.

Out of the total amount of written-off receivables at the level of microcredit sector as of 31.03.2019 the amount of BAM 104.8 million refers to the opening balance on 01.01.2019, the collection of written-off receivables during the first quarter of 2019 accounts for BAM 2.0 million, new written-offs over the same period amount to BAM 1.0 million and permanent write-offs BAM 0.1million.

2.1.2.4. Profitability

In accordance to legal regulations MCOs operate as non-deposit financial organisations whose primarily activity is micro lending that is performed with the objective to improve material position of microcredit user, increase of employment, providing support to enterprise development and making profit. Pursuant to legislation MCO is a legal entity which can be established and operate either as MCC or MCF, wherein provisions of the Article 13 of the Decision on requirements and other operational standards and limitations in microcredit organisations provide division of any excess of resources over expenditure for MCF and distributions of profit for MCC. According to this provision, it is not allowed to make direct or indirect distribution of any excess of revenues over expenditure to founders, members of the bodies, responsible persons and employees with MCFs or to other connected persons, donors or third parties. Also, it is not allowed indirect distribution of MCC profit established by the MCF or in which MCF holds an investment. Thereby, provisions precisely define what is considered as indirect distribution of any excess of revenues over expenditure

Pursuant to other standards of MCO operations and limitations defined in Articles 11 and 12 of the subject Decision, MCF is obliged to use operational profit of MCC only for operations under Article 15 of the LoMCO and objectives defined by the MCF Statute that should compile with the Law.

MCOs are obliged to ensure that return on assets, adjusted for inflation, market price of capital and donation must be positive, and operational efficiency which should not be higher than 45%.

Financial result of the microcredit sector in the FBiH

According to the reporting data from MCOs, over the first quarter of 2019, the overall financial result at the level of microcredit sector of the FBiH was positive and amounted to BAM 5.1 million that is by BAM 0.4 million or 8.7% more than in the same period of 2018. It is the consequence of rise in overall income by BAM 1.7 million or 7.8% which is dominantly generated by the growth of total interest and similar income in the amount of BAM 1.7 million that is growth of 8.3% compared to the same period of 2018, and slight increase of the operating income in the amount of BAM 0.1 million or 3.0%. The presented growth trend of total income is followed by the growth of total expenses by BAM 1.3 million or 6.7% compared to the same period of 2018, where the interest and similar expenses recorded growth in the amount of BAM 0.2 million or 7.8%, and operating expenses in the amount of BAM 1.2 million or 7.8%, while loan loss provisions and other losses recorded decrease in the amount of BAM 0.1 million or 6.9%. At the level of microcredit sector, as of 31.03.2019 an extraordinary income is recorded in the amount of BAM 2.6 million that compared to the same period of 2018 presents an increase by BAM 0.2 million or 8.3%, and extraordinary expenses amounted to BAM 0.2 million and slightly decreased (by BAM three thousands or 1.6%).

The structure of aggregated income statement at the level of microcredit sector in the FBiH is presented in the table below:

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No	Description	Period 01.01. - 31.03.2018				Period 01.01. - 31.03.2019				Index
		MCF	MCC	Total	%	MCF	MCC	Total	%	
1	2	3	4	5=(3+4)	6	7	8	9=(7+8)	10	11=(9/5)
1.	Income									
1.1.	Interest income and similar income	16.149	3.908	20.057	90,4	15.803	5.917	21.720	90,8	108
1.2.	Operating income	1.790	349	2.139	9,6	1.685	519	2.204	9,2	103
2.	Total income (1.1.+1.2.)	17.939	4.257	22.196	100	17.488	6.436	23.924	100	108
3.	Expenses									

3.1.	Interest expenses and similar expenses	2.061	842	2.903	14,7	1.990	1.139	3.129	14,9	108
3.2.	Operating expenses	13.305	1.998	15.303	77,7	13.504	2.998	16.502	78,5	108
3.3.	Expenses for loan loss provisions and other losses	1.120	377	1.497	7,6	1.029	365	1.394	6,6	
4.	Total expenses (3.1.+3.2.+3.3.)	16.486	3.217	19.703	100	16.523	4.502	21.025	100	107
5.	Extraordinary incomes	2.405	6	2.411	-	2.541	69	2.610	-	-
6.	Extraordinary expenses	120	72	192	-	174	15	189	-	-
7.	Total income-expenses (2+5-4-6)	3.738	974	4.712	-	3.332	1.988	5.320	-	113
8.	Excess/deficit income over expenditure	3.738		3.738	-	3.332	-	3.332	-	89
9.	Profit before tax		974	974	-	-	1.988	1.988	-	204
10.	Taxes		0	0	0	-	198	198	-	-
11.	Net profit/loss		974	974	-	-	1.790	1.790	-	184
12.	Total financial result/Profit			4.712	-	-	-	5.122	-	109

Annexes 12 and 13 provide an overview of the aggregated income statement of the MCF and aggregated income statement for MCC, and below is analyse of the financial result for MCCs and MCFs.

According to the reporting data as of 31.03.2019 MCC reported net profit in the amount of BAM 1.8 million, which compared to the same period of the previous business year in relative terms represents a significant increase of 83.8% or in absolute amount of BAM 0.8 million. The reported growth of MCC's net profit was influenced by the growth of total MCC revenues by BAM 2.2 million or 51.2%, which was followed by a slower growth of total expenses by BAM 1.3 million or 39.9% compared to the same period of 2018, while reducing extraordinary expenses and increasing extraordinary income, which were not materially significant.

Within the growth of total income, the interest and similar income growth rate in the MCC is 51.4% and operating income 48.7%. Within the growth of total expenses in MCC, a growth rate of interest and similar expenses in 35.3% and operating expenses 50.1%, with decrease of provisions for credit and other losses of 3.2%.

In the same period MCFs presented an excess of income over expenditure in the total amount of BAM 3.3 million, which compared to 31.03.2018 presents a decrease in the amount of BAM 0.4 million or 10.9%. It is the consequence of decrease in total income of MCFs by BAM 0.5 million or 2.5% with a parallel slight increase of total expenditure by BAM 0.1 million or 0.2%. Analysing the structure of total MCFs income it is evident that interest and similar income decreased by the amount of BAM 0.4 million or 2.1%, same as operating income by BAM 0.1 million or 5.9%. Over the same period MCFs interest and similar expenses decreased by the amount of BAM 0.1 million or 3.4%, operating expenses increased by BAM 0.2 million or 1.5%, and loan loss and other provisions decreased by BAM 0.1 million or 8.1%. The presented extraordinary income rise by 0.1 million or 5.7%, with an increase of extraordinary expenses by BAM 0.1 million or 45.0%.

Analytically observed, as of 31.03.2019, only one MCF recorded deficit of income over expenditure. The share of three MCFs in the total recorded excess of income over expenditure is 79.1%, where one MCF holds share of 47.5% in the total amount of excess of income over expenditure. Observed by the structure, six MCFs record deficit of income over expenditure from regular businessing, thus indicate a conclusion that five MCFs presented positive financial result in the first quarter of 2019 due to the extraordinary income.

Indicators of efficiency and sustainability of microcredit sector of the FBiH

As of 31.03.2019 business operational efficiency of microcredit sector of the FBiH amount to 18.4%, that is within required indicator of up to 45% which is required MCO compliance with Article 12, paragraph (1) of the subject Decision²⁹. Thereby, three MCFs derogate from required indicator since that according to reporting data they present this indicator higher than 45%.

At the level of micro-credit sector in the FBiH as of 31.03.2019, reported return on assets, adjusted for inflation, the market price of capital and donations, is positive and amounts to 2.90%. Thereby, four MCFs do not meet the prescribed limitation, given that their indicator is negative.

Indicator of operational sustainability of microcredit sector of the FBiH, used as common standard and presented by ratio of the total income from ordinary activities (excluding extraordinary income) and total expenditures amounts to 112.8% indicating operational sustainability of the sector (above 100%). Thereby six MCFs reported this indicator below 100% (interval in range from 43.5% to 98.4%), indicating those MCFs cannot cover all expenditures from generated income, i.e. facing difficulties with operational sustainability. Out of those six, four MCFs have not meet common standard for operational sustainability indicator in 2017, one more MCF in 2018 and another one in the first quarter of 2019 have not meet this common indicator.

2.1.3. RECOMMENDATIONS FOR THE MICROCREDIT SECTOR

Starting from the improvements conducted in terms of the regulatory framework for supervision and operations of MCOs, the FBA will, within the prescribed competencies, continue with the planned supervisory activities, which will be focused on supervision of:

- MCOs business compliance with regulations, with the objective of full application of the LoMCO provisions for the achievement of microcredit targets in terms of improvement of a material position of microcredit user, contribution to employment rate and support to entrepreneurship development,
- implementation of the regulatory framework for the operation and supervision of MCOs in the FBiH, with the aim of full and adequate implementation of the applicable regulations and increasing the transparency of operations of the micro-credit sector in the FBiH and taking appropriate supervisory measures.

The microcredit sector in the FBiH has an obligation to apply the prescribed standards and restrictions in performing its microcredit, reporting and auditing activities in its operations, starting from the prescribed regulatory requirements and objectives of microcredit. In view of the above, it is necessary that the competent bodies of the MCOs ensure that the business is in compliance with the prescribed standards, especially with regard to:

- Business operations compliance with legal regulations and provision which prescribe that the objective of micro lending operations is improvement of the material position of microloan user, increase of employment, provision of support to the development of entrepreneurship, adjustment and control of interest rates for microloans, starting from the basic objectives of the micro lending and legal provisions on protection of users of financial services, providing that way its contributions to the stability and sustainability of the microcredit sector in the FBiH
- establishment and improvement of sound risk management practices to which MCO are or might be exposed, effective internal controls systems and independent function of the internal audit;

²⁹ Decision on conditions and other operational standards and limitation in microcredit organization.

- optimisation of MCO resources and application of the principle of responsible lending via microloans, i.e. sound business practices in operating with MCF funds;
- harmonization, i.e. improvement of indicators for operational efficiency and operational sustainability;
- regular, timely, and accurate submission of data to the CBBH for the purposes of CRC, etc;
- Improvement of business transparency etc.

The MCFs which are less capitalized and/or have the materially relevant amount of written-off microloans, should establish and implement clear and consistent strategical directions regarding identification of the acceptable partners for consolidation, i.e. the merging to the larger and stronger MCF, in order to optimize the resources, preserve donated funds, ensure support of foreign creditors, and assure the future of the employees in MCO, that will be the subject of the supervisory concerns with the objective to preserve the stability of the microcredit sector and achievement of the legally prescribed objectives and operations in micro crediting in the FBiH.

2.2. LEASING SECTOR

2.2.1. STRUCTURE OF LEASING SECTOR IN THE FBiH

2.2.1.1. Number of Leasing Companies

As of 31.03.2019, seven leasing companies in the FBiH had operating licences to perform leasing operations. Compared to 31.12.2018 there was no change in number of leasing companies in the FBiH.

Annex 14 provides the main data on leasing companies in the FBiH.

2.2.1.2. Ownership Structure

According to data as of 31.03.2019, the ownership structure of the leasing companies in the FBiH is the following: three leasing companies are 100% owned by non-resident legal entities, one leasing company is in majority ownership of a non-resident legal entity, one leasing company is in majority ownership of non-resident natural person, and two leasing companies are 100% owned by resident legal entities.

Detailed information on the overview of the ownership structure of leasing companies in the FBiH is provided in Annex 16.

2.2.1.3. Structure of Human Resources

As of 31.03.2019, there are 123 employees in the leasing sector in the FBiH, out of it 120 of which employees engaged on the basis of regular contract (reporting category employment on permanent basis), while three persons were recruited via student services and organisations mediating in employment (reporting category temporary employees). Number of permanent employees is up by 16 employees of 15.4% compared to the same period of 31.12.2018.

In regard to the qualification structure of employees in the leasing sector of the FBiH as of 31.03.2019, there were no significant changes compared to the previous reporting periods. The highest share has employees with the university degree (69.2%), followed by secondary school qualification (15.8%).

The performance assessment of a leasing company is based on ratio of the assets/headcount ratio (assets per employee), and according to indicators on 31.03.2019 at the level of leasing sector in the FBiH, each employee accounts for BAM 2.4 million assets. Compared to the previous reporting period this indicator drop down by BAM 0.1 million or 4.5%. The analytical indicators for the individual leasing companies in the FBiH are in range from BAM 0.3 to BAM 4.8 million assets per employee. As of 31.03.2018 three leasing companies have a higher indicator of assets per employee in relation to the average of the leasing sector in the FBiH, while other leasing companies are below the average.

2.2.2. FINANCIAL PERFORMANCE INDICATORS

2.2.2.1. Balance Sheet

As of 31.03.2019, the total assets of the leasing sector in the FBiH amounted to BAM 288.5 million and it is down by BAM 8.6 million or 2.9%, compared to 31.12.2018. In terms of asset size, two leasing companies account for 70.9% of the total assets of leasing companies in the FBiH.

The Annex 17 shows the consolidated balance sheet of leasing companies in the FBiH by reporting data as of 31.03.2019.

When comparing the individual balance sheet totals of leasing companies with the data as of 31.03.2019 and 31.12.2018, it can be concluded that three leasing companies presented increase in the balance sheet in the amount of BAM 9.4 million, while four leasing companies presented decrease of balance sheet in the total amount of BAM 18 million, out of it BAM 8.6 million or 47.6%, from the total decreased amount of the balance sheet, refers to one leasing company.

Annex 18 provides an overview of assets, financial leasing receivables and net balances of operating leases and financial results of leasing companies as of 31.03.2019. Annex 19 provides an overview of the basic financial indicators at the system level (leasing companies and bank that performs financial leasing operations).

In the structure of the total assets of the leasing sector in the FBiH, the highest share accounts for net receivables for financial leasing, which amounts to BAM 218.6 million or 75.8% of the total assets. Compared to 31.12.2018 net receivables for financial leasing are up by BAM 3.9 million or 1.8%, while gross receivables for financial leasing are up by BAM 8.2 million or 3.5%.

Review of the reports of the bank performing financial leasing operations, it was concluded that net receivables from the financial leasing agreements amounted to BAM 77.6 million, so that total net receivables at the level of the leasing system in FBiH amounted to BAM 296.2 million and they are at approximately the same level as in the previous reporting period (by BAM 3.9 million or 1.8% lower compared to 31.12.2018). In the structure of financial leasing receivables at the level of leasing of the sector in the FBiH, contracts approved on the basis of financing passenger and business vehicles participate with 86,4%, contracts on financing of equipment participate with 12,6%, while contracts that financed real estate account for 1.0%.

The tables below provide the structure of receivables for financial leasing at the level of the leasing sector in the FBiH (receivables before impairment on the basis of reserves for losses) as of 31.03.2019 and a parallel overview of the receivables structure as of 31.12.2018 and 31.03.2019:

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Table 39: Structure of Leasing Sector Receivables for Financial Leasing - 31.03.2019					
By leasing object	Short-term receivables	Long-term receivables	Past due receivables	Total receivables	Share in total receivables
1	2	3	4	5	6
Passenger vehicles	30.334	59.808	696	90.838	41,4%
Company vehicles (cargo and passenger)	37.832	59.736	1.329	98.897	45,1%
Machinery and equipment	10.012	17.234	421	27.667	12,6%
Real estate	354	1.674	43	2.071	0,9%
Other	2	0	0	2	0,0%
Total	78.534	138.452	2.489	219.475	100%
By lessee	Short-term receivables	Long-term receivables	Past due receivables	Total receivables	Share in total receivables
1	2	3	4	5	6
Legal entities	70.335	119.782	2.189	192.306	87,6%
Entrepreneurs	1.957	3.528	41	5.526	2,5%
Natural persons	4.399	12.363	253	17.015	7,8%
Other	1.843	2.779	6	4.628	2,1%
Total	78.534	138.452	2.489	219.475	100%

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Table 40: Structure of Receivables for Financial Leasing – Comparative Overview			
By leasing object	Receivables as of 31.12.2018	Receivables as of 31.03.2019	Index
1	2	3	4=(3/2)
Passenger vehicles	86.363	90.838	105
Company vehicles (cargo and passenger)	99.446	98.897	99
Machinery and equipment	27.434	27.667	101
Real estate	2.324	2.071	89
Other	4	2	50
Total	215.571	219.475	102
By lessee	Receivables as of 31.12.2018	Receivables as of 31.03.2019	Index
1	2	3	4=(3/2)
Legal entities	191.495	192.306	100
Entrepreneurs	5.416	5.526	102
Natural persons	14.478	17.015	118
Other	4.182	4.628	111
Total	215.571	219.475	102

As of 31.03.2019 the net claim arising from a loan amounted to BAM 6.0 million or 2.1% of the total assets of the leasing sector in the FBiH. Compared to 31.12.2018, net claim arising from a loan were reduced by BAM 0.2 million or 3.3%. Claims arising from a loan in the structure of total assets of leasing companies have been reduced due to a continuous decrease in loan claims, because the provisions of the LoL prohibited leasing companies from concluding new loan agreements, wherein it will remain recorded in the leasing companies' balances in the FBiH until the expire of deadlines for which they have been approved.

The presented amount of net receivables from the loan relates to the receivables of one leasing company, which in its portfolio has significant amounts of loans receivable from subsidiaries, through which real estate construction projects were financed before the LoL came into force.

The presented balance sheet item cash and cash equivalents as of 31.03.2019 amounted to BAM 6.3 million, which is by BAM 7.6 million or 54.6% less than compared to 31.12.2018. Share of this position in total assets as of 31.03.2019 was 2.2%, which is less compared to 31.12.2018, when it was 4.8%.

As of 31.03.2019, facilities to banks amounted to BAM 9.0 million which is by BAM 8.3 million or 48% less compared to 31.12.2018. This position is mainly related to term assets of leasing companies with the commercial banks.

The significant decrease of the the previously described cash positions was primarily caused by the distribution of profit to the owner of one leasing company, which in liabilities was reflected to the reduction of capital at the level of the leasing sector in FBiH, and to a lesser extent increased business activities at the level of the leasing sector in the FBiH, which was reflected in the increase of net financial leasing receivables, tangible and intangible assets (operating leasing and own funds), and inventories.

Net value of fixed assets financed through operating leasing as of 31.03.2019 amounted to BAM 38.6 million and has increased by BAM 3.2 million or 9.2% compared to 31.12.2018. Individually observed, one leasing company reported an increase in net value of fixed assets financed through operating leasing in the amount of BAM 3.6 million, while three leasing companies reported a decrease in the amount of BAM 0.4 million.

The structure of the net balance sheet positions of the assets of the leasing sector in the FBiH can be observed from the following table review:

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Table 41: Structure of net balance sheet positions

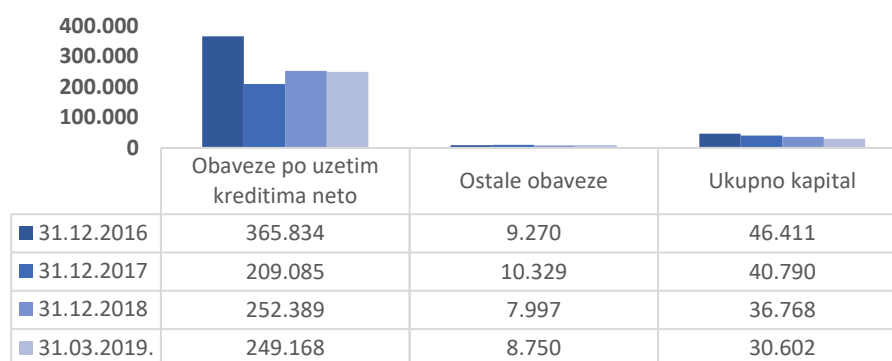
Description	31.12.2018	Share in assets %	31.03.2019	Share in assets %	Index
1	2	3	4	5	6=(4/2)
Financial Leasing	214.674	72,3%	218.593	75,8%	102
Operational leasing	35.385	11,9%	38.628	13,4%	109
Loan	6.253	2,1%	6.046	2,1%	97
Other assets	40.842	13,7%	25.253	8,7%	62
Total	297.154	100%	288.520	100%	97

2.2.2.2. Capital and Liabilities

As of 31.03.2019, the total liabilities of the leasing sector amounted to BAM 257.9 million, which accounts for 89.4% of the total liabilities of the leasing companies in the FBiH. Compared to 31.12.2018, the total liabilities at the sector level increased by BAM 2.5 million or 0.9%.

Graph 9 shows the liabilities structure of the leasing sector in the FBiH:

Graph 9: Liabilities Structure



Loan commitments of the leasing companies in the FBiH as of 31.03.2019 still remain the dominant position in the structure of total liabilities of the leasing sector, since they account for 86.4% of total sources of funds. Compared to 31.12.2018 the position of loan commitments decreased by BAM 3.2 million or 1.3%. Borrowings from commercial foreign and domestic banks, which mainly belong to banking groups to which leasing companies belong, account for 43.2% of total credit debt, 28.5% refer to direct debt from the founders and 28.3% to debt from the EIB, EBRD, CEDB and DEG. Loan funds from these banks are by nature earmarked and mainly relate to the development of medium and small enterprises and are provided with bank guarantees issued by parent banks or their holding companies. The total amount of borrowings, in terms of the contractual maturity, relates to long-term borrowings.

Total weighted NIR paid by leasing companies to sources of funds in the period from 01.01 to 31.03.2019 was 1.5% annually (the interest rate calculated on the basis of the average balance of loans taken and interest expense over the observed period) and is at the same level as in the period 01.01.-31.12.2018, when it was 1.4%.

Total capital of the leasing sector in the FBiH as of 31.03.2019 amounted to BAM 30.6 million. Compared to 31.12.201 this position was reduced by BAM 6.2 million or 16.8%. Individually observed, the three leasing companies reported an increase in total capital compared to 31.12.2018 in the amount of BAM 1.2 million, while for four leasing companies there was a decrease in total capital in the amount of BAM 7.4 million, of which one leasing company refers to BAM 6.7 million or 73.4% of the total decrease, due to the distribution of significant amount of profit to the owner of that leasing company, wherein the amount of capital remained in compliance with the minimum statutory amount.

As of 31.03.2019 one leasing company reported a total amount of capital lower than the minimum amount prescribed by the provisions of the LoL. The foregoing is caused by administrative difficulties in the process of transferring ownership shares from the existing to the new owner of the leasing company. The completion of the transfer of ownership shares as well as the recapitalization of the Company is expected to be finalised by the end of the second quarter of 2019.

2.2.2.3. Assets and Asset Quality

According to the reporting data at the level of the leasing sector in the FBiH, loan loss provisions for financial leasing as of 31.03.2019 were reported in the amount of BAM 0.9 million and they are down by the amount which is not materially significant (BAM 15 thousands or 1.7%) compared to 31.12.2018. In the structure of receivables for financial leasing as of 31.03.2019, a total of BAM 2.5 million of outstanding past due receivables was recorded, which are up by BAM 03 million or 11.3% compared to 31.12.2018.

Annex 20 provides a detailed overview of reserves for financial leasing, while the table below shows the structure of formed reserves for losses of the leasing sector by category of default:

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Days past due	Total reserves 31.12.2018	Total reserves 31.03.2019	Index
1	2	3	4=(3/2)
0-60	325	441	136
60-90	19	49	258
90-180	120	82	68
over 180	427	310	73
over 360	6	0	0
Total	897	882	98

The slight increase of past due receivables and the decrease in formed reserves for losses further indicate the continued stabilization of operations and the fact that in 2019 there was no deterioration in the quality of the portfolio related to financial leasing receivables. Observed by categories of overdue receivables, compared to 31.12.2018, it is evident decrease of loss provisions in the categories of default from 90-180 days, 180 and over 360 days, while the increase was recorded in the categories 0-60 and 60-90.

Loan reserves as of 31.03.2019 amounted to BAM 5.9 million and are unchanged from the level as of 31.12.2018. The total amount of loan reserves formed as of 31.03.2019 was formed by a leasing company that has a significant amount of loan agreements from subsidiaries in its portfolio.

Annex 21 provides an overview of loan reserves of leasing companies.

Total amount of written off receivables for financial leasing and loan as of 31.03.2019 amount to BAM 73.0 million and is approximately at the same level as on 31.12.2018. Out of the total amount of written off receivables, the amount of BAM 40.7 million or 55.8% relates to the written offs of one leasing company.

Market value of exempted leasing items due to termination of the leasing contract with the lessee as of 31.03.2019 at the level of the FBiH leasing sector amounts to BAM 1.4 million and has increased compared to 31.12.2018 by BAM 0.1 million or 6.3%, while the number of seized items is reduced by one unit. The structure of exempted objects of the leasing sector is shown in the following table:

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Table 43: Izuzeti predmeti sektora lizinga

Type of leasing object	31.12.2018.		31.03.2019.	
	Number of units	Estimated market value of the leasing object	Number of units	Estimated market value of the leasing object
1	2	3	4	5
Passenger vehicles	19	299	16	364
Company vehicles (cargo and passenger)	2	16	3	33
Machinery and equipment	3	96	3	96
Real estate	6	931	7	934
Other	0	0	0	0
Total:	30	1.342	29	1.427

Out of the total amount of estimated value of exempted objects of the leasing sector in the FBiH as of 31.03.2019, 65.5% still relate to real estate (business premises) for which the leasing companies entered into possession due to the breach of contractual obligations by the lessee. The total amount of this position relates to two leasing companies.

Observed at the level of the FBiH leasing system on 31.03.2019, the market value of exempted leasing objects was BAM 9.7 million and it slightly decreased (by BAM 63 thousand or 0.6%) compared to 31.12.2018. Out of the mentioned amount of exempted leasing objects, the objects exempted by the leasing bank refer to the amount of BAM 8.3 million or 85.3% of the total market value of the exempted objects presented at the level of the leasing system.

The current market situation and inadequate criteria for approval of financing from previous years make it difficult to sell or re-finance the acquired real estate through financial or operating leasing, especially considering the fact that the acquired real estates are mainly business-production facilities.

2.2.2.4. Profitability

According to the reporting data of leasing companies, at the level of the leasing sector in the FBiH in the period from 01.01. to 31.03.2019 net profit in the amount of BAM 0.3 million was reported and it has decreased by BAM 2.6 million or 88.7% compared to the same period in 2018. The reported decrease was influenced by a decrease in total revenues, which amounted to BAM 2.3 million or 24.7% in the observed period, with a simultaneous increase in total expenses by BAM 0.4 million or 5.6%. Individually, three leasing companies reported a positive financial result of BAM 1.2 million, of which one leasing company reported an amount of BAM 0.5 million or 42.8%, while four leasing companies reported a negative financial result in the amount of BAM 0.9 million, of which BAM 0.3 million or 32.9% of the total negative financial result relates to one leasing company.

Aggregated balance sheet of leasing companies in the FBiH as of 31.03.2019 is presented in the Annex 22 of this Information.

Total income of the leasing sector in FBiH as of 31.03.2019 amounted to BAM 7.0 million, and the level and structure of total income with comparative data for the same period of the previous two financial years are presented in the following table:

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Structure of the total income	31.03.2017.		31.03.2018.		31.03.2019.		Index	
	Amount	%Share	Amount	%Share	Amount	%Share	8=(4/2)	9=(6/4)
1	2	3	4	5	6	7	8=(4/2)	9=(6/4)
I Interest income and similar income								
Interest on financial leasing	3.945	41,1	2.206	23,8	2.632	37,8	56	119
Interest on facilities to banks	62	0,6	86	0,9	68	1,0	139	79
Other interest income	874	9,1	456	4,9	358	5,1	52	79
Total I	4.881	50,9	2.748	29,7	3.058	43,9	56	111
II Operating income								
Fees for operational lease	3.042	31,7	2.886	31,2	3.224	46,2	95	112
Service fees	0	0,0	1	0,0	1	0,0	0,0	100
Other operating income	1.672	17,4	3.620	39,1	688	9,9	217	19
Total II	4.714	49,1	6.507	70,3	3.913	56,1	138	60
Income from release of reserves for losses	0	0,0	0	0,0	0	0,0	n/a	n/a
Total income (I+II)	9.595	100	9.255	100	6.971	100	96	75

Observed by type of income, interest income of the FBiH leasing sector in the period from 01.01. to 31.03.2019 amounted to BAM 3.1 million, and they increased by BAM 0.3 million or 11.3% compared to the same period of the previous year. The most significant item of interest income is interest income from financial leasing in the total amount of BAM 2.6 million, which is by BAM 0.4 thousand or 19.3% higher than in the same period of the previous business year.

The operating income category amounted to BAM 3.9 million, and it is down by BAM 2.6 million or 39.9% compared to the same period of the previous year due to reduced collection on written off receivables.

Total expenses as of 31.03.2019 amounted to BAM 6.6 million, and the level and structure of total expenses with comparative data for the period of the previous two financial years are presented in the following table:

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Table 45: Structure of the total expenses

Structure of the total expenses	31.03.2017.		31.03.2018.		31.03.2019.		Index	
	Amount	%Share	Amount	%Share	Amount	%Share	8(4/2)	9(6/4)
1	2	3	4	5	6	7	8(4/2)	9(6/4)
I Interest expenses and similar income								
Interest on borrowed funds	1.442	18,1	753	12,0	917	13,8	52	122
Loan processing fees	25	0,3	20	0,3	26	0,4	80	130
Other interest expenses	1	0,0	0	0,0	0	0,0	n/a	n/a
Total I	1.468	18,4	773	12,3	943	14,2	53	122
II Operating expenses								
Costs of salaries and contributions	1.682	21,1	1.206	19,2	1.408	21,2	72	117
Costs of business premises	2.640	33,1	2.281	36,3	2.203	33,2	86	97
Other expenses	2.166	27,1	1.845	29,4	2.058	31,0	85	112
Total II	6.488	81,3	5.332	84,9	5.669	85,4	82	106
III Costs of Reserves	-34	-0,4	178	2,8	23	0,4	524	13
Income tax	57	0,7	0	0,0	0	0,0	0	n/a
Total expenses (I+II+III)	7.979	100	6.283	100	6.635	100	79	106

Interest expense in the first quarter of 2019 amounted to BAM 0.9 million and they are higher than in the same period of the previous business year by BAM 0.2 million or 22.0%. In the same period, total operating expenses increased by BAM 0.3 million or 6.3%, as well as individual categories of expenditures (salary and contribution costs and other expenses), and business premises expenses decreased.

Over the observed period it is evident slight increase of net interest income, which is mainly due to the business of the leasing company, which started operating in the second half of the previous business year.

2.2.2.5. Structure by Leasing Object and Type

The value of newly-concluded financial and operational leasing arrangements in the period from 01.01 to 31.03.2019 amounted to BAM 43 million at the level of the leasing sector, and it is up by BAM 7.3 million or 20.6% compared to the same period of the previous business year.

In the same time period, the number of newly-concluded arrangements was 1 343 and it is up by 399 arrangements or 42.3% compared to the same period of the previous year.

The average value of arrangements concluded in the first quarter of 2019 at the level of the leasing system amounted to BAM 32 thousand, and it is lower compared to the same period of the previous year, when it amounted to BAM 37.7 thousand.

Out of the total realized value of newly-concluded arrangements in the first quarter of 2019, the amount of BAM 35.6 million or 82.8% account for financial leasing arrangements. Compared to the same period of the previous business year, and previous reporting periods, it is evident continuation of the growth trend of operational leasing arrangements in the total volume of newly-concluded arrangements.

The following tables show a parallel overview of the realized volume of newly-concluded arrangements in the first quarter of 2019 and over the same period of the previous business year as well as comparative overview of the number of arrangements concluded in the same period:

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Table 46: Structure of Financing Amounts of the Leasing Sector

Description	31.03.2018			31.03.2019		
	Financial leasing	Operational leasing	Total	Financial leasing	Operational leasing	Total
	1	2	3	4=(2+3)	5	6
Vehicles	27.703	4.315	32.018	31.495	7.393	38.888
Equipment	3.422	0	3.422	4.081	0	4.081
Real estate	188	0	188	0	0	0
Other	0	0	0	0	0	0
Total	31.313	4.315	35.628	35.576	7.393	42.969

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Table 47: Structure of Concluded Arrangements

Description	31.03.2018			31.03.2019		
	Financial leasing	Operational leasing	Total	Financial leasing	Operational leasing	Total
	1	2	3	4=(2+3)	5	6
Vehicles	755	158	913	1.105	203	1.308
Equipment	30	0	30	35	0	35
Real estate	1	0	1	0	0	0
Other	0	0	0	0	0	0
Total	786	158	944	1.140	203	1.343

The total amount of new financing in the first three months of 2019 was realized by four leasing companies and one bank, which deals with financial leasing to a significant extent (the successor of the leasing company that was merged to in), while three leasing companies have suspended the conclusion of new contracts. with the exception of individual cases of financing exempted leasing objects.

In the structure of new placements, by type of lessee, is dominated by placements to legal entities, which account for 86.8% of the total amount of financing in the first three months of 2019. One of the important reasons is the fact that financing through leasing for individuals is less favorable than credit placements due to the obligation to pay VAT on interest, which is an additional cost to clients who are not VAT obligors.

2.2.3. RECOMMENDATIONS FOR THE LEASING SECTOR

Within its competences for the supervision of leasing companies in the FBiH, the FBA will continue with the activities planned which primarily objective is financial stability of leasing companies in the FBiH and leasing activities at the level of the system in the FBiH, which in the following period will be focused on the following segments:

- Continuation of supervision over the operations of the leasing system in the FBiH through reports and on-site controls;
- Maintaining of the capital adequacy of the leasing system in the FBiH and strengthening of the internal processes on definition of parameters for protection of capital and capital adequacy in the leasing system entities in the FBiH;
- Improvement of cooperation with the ALC BiH in terms of providing expert assistance in the application of legislation and regulations for leasing companies, as well as cooperation with other supervisory and control institutions, as well as with the CBBH regarding the structure and quality of data related to financial leasing exposure in the CRC
- Creation of the more favourable business ambience for leasing sector operations, to facilitate creation of new leasing companies etc;

Within its competences to supervise leasing company's operations, the FBA expects from the leasing system entities in the FBiH to continue with their activities which primarily objective is legitimate, stable, effective and transparent provision of financial leasing services, which are directed to:

- Harmonisation of business operations with prescribed regulatory requirements;
- Improvement of safe, stable and viable operations;
- Capital strengthening of the leasing companies and definition of parameters for capital protection and capital adequacy, strengthening the internal control systems, provision of adequate and organisationally independent function of the internal audit, improvement of risk management process;
- Ensuring a reliability and integrity of data and information submitted to the FBA, ensuring of the accuracy, validity and comprehensive accounting and non-accounting records, adjustment to business policies, plans and working programmes, legal and other regulations and acts, same as protection of the property of the company and preventive actions, to prevent frauds and errors
- Transparent, comprehensive and accurate informing users of the financial services on services offered, and related to improvement of products range and finding new sales channels and
- Timely, accurate and prompt submission of data to CBBH for the purpose of the CRR etc.

2.3. FACTORING SECTOR

2.3.1. Characteristics of the factoring sector in the FBiH

In accordance with the provisions of the LoF, factoring operations in the FBiH may be performed by a company established either as a joint stock company or limited liability company having seat in the FBiH, which must obtain the approval from the FBA, as well as a bank whose operations are regulated by the regulations governing the operations of banks in the FBiH to which relevant provisions of the LoF were applied. Pursuant to the provisions of the LoA related to the supervision, the FBA supervises the operations of factoring companies in order to verify the legality, assessing the safety and stability of the operations of factoring companies in accordance to the provisions of the LoF, for the protection of the interests of clients and public interest, contribution to the stability of the financial system, and establishment and maintenance the confidence in the factoring market in the FBiH. Where in the course of supervision it determines illegalities and irregularities in the operations of a factoring company, the FBA shall order the implementation of appropriate measures and activities aimed at eliminating the aforementioned. In addition, and in accordance with the prescribed competences and within the framework of supervision of the operations of the banking system entities in the FBiH, the FBA also performs supervision of the factoring operations in the banks in the FBiH.

As of 31.03.2019 the factoring sector in the FBiH consisted of one registered factoring company (hereinafter: Company) which obtained the FBA license to perform factoring operations on 28.12.2017 and which started its operations in the first quarter of 2018.

In the first quarter of 2019, the Company concluded one factoring agreement. As of 31.03.2019 the Company presented the capital in the amount of BAM 0.7 million, which is below the amount prescribed by Article 27 of the LoF. The Company's Assembly adopted the decision to increase the share capital as of 24.04.2019 in the amount of BAM 186 thousand, with the aim of harmonizing the Company's operations with the provisions of the LoF and regulations.

Annex 23 shows the general information about the Company and review of the ownership structure as of 31.03.2019.

According to the reporting data as of 31.03.2019 the total balance sheet of the Company amounted to BAM 1.0 million, where a cash and cash equivalents present the largest item accounting for BAM 0.5 million or 48.7% of total assets. Short-term receivables from factoring operations amounted to 0.4 million and accounted for 38.4%, tangible and intangible assets amounted to 0.1 million or 10.7%, while all other items accounted for 2.3% of total assets (other assets and deferred costs and accruals, receivables for interest, fees and commissions on factoring transactions). The capital of the Company consists of share capital in the amount of BAM 1.2 million, reduced by the loss in the amount of BAM 0.5 million, which is shown in the balance sheet position of other capital. The Company's total liabilities amount to BAM 0.3 million and the largest item relates to short-term borrowings, which amount to BAM 0.1 million and presents 15.7% of the total liabilities of the Company. The remaining items account for 15.9% of the total liabilities of the Company and relate to other liabilities and accruals and deferred liabilities and liabilities for outstanding claims held to maturity (Factoring Guarantee Fund) - 5.7% of total liabilities.

The amount reported in the off-balance sheet records of the Company is BAM 0.5 million and relates to potential liabilities under concluded but not yet realized contracts. In the first quarter of 2019, the Company entered into one factoring contract and reported insignificant total income (BAM 13.0 thousand, of which interest income for the down payment - BAM 2.0 thousand, income from fees from the nominal amount of purchased receivables - BAM 8.0 thousand and other income BAM 3.0 thousand). The total expenses of the Company amounted to BAM 117.0 thousand, of which other business and operating expenses account for BAM 116.0 thousand (personnel costs, general and administrative expenses, depreciation and expenses of office space and other business and operating expenses)

Over the first quarter of 2019, factoring services in the FBiH were still performed mainly by the banks, members of the international banking groups with headquarter in EU member states, through the conclusion of Cash Claim Purchase Agreements, solely in the domestic factoring. One bank also provided a special type of factoring - reverse (supplier) factoring.

At the level of the factoring system of the FBiH, consisted of the Company-factoring sector and three commercial banks, the total volume of the purchased cash claims amounted to BAM 34.4 million, out of it BAM 34.1 million or 99.% accounts for portfolio in the banks, and BAM 0.3 million or 1.0% to the Company.

Over the first quarter of 2019, factoring service providers did not perform the operations of the purchase of cash claims in foreign factoring, either operations similar to factoring.

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

Over the first quarter of 2019, the total number of concluded factoring contracts at the level of the factoring system was 52, out of it 48 contracts or 92.3% were concluded with the right of recourse i.e. assuming the right of the factor, that in the case of inability for collection from the buyer, upon the maturity date, request the claim settlement from the seller, and that way compensate the advance paid, advance interest, as well as fees for the factor, while four contracts or 7.7% were without the right of recourse. Comparing the reporting data with the same period of the previous year, when there were 353 factoring contracts concluded, it is evident that there was a slight decrease of concluded factoring contracts by 66 contracts or 18.7%. As of 31.12.2018, the total number of active factoring contracts is 69 which compared to 31.12.2017 presents a decrease of five contracts or 6.8% where the number of active factoring contracts with the right of recourse

was down by 12, and number of contracts without the right of recourse arise by seven active contracts.

Over the first quarter of 2019, the total number of concluded factoring contracts at the level of the factoring system was 52, out of it 48 contracts or 92.3% were concluded with the right of recourse i.e. assuming the right of the factor, that in the case of inability for collection from the buyer, upon the maturity date, request the claim settlement from the seller, and that way compensate the advance paid, advance interest, as well as fees for the factor, while four contracts or 7.7% were without the right of recourse. Comparing the reporting data with the same period of the previous year, it is evident that there was a decrease of concluded factoring contracts by 17 contracts or 24.6%. As of 31.03.2019, the total number of active factoring contracts is 76 which compared to with the first quarter of 31.12.2018 presents an increase of four contracts or 5.6%.

The volume (value) of the purchased monetary claims at the level of the factoring system of the FBiH in the first quarter of 2019, compared to the same period of the previous year and the structure in terms of right to recourse and residence are presented in the table below:

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Table 48: Nominal amount of purchased cash claims at the level of the factoring system of the FBiH, as per right to recourse and residence

Type	Volume of purchased cash claims												Index (12:10)x 100
	Factoring company				Banks				Total				
	01.01. – 31.03.2018.		01.01. – 31.03.2019.		01.01. – 31.03.2018.		01.01. – 31.03.2019.		01.01. – 31.03.2018.		01.01. – 31.03.2019.		
	Amount	Share (in %)	Amount	Share (in %)	Amount	Share (in %)	Amount	Share (in %)	Amount	Share (in %)	Amount	Share (in %)	
1	2	3	4	5	6	7	8	9	10	11	12	13	14
Factoring with right to recourse	0	0%	0	0,0%	8.930	44,6%	16.186	47,5%	8.930	44,6%	16.186	47,0%	181,3
Factoring without right to recourse	0	0%	355	100,0%	11.109	55,4%	17.895	52,5%	11.109	55,4%	18.250	53,0%	164,3
Total	0	0%	355	100%	20.039	100%	34.081	100%	20.039	100%	34.436	100%	171,8
Domestic factoring	0	0%	355	100%	20.039	100%	34.081	100,0%	20.039	100%	34.436	100,0%	171,8
Foreign factoring	0	0%	0	0%	0	0%	0	0,0%	0	0%	0	0,0%	0,0
Total	0	0%	355	100%	20.039	100%	34.081	100%	20.039	100%	34.436	100%	171,8

It is evident increase of the total value (volume) of the purchased claims in the first quarter of 2019 in the amount of BAM 14.4 million or 71.8% compared to the first quarter of 2018. In terms of the factoring with the right of recourse the volume (value) increased by 81.3% or in the absolute amount by BAM 7.3 million, and on the side of factoring without right of recourse the volume (value) increase by 64.3% or in absolute term by BAM 7.1 million.

In terms of the maturity, the highest share in the total volume (value) of the purchased monetary claims in the first quarter of 2019 accounts for purchased cash claims with maturity from 91 to 180 days – 61.8%, followed by 28.6% for maturity up to 60 days and remaining 9.6% for maturity of 61 to 90 days. Compared to the first quarter of 2018 maturity structure has not significantly changed.

In terms of the sectoral structure, the largest share accounts for private enterprises and companies, since the volume (value) of the claims which in the first quarter of 2019 amounted to BAM 21.2 million, accounts for 61.8% of the total volume (value) at the level of the factoring system of the FBiH. It has followed by the public companies, which amount to BAM 13.1 million or 38% of the total volume (value) at the level of the factoring system in the FBiH, and government institutions in the amount of BAM 84 thousands or 0.2% of the total volume (value) at the level of the factoring system in the FBiH.

In the first quarter of 2019, one bank provided reverse (supplier) factoring service, and made payments of customer's commitments to suppliers in the amount of BAM 0.9 million, which is entirely related to domestic factoring with agreed maturity of up to 60 days. Total advances paid to suppliers in the segment of private enterprises and companies (claimants) amount to BAM 25.0 million, of which BAM 9.9 million or 39.7% refers to factoring without right to recourse and the amount of 15.1 million BAM or 60.3% on factoring with right of recourse. Based on purchased monetary claims as of 31.03.2019, banks and the Company claimed a total of BAM 22.9 million, wholly in domestic factoring, of which BAM 13.0 million or 56.9% referred to factoring with right of recourse and BAM 9.9 million or 43, 1% on factoring without right to recourse. The structure of this amount of purchased claims by contractual maturity is as follows: with maturity up to 60 days - 18.2%, from 61 to 90 days - 11.0% and from 91 to 180 days - 70.8%.

Total income of factoring service providers in the FBiH (Company and three commercial banks) for the period 01.01. - 31.03.2019 amounted to BAM 0.4 million, of which bank income accounted for 97.7% of the total reported income of the factoring system in the FBiH. In the structure of reported total income, 46.8% refers to factoring with right to recourse observing their interest income, factoring fees and administrative fees, contracted factoring without right to recourse account for 51.6% observing the interest income, factoring fees and administrative fees, while 1.6% of interest income, factoring fees and administrative fees relate to reverse (supplier) factoring. All three banks which perform factoring operations and the Company charged a factoring fee, while only one bank and the Company charged an administrative fee for providing factoring services.

2.3.3. RECOMMENDATIONS FOR FACTORING SECTOR

In the first quarter of 2019 the factoring operations were mainly performed through the functions of financing, where services of recovery guarantee and claims management were not recorded, neither the operations similar to factoring, which confirms that this activity is still at the early days of development at the market of the FBiH, within legal and institutional frameworks defined by the LoF, and the FBA regulations governing the factoring operations in the FBiH. The intentions of the Law on the financial operations, in relation to the strengthening of the financial discipline and establishment of the clear rules in operations, still did not provide a stronger impulse for using the factoring as an instrument of the short-term financing and cash-flow management, to which also contributes the lack of adequately established and educated financial function in the small and medium enterprises.

Since that the need for the short-term financing and the cash-claim management, as well as the claims recovery guarantee is more and more evident in the real sector, in the following period it can be expected that the factoring will be used as one of the liable instrument for solving the liquidity problems in the FBiH, and as an efficient instrument for speeding up the cash flows, in a considerably higher volume than it is the case now.

To address liquidity problems more efficiently, and to raise the scope of the short-term financing of the ongoing operations for small and medium enterprises to the higher level, in the following period it will be necessary to more vigorously promote factoring as an instrument, not only used for financing, but also for cash flow management, used by service providers, and other participants on the financial market of the FBiH. Within its competences for the supervision of factoring operations in the FBiH, the FBA is guided by the principles of transparency, building a trust of factoring companies and banks, in order to maintain financial stability and operations of the factoring operations at the level of the FBiH.

CONCLUSION

In order to preserve and strengthen the stability of the banking system and protection of deponents, as well as to ensure the legitimate, safe, and quality operations of the BSEs, the FBA continuously monitors the operations of the entities, carrying out planned activities and taking measures in accordance with legal competences; adopting general and individual acts which regulate the operations of the BSEs in accordance to legislations, Basel principles and standards for effective banking supervision and applicable EU directives based on those principles and standards. Considering the comprehensive processes related to the reform of the regulatory framework for operations and supervision of banks and establishment of new framework for banking resolution, the activities were continued on strengthening of supervisory capacities for the purpose of implementation of new regulatory framework

Over the first quarter of 2019, the positive trends in the banking sector operations continued, reflected in the assets growth, increase of loans, cash and deposits, as well as the profitability improvement of the overall banking sector compared to the first quarter of 2018. There is a continued trend of the increase in lending to private companies, public companies, retail and banking institutions. The share of NPLs, as a key indicator of loan quality, still has a downward trend. The trend of increase in total deposits and savings deposits continued, with these being the most important and the largest segment of the deposit and financial potential of banks. Profitability indicators are most significantly influenced by asset quality indicators and efficiency in managing operating income and expenses. Based on the presented basic performance indicators of the banking sector of the FBiH as of 31.03.2019, it can be concluded that it is stable, adequately capitalized, liquid and profitable.

It is of the key importance the quality of the overall management system in the banks, and as its part adequately and efficient functioning of the risk management system, and adequate capital risk coverage in operations through respect of the regulatory requirements, and requirements set within the ICAAP and ILAAP. Banks are expected to conduct prudent planning and managing risks related to current and expected market conditions. In particular attention should be paid to the risks associated with the interest rates ratios and to the effects of possible changes in the future.

When analyse the reports of the micro-credit sector in the FBiH according to the reporting data as of 31.03.2019 and comparative trend indictaors, it can be concluded that operation of this microcredit sector is characterized by the growth of total assets, micro-credit portfolio, number of employees, total capital, positive financial result, with unchanged micro-credit quality indicators for the period observed.

Over the first quarter of 2019, at the level of the leasing system in the FBiH it has recorded an increase in the volume of operations compared to the same period of the previous business year, in terms of the number and value of newly-concluded arrangements, claims on financial leasing, wherin the assets quality indicators shows the continuation of stable operation of the leasing companies.

The performance indicators of the factoring system in the FBiH in the first quarter of 2019 indicate that this activity is still at the onset of development on the FBiH market within the legislative and institutional frameworks defined by the LoF and the FBA regulations governing in more details the factoring operations.

No: U.O. - 34 - 2/19
Sarajevo, 20.06.2019.

ANNEXES FOR THE BANKING SECTOR

Annex 1- General Information on Banks in the FBiH as of 31.03.2019.

No.	Bank	Web site	No. of employees	Head of Management
1.	ADDIKO BANK dd - SARAJEVO	www.addiko.ba	405	Sanela Pašić
2.	ASA BANKA dd - SARAJEVO	www.asabanka.ba	213	Samir Mustafić
3.	BOSNA BANK INTERNATIONAL dd - SARAJEVO	www.bbi.ba	433	Amer Bukvić
4.	INTESA SANPAOLO BANKA dd BOSNA I HERCEGOVINA	www.intesasanpaolobanka.ba	557	Almir Krkalić
5.	KOMERCIJALNO-INVESTICIONA BANKA dd V.KLADUŠA	www.kib-banka.com.ba	77	Hasan Porčić
6.	NLB BANKA dd - SARAJEVO	www.nlb.ba	449	Lidija Žigić
7.	PRIVREDNA BANKA SARAJEVO dd – SARAJEVO	www.pbs.ba	165	Hamid Pršeš
8.	PROCREDIT BANK dd – SARAJEVO	www.procreditbank.ba	140	Edin Hrnjica
9.	RAIFFEISEN BANK dd BiH – SARAJEVO	www.raiffeisenbank.ba	1.383	Karlheinz Dobnigg
10.	SBERBANK BH dd - SARAJEVO	www.sberbank.ba	437	Jasmin Spahić
11.	SPARKASSE BANK dd BOSNA I HERCEGOVINA- SARAJEVO	www.sparkasse.ba	522	Sanel Kusturica
12.	UNICREDIT BANK dd - MOSTAR	www.unicreditbank.ba	1.246	Dalibor Čubela
13.	UNION BANKA dd - SARAJEVO	www.unionbank.ba	195	Vedran Hadžiahmetović
14.	VAKUFСКА BANKA dd - SARAJEVO	www.vakuba.ba	172	Denis Čivgin
15.	ZIRAATBANK BH dd - SARAJEVO	www.ziraatbosnia.com	323	Yusuf Dilaver
TOTAL			6.717	

Annex 2- Balance Sheet of Banks in the FBiH According to the FBA Model (Active SubBalance)

-in 000 BAM-

R. br.	Opis	31.12.2018.		31.03.2019.		Index
1	2	3	4	5	6	7=5/3
	ASSETS	Amount	% in total assets	Amount	% in total assets	
1.	Cash and deposit accounts with deposit-taking institutions	6.591.117	29,8%	6.761.379	30,1%	103
	1.a. Cash and non-interest bearing deposit accounts	2.975.624	13,4%	2.879.681	12,8%	97
	1.b. Interest-bearing deposits accounts	3.615.493	16,4%	3.881.698	17,3%	107
2.	Securities designated at fair value through profit or loss and fair value through other comprehensive income	1.150.050	5,2%	1.115.620	5,0%	97
3.	Loans to other banks	270.604	1,2%	156.431	0,7%	58
4.	Loans, receivables based on leasing facilities and past due receivables	14.325.634	64,8%	14.582.816	64,9%	102
	4.a. Loans	13.211.045	59,8%	13.424.576	59,8%	102
	4.b. Receivables based on leasing facilities	92.282	0,4%	87.964	0,4%	95
	4.c. Past due receivables based on loans and leasing facilities	1.022.307	4,6%	1.070.276	4,7%	105
5.	Held to maturity securities	154.576	0,7%	192.844	0,9%	125
6.	Business premises and other fixed assets	477.533	2,2%	544.719	2,4%	114
7.	Other real estate	54.234	0,2%	55.481	0,2%	102
8.	Investments in unconsolidated related companies	12.065	0,1%	11.120	0,0%	92
9.	Other assets	328.491	1,5%	303.240	1,4%	92
10.	MINUS: value adjustments	1.270.169	5,7%	1.267.151	5,6%	100
	10.a. Value adjustments for Item 4. of the Assets	1.190.760	5,4%	1.188.873	5,3%	100
	10.b. Value adjustments for Assets items, except for the Item 4.	79.409	0,4%	78.278	0,3%	99
11.	TOTAL ASSETS	22.094.135	100%	22.456.499	100%	102
	LIABILITIES					
12.	Deposits	17.604.487	79,7%	17.801.351	79,3%	101
	12.a. Interest-bearing deposits	12.429.484	56,3%	12.716.254	56,6%	102
	12.b. Non-interest bearing deposits	5.175.003	23,4%	5.085.097	22,7%	98
13.	Borrowings – liabilities due	150	0,0%	150	0,0%	100
	13.a. Past due liabilities	0	0,0%	0	0,0%	-
	13.b. Past due – invoked 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 the Government	0	0,0%	0	0,0%	-
16.	Loan commitments and other borrowings	862.931	3,9%	844.235	3,7%	98
	16.a. With remaining maturity of up to one year	178.386	0,8%	174.436	0,8%	98
	16.b. With remaining maturity of more than one year	684.545	3,1%	669.799	2,9%	98
17.	Subordinated debts and subordinated bonds	124.181	0,6%	124.181	0,5%	100
18.	Other liabilities	531.300	2,4%	617.705	2,8%	116
19.	TOTAL LIABILITIES	19.123.049	86,6%	19.387.622	86,3%	101
	CAPITAL					
20.	Permanent preferred shares	8.828	0%	365	0,0%	4
21.	Common shares	1.290.872	5,8%	1.299.335	5,8%	101
22.	Issue premiums	137.290	0,6%	137.290	0,6%	100
	22.a. Over permanent preferred shares	88	0%	88	0,0%	100
	22.b. Over common shares	137.202	0,6%	137.202	0,6%	100
23.	Undistributed profit and capital reserves	1.096.380	5,0%	1.362.073	6,1%	124
24.	Foreign exchange rate differences	0	0,0%	0	0,0%	-
25.	Other capital	256.236	1,2%	89.810	0,4%	35
26.	Loan loss provisions formed from profit	181.480	0,8%	180.004	0,8%	99
27.	TOTAL CAPITAL: (20. do 25.)	2.971.086	13,4%	3.068.877	13,7%	103
28.	TOTAL LIABILITIES AND CAPITAL: (19. + 27.)	22.094.135	100%	22.456.499	100%	102
	PASSIVE AND NEUTRAL SUB-BALANCE	707.503		710.220		100
	TOTAL	22.801.638		23.166.719		102

Annex 3- Overview of Assets, Loans, Deposits and Financial Results of Banks in the FBiH - 31.03.2019.

-in 000 BAM-

No.	Bank	Assets		Loans		Deposits		Financial result
		Amount	%	Amount	%	Amount	%	Amount
1.	ADDIKO BANK d.d. - SARAJEVO	905.807	4,0%	617.459	4,2%	663.971	3,7%	3.201
2.	ASA BANKA d.d. - SARAJEVO	517.080	2,3%	344.915	2,4%	440.069	2,5%	816
3.	BOSNA BANK INTERNATIONAL d.d. - SARAJEVO	1.081.449	4,8%	719.876	4,9%	808.490	4,5%	2.062
4.	INTESA SANPAOLO BANKA d.d. BOSNA I HERCEGOVINA	2.111.995	9,4%	1.554.458	10,7%	1.574.863	8,9%	10.551
5.	KOMERCIJALNO-INVESTICIONA BANKA d.d. V.KLADUŠA	99.743	0,4%	55.514	0,4%	68.369	0,4%	88
6.	NLB BANKA d.d. - SARAJEVO	1.172.004	5,2%	790.666	5,4%	953.564	5,4%	5.753
7.	PRIVREDNA BANKA SARAJEVO d.d. - SARAJEVO	483.688	2,2%	291.833	2,0%	382.582	2,1%	1.646
8.	PROCREDIT BANK d.d. - SARAJEVO	491.329	2,2%	382.742	2,6%	244.505	1,4%	-132
9.	RAIFFEISEN BANK d.d. BiH - SARAJEVO	4.552.107	20,3%	2.632.774	18,1%	3.691.789	20,7%	27.512
10.	SBERBANK BH d.d. - SARAJEVO	1.424.976	6,3%	1.028.222	7,0%	1.180.107	6,6%	2.403
11.	SPARKASSE BANK d.d. BOSNA I HERCEGOVINA- SARAJEVO	1.493.641	6,7%	1.048.871	7,2%	1.202.278	6,8%	5.745
12.	UNICREDIT BANK d.d. - MOSTAR	6.070.318	27,0%	3.941.912	27,0%	5.010.831	28,1%	28.510
13.	UNION BANKA d.d. - SARAJEVO	770.728	3,4%	217.616	1,5%	693.337	3,9%	820
14.	VAKUFСКА BANKA d.d. - SARAJEVO	308.652	1,4%	212.610	1,5%	266.300	1,5%	287
15.	ZIRAATBANK BH d.d.- SARAJEVO	972.982	4,4%	743.348	5,1%	620.296	3,5%	547
	TOTAL	22.456.499	100%	14.582.816	100%	17.801.351	100%	89.809

Annex 4- Classification of Balance Sheet Assets of Banks in the FBiH - 31.03.2019.

– CLASSIFICATION OF BALANCE SHEET ASSETS ITEMS –

-in 000 BAM-

No	Stavke aktive bilansa	CLASSIFICATION					Total
		A	B	C	D	E	
1.	Short-term loans	2.603.644	154.844	4.345	1.114	638	2.764.585
2.	Long-term loans	9.659.393	557.533	106.007	91.207	13.382	10.427.522
3.	Other facilities	397.716	641	83	71	2.312	400.823
4.	Accrued interest and fees	39.621	3.581	1.989	4.918	42.598	92.707
5.	Past due receivables	67.253	18.625	9.870	243.229	701.389	1.040.366
6.	Receivables based on paid guarantees			240	24	29.647	29.911
7.	Other balance sheet assets being classified	783.827	4.277	694	415	43.620	832.833
8.	TOTAL BALANCE SHEET ASSETS BEING CLASSIFIED (sum of items 1 through 7 – calculation basis for regulatory loan loss provisions)	13.551.454	739.501	123.228	340.978	833.586	15.588.747
9.	CALCULATED REGULATORY RESERVES FOR LOAN LOSSES BASED ON BS ASSETS	266.841	61.957	37.299	202.383	833.587	1.402.067
10.	VALUE ADJUSTMENT FOR BS ASSETS	217.617	67.335	67.501	194.332	714.027	1.260.812
11.	REQUIRED REGULATORY RESERVES FORMED AGAINST PROFIT FOR PURPOSE OF ASSESSED LOSSES BASED ON BS ASSETS	149.098	34.190	4.082	45.356	119.173	351.899
12.	FORMEED REGULATORY RESERVES FORMED AGAINST PROFIT RELATED TO ASSESSED LOSSES BASED ON BS ASSETS	89.013	20.951	3.844	9.774	23.298	146.880
13.	SHORTFALL OF REGULATORY RESERVE FORMED AGAINST PROFIT RELATED TO ASSESSED LOSSES BASED ON BS ASSETS						215.781
14.	BALANCE SHEET ASSETS NOT BEING CLASSIFIED (gross book value)						8.134.903
15.	TOTAL BALANCE SHEET ASSETS (gross book value)						23.723.650

OVERVIEW OF BALANCE SHEET ASSETS NOT BEING CLASSIFIED AND FACILITIES SECURED WITH A CASH DEPOSIT

14.a	Cash in cash desk and vault and cash funds at the account with the Central Bank of BiH, gold and other precious metals	4.731.771
14.b	Demand deposits and term deposits up to one month located on accounts of banks with defined investment rating	2.024.549
14.c	Tangible and intangible assets	569.673
14.d	Financial and tangible assets acquired in the process of collection of receivables (within one year upon such acquisition)	7.693
14.e	Own (treasury) shares	0
14.f	Receivables based on overpaid taxes	15.133
14.g	Trading securities	8.375
14.h	Receivables from the BiH Government, FBiH Government and RS Government, securities issued by the BiH Government, FBiH Government and RS Government and receivables secured with unconditional guarantees payable upon the first call	777.709
	TOTAL Item 14	8.134.903
8a.	Facilities secured with a cash deposit	209.407

Annex 4a- Assets Classification of Off-Balance Sheet Risk-Weighted Items of Banks in the FBiH - 31.03.2019.

– CLASSIFICATION OF OFF-BALANCE SHEET ITEMS –

-in 000 BAM-

No.	Off-balance sheet items	Classification					Total
		A	B	C	D	E	
1.	Payment guarantees	386.822	25.613	2.267	0	0	414.702
2.	Performance guarantees	688.082	63.076	1.389	6.063	114	758.724
3.	Uncovered letters of credit	43.962	1.664	85	0	0	45.711
4.	Irrevocably approved, but undrawn loans	1.893.898	91.640	417	427	283	1.986.665
5.	Other contingent liabilities of the bank	15.369	245	406	0	16	16.036
6.	TOTAL OFF-BALANCE SHEET ITEMS BEING CLASSIFIED (sum of items 1 through 5 – calculation basis for regulatory loan loss provisions)	3.028.133	182.238	4.564	6.490	413	3.221.838
7.	CALCULATED REGULATORY RESERVES FOR LOAN LOSSES RELATED TO OFF-BALANCE SHEET ITEMS	59.605	11.815	1.139	3.892	413	76.864
8.	LOSS RESERVES FOR OFF-BALANCE SHEET ITEMS	31.734	2.753	1.626	6.268	281	42.662
9.	REQUIRED REGULATORY RESERVES FORMED AGAINST PROFIT RELATED TO ASSESSED LOSSES BASED ON OFF-BALANCE SHEET ITEMS	38.045	10.111	68	100	134	48.458
10.	REGULATORY RESERVES FORMED AGAINST PROFIT RELATED TO ASSESSED LOSSES BASED ON OFF-BALANCE SHEET ITEMS	24.584	8.506	32	2	0	33.124
11.	SHORTFALL OF REGULATORY RESERVES FORMED AGAINST PROFIT RELATED TO ASSESSED LOSSES BASED ON OFF-BALANCE SHEET ITEMS						16.325
12.	OFF-BALANCE SHEET ITEMS NOT BEING CLASSIFIED						558.385
13.	TOTAL OFF-BALANCE SHEET ITEMS						3.780.223
6a.	Contingent liabilities secured with a cash deposit						47.874
6b.	Approved undisbursed loans with a clause on unconditional cancellation						669.196

Prilog 5- Income Statement of Banks in the FBiH According to the FBA Model -31.03.2019.

-in 000 BAM-

N o.	Description	31.03.2018.	%	31.03.2019.	%	Index
1	2	3	4	5	6	7=5/3
1.	INTEREST INCOME AND EXPENSES	Amount	%	Amount	%	
a)	Interest income and similar income					
1)	Interest-bearing deposit accounts with deposit-taking institutions	960	0,4	1.206	0,5	126
2)	Loans to other banks	473	0,2	1.049	0,4	222
3)	Loans and leasing facilities	164.118	64,7	160.231	62,5	98
4)	Held to maturity securities	740	0,3	1.071	0,4	145
5)	Equity securities	0	0,0	0	0	0
6)	Receivables based on paid-off balance sheet liabilities	0	0,0	0	0	0
7)	Other interest income and similar income	17.688	7,0	16.790	6,6	95
8)	TOTAL INTEREST INCOME AND SIMILAR INCOME	183.979	72,6	180.347	70,4	98
b)	Interest expenses and similar expenses					
1)	Deposits	27.525	10,9	23.726	9,3	86
2)	Borrowings from other banks	0	0,0	0	0	0
3)	Borrowings taken – liabilities due	0	0,0	0	0	0
4)	Liabilities based on loans and other borrowings	2.266	0,9	2.252	0,9	99
5)	Subordinated debt and subordinated bonds	1.949	0,8	1.819	0,7	93
6)	Other interest and similar expenses	1.868	0,7	3.131	1,2	168
7)	TOTAL INTEREST EXPENSES AND SIMILAR EXPENSES	33.608	13,3	30.928	12,1	92
c)	NET INTEREST AND SIMILAR INCOME	150.371	59,3	149.419	58,3	99
2.	OPERATING INCOME					
a)	FX income	12.242	4,8	12.833	5,0	105
b)	Loan fees	3.073	1,2	2.492	1,0	81
c)	Fees based on off-balance sheet items	5.510	2,2	5.601	2,2	102
d)	Service fees	66.804	26,4	72.488	28,3	109
e)	Trading income	105	0,0	1.198	0,4	1.141
f)	Other operating income	15.317	6,1	12.200	4,8	80
g)	TOTAL OPERATING INCOME a) to f)	103.051	40,7	106.812	41,7	104
3.	NON-INTEREST EXPENSES					
a)	Business and direct expenses					
1)	Costs of value adjustments, risk-weighted assets, provisions for contingent liabilities and other value adjustments	16.303	6,4	10.290	4,0	63
2)	Other business and direct expenses	26.631	10,5	29.610	11,6	111
3)	TOTAL BUSINESS AND DIRECT EXPENSES 1) + 2)	42.934	16,9	39.900	15,6	93
b)	Operating expenses					
1)	Costs of salaries and contributions	61.572	24,3	63.335	24,7	103
2)	Costs of business premises, other fixed assets and utilities	37.615	14,9	37.656	14,7	100
3)	Other operating expenses	24.679	9,7	25.054	9,8	102
4)	TOTAL OPERATING EXPENSES 1) to 3)	123.866	48,9	126.045	49,2	102
c)	TOTAL NON-INTEREST EXPENSES	166.800	65,8	165.945	64,8	99
4.	PROFIT BEFORE TAXES	86.787	34,2	90.418	35,2	104
5.	LOSS	165	0,0	132	0,0	80
6.	TAXES	0	0,0	549	-	-
7.	PROFIT BASED ON INCREASE OF DEFERRED TAX FUNDS AD REDUCTION OF DEFERRED TAX LIABILITIES	0	0,0	251	-	-
8.	LOSS BASED ON REDUCTION OF DEFERRED TAX FUNDS AND INCREASE OF DEFERRED TAX LIABILITIES	0	0,0	179	-	-
9.	NET PROFIT 4. - 6.	86.787	34,2%	89.941	35,2	104
10.	NET LOSS 4. - 6.	165	0,0	132	0,0	80
11.	FINANCIAL RESULT 9.-10.	86.622	0	89.809	0	104

Annex 6- Average weighted NIR and EIR for loans and deposits as of 31.03.2019.

Average weighted NIR and EIR for loans

-in %-

No.	Description	31.12.2018.		31.03.2019.	
		NIR	EIR	NIR	EIR
1	2	3	4	5	6
1.	Weighted interest rates for short-term loans	2,67	2,97	2,36	2,65
1.1.	Corporate	2,61	2,84	2,31	2,53
1.2.	Retail	7,53	14,66	7,82	15,28
2.	Weighted interest rates for long-term loans	4,66	5,62	4,67	5,65
2.1.	Corporate	3,61	3,91	3,44	3,68
2.2.	Retail	5,55	7,06	5,42	6,83
3.	Total weighted interest rates	3,56	4,15	3,36	3,94
3.1.	Corporate	2,88	3,13	2,57	2,79
3.2.	Retail	5,59	7,22	5,46	6,97

Average weighted NIR and EIR for deposits

-u %-

No	Opis	31.12.2018.		31.03.2019.	
		NIR	EIR	NIR	EIR
1	2	3	4	5	6
1.	Weighted interest rates for short-term deposits	0,38	0,36	0,26	0,26
1.1.	Up to three months	0,41	0,39	0,17	0,16
1.2.	Up to one year	0,31	0,31	0,43	0,43
2.	Weighted interest rates for long-term deposits	1,15	1,16	1,49	1,29
2.1.	Up to three years	0,99	1,01	1,44	1,17
2.2.	Over three years	1,44	1,45	1,62	1,63
3.	Total weighted interest rates for deposits	0,66	0,65	0,93	0,82

ANNEXES FOR THE MICROCREDIT SECTOR

Annex 7- General Information on MCOs in the FBiH as of 31.03.2019.

No .	Name of microcredit organisation	Director	Date of issuing a licence	Number of employees	Web site
1.	MKD "EKI" d.o.o. Sarajevo	Almir Sultanović	04.02.2008.	289	www.eki.ba
2.	MKF "EKI" Sarajevo	v.d. Sadina Bina*	20.08.2007.	215	www.eki.ba
3.	MKF "LIDER" Sarajevo	Džavid Sejfović	04.02.2008.	77	www.lider.ba
4.	"LOK MKF" Sarajevo	Elma Čardaklija - Bašić	04.02.2008.	69	www.lok.ba
5.	MKF "MELAHA" Sarajevo	Jakob Finci	09.10.2007.	6	www.melaha.ba
6.	MKF "MI-BOSPO" Tuzla	Safet Husić	09.07.2007.	181	www.mi-bospo.org
7.	MKF "MIKRA" Sarajevo	Sanin Čampara	19.03.2008.	130	www.mikra.ba
8.	MKF "MIKRO ALDI" Goražde	Ferida Softić	20.08.2007.	30	www.mikroaldi.org
9.	"PARTNER MKF" Tuzla	Senad Sinanović	20.08.2007.	302	www.partner.ba
10.	"PRVA ISLAMSKA MKF" Sarajevo	Edina Hadžimurtezić	10.12.2007.	9	www.mfi.ba
11.	MKF "SANI" Zenica	Sulejman Haračić	09.10.2007.	5	-
12.	MKF "SUNRISE" Sarajevo	Samir Bajrović	20.08.2007.	177	www.microsunrise.ba
13.	MKD „IUTECREDIT BH“ d.o.o. Sarajevo	Vilma Tunjić Juzbašić	28.02.2019.	-	-
Total				1.490	

*as of 01.04.2019 Director is Esad Uzunić

Annex 8- Overview of weighted NIR and EIR for MCOs having seat in the FBiH for microloans issued during the period 01.01.-31.03.2019

No.	Description	Microloans issued in I quarter of 2019 (in 000 BAM)	Weighted NIR (average)	Weighted EIR (average)
1.	Short-term microloans for :	16.150	21,64%	29,42%
1.1.	Service activities	2.401	20,27%	27,16%
1.2.	Trading	890	19,26%	26,63%
1.3.	Agriculture	3.784	19,65%	26,44%
1.4.	Production	304	19,47%	26,17%
1.5.	Housing purposes	3.412	18,67%	22,98%
1.6.	Non-purpose – general needs	451	23,08%	34,93%
1.7.	Other	4.908	26,34%	37,51%
2.	Long-term microloans for:	98.734	19,22%	22,61%
2.1.	Service activities	18.934	18,90%	22,03%
2.2.	Trading	3.588	19,17%	22,81%
2.3.	Agriculture	31.809	18,02%	21,14%
2.4.	Production	2.168	18,55%	21,68%
2.5.	Housing purposes	19.162	18,72%	21,69%
2.6.	Non-purpose – general needs	3.261	18,93%	22,88%
2.7.	Other	19.812	22,07%	26,33%
3.	Total microloans	114.884	19,56%	23,57%

Annex 8a-Overview of weighted NIR and EIR for MCOs having seat in RS and operating in the FBiH for microloans issued during the period 01.01.-31.03.2019.

No.	Description	Microloans issued in I quarter of 2019 (in 000 BAM)	Weighted NIR (average)	Weighted EIR (average)
1.	Short-term microloans for :	5.758	18,64%	24,28%
1.1.	Service activities	682	17,54%	20,90%
1.2.	Trading	660	16,23%	18,71%
1.3.	Agriculture	648	17,37%	20,87%
1.4.	Production	85	17,14%	21,41%
1.5.	Housing purposes	77	18,11%	25,83%
1.6.	Non-purpose – general needs	3.548	19,81%	26,79%
1.7.	Other	58	4,77%	14,17%
2.	Long-term microloans for:	15.163	17,74%	20,88%
2.1.	Service activities	2.366	16,49%	18,48%
2.2.	Trading	798	16,63%	18,69%
2.3.	Agriculture	4.061	16,21%	18,21%
2.4.	Production	358	16,29%	18,48%
2.5.	Housing purposes	3.499	18,28%	21,28%
2.6.	Non-purpose – general needs	4.000	19,81%	25,07%
2.7.	Other	81	23,00%	33,61%
3.	Total microloans	20.921	17,99%	21,82%

Annex 9- Aggregated Balance Sheet of MCF-31.03.2019.

-in 000 BAM-

No.	Description	31.12.2018.	%	31.03.2019.	%	Index
1	2	3	4	5	6	7=5/3
ASSETS		Amount	%	Amount	%	
1.	Cash (1a+1b)	48.291	11,1	45.910	10,3	95
1a)	Cash and non-interest bearing deposit accounts	33.993	7,7	31.122	7,0	92
1b)	Interest-bearing deposit accounts	14.298	3,4	14.788	3,3	103
2.	Facilities to banks	210	0,0	220	0,0	105
3.	Loans	322.370	74,4	328.962	73,7	102
3a)	Loan loss provisions	-2.232	-0,5	-2.425	-0,5	109
3b)	Net loans (3-3a)	320.137	73,9	326.537	73,2	102
4.	Business premises and other fixed assets	24.918	5,8	29.582	6,6	119
5.	Long-term investments	33.061	7,6	33.061	7,4	100
6.	Other assets	6.900	1,6	11.262	2,5	163
7.	Minus: provisions for other assets items, except loans	-135	-0,0	-146	-0,0	108
8.	Total Assets	433.382	100	446.426	100	103
LIABILITIES						
9.	Short-term loan commitments	69.189	16,0	67.633	15,2	98
10.	Long-term loan commitments	108.781	25,1	114.395	25,6	105
11.	Other liabilities	21.647	5,0	27.599	6,2	128
12.	Total liabilities	199.617	46,1	209.627	47,0	105
13.	Donated capital	48.076	11,1	48.076	10,8	100
14.	Core capital	3.820	0,9	3.820	0,8	100
15.	Surplus of income over expenses	243.189	56,1	246.248	55,1	101
15a)	For previous years	230.646	53,2	243.155	54,4	105
15b)	For current year	12.543	2,9	3.093	0,7	25
16.	Deficit of income over expenses	62.021	14,3	62.042	13,9	101
16a)	For previous years	61.278	14,1	62.021	13,9	101
16b)	For current year	743	0,2	21	0,0	3
17.	Other reserves	701	0,1	697	0,2	99
18.	Total capital	233.765	53,9	236.799	53,0	101
19.	Total liabilities	433.382	100	446.426	100	103
Off-balance sheet records						
	- written-off loans	105.151		103.756		99
	- agent businesses	421		391		93

Annex 10- Aggregated Balance Sheet of MCCs -31.03.2019.

-u 000 BAM-

No.	Description	31.12.2018.	%	31.03.2019.	%	Index
1	2	3	4	5	6	7=5/3
AKTIVA		Amount	%	Amount	%	
1.	Cash (1a+1b)	9.107	6,2	8.103	5,3	89
1a)	Cash and non-interest bearing deposit accounts	9.107	6,2	8.103	5,3	89
1b)	Interest-bearing deposit accounts	0	0,0	0	0	-
2.	Facilities to banks	0	0,0	0	0	-
3.	Loans	134.551	91,6	138.751	91,0	103
3a)	Loan loss provisions	-672	-0,5	-762	-0,5	113
3b)	Net Loans (3-3a)	133.879	91,1	137.989	90,5	103
4.	Business premises and other fixed assets	1.751	1,2	4.061	2,7	232
5.	Long-term investments	0	0,0	0	0,0	-
6.	Other assets	2.270	1,5	2.290	1,5	101
7.	Minus: provisions for other assets items, except loans	-36	0,0	-46	-0,0	128
8.	Total Assets	146.971	100	152.397	100	104
LIABILITIES						
9.	Short-term loan commitments	33.197	22,6	33.608	22,1	101
10.	Long-term loan commitments	68.515	46,6	69.646	45,7	102
11.	Other liabilities	6.155	4,2	8.249	5,4	134
12.	Total liabilities	107.867	73,4	111.503	73,2	103
13.	Donated capital	0	0,0	0	0,0	-
14.	Core capital	30.600	20,8	30.600	20,1	100
15.	Issue premiums	0	0,0	0	0,0	-
16.	Unallocated profit (16a+16b)	6.504	4,4	8.294	5,4	128
16a)	Of previous years	1.225	0,8	6.504	4,3	531
16b)	Of current year	5.279	3,6	1.790	1,1	34
17.	Legal reserves	2.000	1,4	2.000	1,3	100
18.	Other reserves	0	0,0	0	0,0	-
19.	Total Capital	39.104	26,6	40.894	26,8	105
20.	Total liabilities	146.971	100	152.397	100	104
Off-balance sheet records						
	- written-off loans	1.506		1.758	-	117
	- agent businesses	0		0	-	-

Annex 11- Review of the Key Financial Indicators of MCOs - 31.03.2019.

-in 000 BAM-

No.	Name of microcredit organisation	Assets (000 BAM)	Gross portfolio amount (000 BAM)	Capital (000 BAM)	Surplus/deficit of income over expensesk/net profit (loss) (000 BAM)	Facilities in period 01.01.-31.03.2019.
1.	MKD "EKI" d.o.o. Sarajevo	152.397	138.751	40.894	1.790	29.085
2.	MKF "EKI" Sarajevo	87.617	25.737	67.511	236	6.814
3.	MKF "LIDER" Sarajevo	21.871	20.673	11.336	15	5.407
4.	"LOK MKF" Sarajevo	10.013	5.607	2.944	89	1.380
5.	MKF "MELAHA" Sarajevo	1.282	828	527	6	206
6.	MKF "MI-BOSPO" Tuzla	66.886	60.827	24.531	622	16.425
7.	MKF "MIKRA" Sarajevo	40.290	31.355	9.027	275	8.473
8.	MKF "MIKRO ALDI" Goražde	7.109	6.495	5.038	76	1.643
9.	"PARTNER MKF" Tuzla	151.559	132.424	86.915	1.583	30.614
10.	"PRVA ISLAMSKA MKF" Sarajevo	1.864	1.627	1.575	21	536
11.	MKF "SANI" Zenica	441	391	204	-21	123
12.	MKF "SUNRISE" Sarajevo	57.494	42.998	27.191	430	14.078
Total		598.823	467.713	277.693	5.122	114.784

Annex 12- Aggregated Income Statement of MCFs -31.03.2019.

-in 000 BAM-

No.	Description	period 01.01. - 31.03.2018.	%	period 01.01. - 31.03.2019.	%	Index
1	2	3	4	5	6	7=(5/3)
I	FINANCIAL INCOME AND EXPENSES	Amount	%	Amount	%	
1.	Interest income and similar income					
1.1.	Interest by interest-bearing deposit accounts with deposit institutions	1	0,0	2	0,0	200
1.2.	Interest on facilities to banks	5	0,0	1	0,0	20
1.3.	Loan interest	15.765	97,6	15.528	98,3	98
1.4.	Other financial income	378	2,4	272	1,7	72
1.5.	Total interest income and similar income (1.1. do 1.4.)	16.149	100	15.803	100	98
2.	Interest expenses and similar expenses					
2.1.	Interest on borrowed funds	1.927	93,5	1.788	89,8	93
2.2.	Other financial expenses	134	6,5	202	10,2	151
2.3.	Total interest expenses and similar expenses (2.1. to 2.2.)	2.061	100	1.990	100	97
3.	Net financial income (1.5. - 2.3.)	14.088	-	13.813	-	98
II	OPERATING INCOME AND EXPENSES					
4.	Operating income					
4.1.	Fees for services performed	1.625	90,8	1.600	95,0	99
4.2.	Other operating income	163	9,2	85	5,0	52
4.3.	Total operating income (4.1. do 4.2.)	1.790	100	1.685	100	94
5.	Operating expenses					
5.1.	Salary and contributions costs	8.597	64,6	8.913	66,0	104
5.2.	Costs of business premises, other fixed assets and utility costs	2.652	19,9	2.612	19,3	99
5.3.	Other operating expenses	2.056	15,5	1.979	14,7	96
5.4.	Total operating expenses (5.1. do 5.3.)	13.305	100	13.504	100	102
6.	Loan loss provisions and provisions for other losses	1.120	-	1.029	-	92
7.	Surplus/deficit of income over expenses from regular operations(3.+4.3.-5.4.-6.)	1.453	-	965	-	66
8.	Extraordinary income	2.405	-	2.541	-	106
9.	Extraordinary expenses	120	-	174	-	145
10.	Surplus/deficit of income over expenses (7.+8.-9.)	3.738	-	3.332	-	89

Annex 13- Aggregated Income Statement of MCCs -31.03.2019.

-u 000 BAM-

No.	Description	period 01.01. - 31.13.2018.	%	period 01.01. - 31.03.2019.	%	Index
1	2	3	4	5	6	7=(5/3)
I	FINANCIAL INCOME AND EXPENSES	Amount	%	Amount	%	
1.	Interest income and similar income					
1.1.	Interest by interest-bearing deposit accounts with deposit institutions	0	0	0	0	-
1.2.	Interest on facilities to banks	0	0	0	0	-
1.3.	Loan interest	3.905	99,9	5.914	99,9	151
1.4.	Other financial income	3	0,1	3	0,1	100
1.5.	Total interest income and similar income (1.1. to 1.4.)	3.908	100	5.917	100	151
2.	Interest expenses and similar expenses					
2.1.	Interest on borrowed funds	795	94,4	986	86,6	124
2.2.	Other financial expenses	47	5,6	153	13,4	326
2.3.	Total interest expenses and similar expenses (2.1. do 2.2.)	842	100	1.139	100	135
3.	Net financial income (1.5. - 2.3.)	3.066	-	4.778	-	156
II	OPERATING INCOME AND EXPENSES					
4.	Operating income					
4.1.	Fees for services performed	317	90,8	469	90,4	148
4.2.	Other operating income	32	2,3	50	9,6	156
4.3.	Total operating income (4.1. to 4.2.)	349	100	519	100	149
5.	Operating expenses					
5.1.	Salary and contributions costs	1.398	70,0	2.097	69,9	150
5.2.	Costs of business premises, other fixed assets and utility costs	325	16,3	538	17,9	166
5.3.	Other operating expenses	275	13,7	363	12,2	132
5.4.	Total operating expenses (5.1. to 5.3.)	1.998	100	2.998	100	150
6.	Loan loss provisions and provisions for other losses	377	-	365	-	97
7.	PROFIT/LOSS FROM REGULAR BUSINESS OPERATIONS (3.+4.3.-5.4.-6.)	1.040	-	1.934	-	186
8.	Extraordinary income	6	-	69	-	1.150
9.	Extraordinary expenses	72	-	15	-	21
10.	PROFIT/LOSS BEFORE TAXES	974	-	1.988	-	204
11.	TAXES	0	-	198	-	-
12.	Net profit / loss	974	-	1.790	-	184

ANNEXES FOR THE LEASING SECTOR

Annex 14- General Information on Leasing Companies as of 31.03.2019.

No.	Name of leasing company	Director	Date of issuing a license	No. of employees	Web site
1.	ASA LEASING d.o.o. Sarajevo	Mirza Muhović	22.03.2010.	6	www.asa-leasing.ba
2.	MOGO d.o.o. Sarajevo	Kreics Maris	01.06.2018.	19	www.mogo.ba
3.	NLB LEASING d.o.o. Sarajevo	Denis Silajdžić	19.03.2010.	7	www.nlbleasing.ba
4.	PORSCHE LEASING d.o.o.	Dejan Stupar	28.05.2015.	19	www.porscheleasing.ba
5.	RAIFFEISEN LEASING d.o.o. Sarajevo	Maja Jurčević	19.01.2010.	35	www.rlbh.ba
6.	SPARKASSE LEASING d.o.o. Sarajevo	Elma Hošo	11.02.2010.	26	www.s-leasing.ba
7.	VB LEASING d.o.o Sarajevo*	Slobodan Vujić	12.01.2010.	11	www.vbleasing.ba
Total				123	

*after 31.03.2019 the name changed to Vantage leasing d.o.o.Sarajevo

Annex15- Overview of weighted NIR and EIR for financial leasing contracts for period 01.01.-31.03.2019.

Average nominal and effective interest rate for financial leasing contracts concluded during the period 01.01.-31.03.2019.					
No.	Description	No. of contracts	Financing amount	Weighted NIR	Weighted EIR
1	2	3	4	5	6
1.	Short-term leasing by leasing objects:	27	448	8,6%	17,7%
a.	Passenger vehicles	23	325	10,7%	22,1%
b.	Company vehicles (cargo and passenger)	4	123	3,1%	5,8%
c.	Machinery and equipment	0	0	0,0%	0,0%
d.	Real estate	0	0	0,0%	0,0%
e.	Other	0	0	0,0%	0,0%
1.1.	Short-term leasing by type of lessee:	27	448	8,6%	17,7%
a.	Legal entities	12	361	3,0%	5,2%
b.	Entrepreneurs	0	0	0,0%	0,0%
c.	Natural persons	15	87	32,1%	69,2%
2.	Long-term leasing by leasing objects:	1.113	35.128	7,2%	11,3%
a.	Passenger vehicles	774	17.292	10,5%	16,5%
b.	Company vehicles (cargo and passenger)	304	13.755	4,0%	6,2%
c.	Machinery and equipment	35	4.081	4,1%	6,5%
d.	Real estate	0	0	0,0%	0,0%
e.	Other	0	0	0,0%	0,0%
2.1.	Long-term leasing by type of lessee:	1.113	35.128	7,2%	11,3%
a.	Legal entities	640	29.553	4,1%	6,2%
b.	Entrepreneurs	18	703	5,1%	6,8%
c.	Natural persons	455	4.872	26,2%	42,8%
	TOTAL (1+2)	1.140	35.576	7,2%	11,4%

Annex 16- Overview of the Ownership Structure for Leasing Companies -31.03.2019.

No.	Leasing company	Name of the owner	% share
1.	ASA LEASING d.o.o. Sarajevo	ASA AUTO d.o.o. Sarajevo	82,8
		ASA FINANCE d.d. Sarajevo	17,2
2.	MOGO d.o.o. Sarajevo	Pole Alberts, Riga, Latvija	100
3.	NLB LEASING d.o.o. Sarajevo	NLB d.d. Ljubljana	100
4.	PORSCHE LEASING d.o.o.	PORSCHE BANK Aktiengesellschaft Salzburg Austrija	100
5.	RAIFFEISEN LEASING d.o.o. Sarajevo	RAIFFEISEN BANK d.d. Sarajevo, BiH	100
6.	SPARKASSE LEASING d.o.o. Sarajevo	STEIERMAERKISCHE BANK UND SPARKASSEN AG, Graz	51,0
		SPARKASSE BANK d.d. Sarajevo	49,0
7.	VB LEASING d.o.o. Sarajevo	VB LEASING INTERNATIONAL GmbH, Vienna	100

Annex 17- Aggregated Balance Sheet of Leasing Companies -31.03.2019.

- in 000 BAM -

No.	Description	31.12.2018.		31.03.2019.		Index
		3.	4.	5.	6.	
1.	2.	3.	4.	5.	6.	7=5/3
	ASSETS	Amount	% in the total assets	Amount	% in the total assets	31.03.2019./31.12.2018.
1.	Cash and cash equivalents	13.969	4,7	6.343	2,2	45
2.	Placements with banks	17.235	5,8	8.969	3,1	52
3.	Receivables for financial leasing, net (3a-3b-3c-3d)	214.674	72,2	218.593	75,8	102
3a)	Receivables for financial leasing, gross	233.535	78,6	241.688	83,8	103
3b)	Loss provisions	897	0,3	882	0,3	98
3c)	Deferred interest income	17.794	6,0	22.033	7,6	124
3d)	Deferred fee income	170	0,1	180	0,1	106
4.	Receivables from subsidiaries	2	0,0	2	0,0	100
5.	Tangible and intangible assets, net (5a+5b-5c-5d)	36.485	12,3	39.897	13,8	109
5a)	Tangible and intangible assets – own assets	4.848	1,6	4.955	1,7	102
5b)	Tangible and intangible assets – operational leasing	48.482	16,3	52.950	18,4	109
5c)	Value adjustment – own assets	3.748	1,3	3.686	1,3	98
5d)	Value adjustment – operational leasing	13.097	4,4	14.322	5,0	109
6.	Long-term investments	203	0,1	203	0,1	100
7.	Other assets (7a+7b)	14.586	4,9	14.513	5,0	99
7a)	Loans, net (7a1-7a2)	6.253	2,1	6.046	2,1	97
7a1)	Loans (due receivables + non-due principal)	12.130	4,1	11.923	4,1	98
7a2)	Loan reserves	5.877	2,0	5.877	2,0	100
7b)	Inventories	1.339	0,5	1.427	0,5	107
7c)	Other assets	6.994	2,4	7.040	2,4	101
	TOTAL ASSETS	297.154	100,0	288.520	100,0	97
	LIABILITIES					
9.	Receivables due for taken loans, net	252.389	84,9	249.168	86,4	99
9a)	Receivables due for short-term loans	0	0,0	0	0,0	100
9b)	Receivables due for long-term loans	252.729	85,0	249.482	86,5	99
9c)	Prepaid costs and fees	340	0,1	314	0,1	92
10.	Other liabilities	7.997	2,7	8.750	3,0	109
	Total liabilities	260.386	87,6	257.918	89,4	99
11.	Core capital	33.925	11,4	27.424	9,5	81
12.	Reserves	4.547	1,5	4.547	1,6	100
13.	Accumulated profit/loss	-1.704	-0,6	-1.369	-0,5	n/a
	Total capital	36.768	12,4	30.602	10,6	83
	Total liabilities	297.154	100,0	288.520	100,0	97
	Written-off receivables (initial balance)	84.175	29,2	72.937	25,3	87
	New write-off (+)	896	0,3	100	0,0	11
	Collection (-)	4.101	1,4	85	0,0	2
	Permanent write-off (-)	8.033	2,8	0	0,0	0
	Written-off receivables (final balance)	72.937	25,3	72.952	25,3	100

Annex 18- Overview of assets, receivables of financial and net funds and the financial result of leasing companies as of 31.03.2019.

No.	Leasing company	Balance sum		Receivables on fin. leasing		Net funds issued in operating leasing		Financ. result
		Amount	%	Amount	%	Amount	%	Amount
1.	ASA Leasing d.o.o. Sarajevo	2.040	0,7%	26	0,0%	0	0,0%	-242
2.	Mogo d.o.o. Sarajevo	5.676	2,0%	4.285	2,0%	0	0%	-303
3.	NLB Leasing d.o.o. Sarajevo	2.722	0,9%	260	0,1%	0	0%	-164
4.	Porsche Leasing d.o.o. Sarajevo	91.752	31,8%	64.886	29,7%	24.726	64%	537
5.	Raiffeisen Leasing d.o.o. Sarajevo	112.673	39,1%	84.059	38,5%	10.524	27%	531
6.	Sparkasse Leasing d.o.o. Sarajevo	66.371	23,0%	60.997	27,9%	3.189	8%	188
7.	VB Leasing Leasing d.o.o. Sarajevo	7.286	2,5%	4.080	1,9%	189	0%	-211
	Total	288.520	100%	218.593	100%	38.628	100%	336

Annex 19- Overview of Key Financial Indicators of Leasing Companies and Banks which perform Financial Leasing Operations -31.03.2019.

No.	Leasing company/ bank	Total capital (000 BAM)	Rank based on total capital	Net profit/loss (000 BAM)	Rank based on net profit/loss dobit/gubitak	Facilities in first quarter of 2019. (000 BAM)	Rank based on facilities in first quarter of 2019.	No of the contract in the first gaurter of 2019.	Rank based on number of contract in first quarter of 2019.
1.	Asa Aleasing d.o.o. Sarajevo	1.958	6.	-242	6.	0	-	0	-
2.	Mogo d.o.o. Sarajevo	163	7.	-303	7.	3.243	5.	414	5.
3.	NLB Leasing d.o.o. Sarajevo	2.416	5.	-164	4.	0	-	0	-
4.	Porsche Leasing d.o.o. Sarajevo	2.908	3.	537	1.	14.779	1.	410	1.
5.	Raiffeisen Leasing d.o.o. Sarajevo	13.396	1.	531	2.	9.821	2.	250	2.
6.	Sparkasse Leasing d.o.o. Sarajevo	7.279	2.	188	3.	9.369	3.	168	3.
7.	VB Leasing d.o.o. Sarajevo	2.482	4.	-211	5.	0	-	0	-
	TOTAL (SECTOR)	30.602		336		37.212		1.242	
8.	UniCredit Bank d.d. Mostar	-	-	-	-	5.757	4.	101	4.
	TOTAL (SYSTEM)					42.969	-	1.343	-

Annex 20- Overview of Reserves for Financial Leasing -31.03.2019.

-in 000 BAM-

Days past due	Provisioning rate for financial leasing (movables)	Provisioning rate for financial leasing (immovables)	Amount of receivables for movables	Amount of receivables for immovable	Principal amount for movables	Principal amount for immovable	Reserves			
							For move-ables	For immove-ables	Additional calculated and allocated reserves	Total reserves
1	2	3	4	5	6	7	8=6*3	9=7*3	10	11=8+9+10
0-60	0,50%	0,50%	214.027	2.011	40.719	808	204	4	233	441
60-90	10%	10%	2.490	0	494	0	49	0	0	49
90-180	50%	50%	538	99	124	16	62	8	12	82
Over 180	100%	75%	310	0	310	0	310	0	0	310
Over 360	100%	100%	0	0	0	0	0	0	0	0
Total			217.365	2.110	41.647	824	625	12	245	882

Annex 21- Overview of Loans Reserves -31.03.2019.

-in 000 BAM-

Days past due	Provisioning rate	Amount of receivables	Reserves	Additional calculated allocated reserves	Total reserves
1	2	3	4=3*2	5	6=4+5
0-60	0,05%	6.256	3	0	3
60-90	5%	0	0	0	0
90-180	10%	0	0	0	0
180-270	30%	0	0	0	0
270-360	50%	0	0	0	0
Over 360	100%	5.874	5.874	0	5.874
Total		11.923	5.877	0	5.877

Annex 22- Aggregated Income Statement of Leasing Companies -31.03.2019.

-in 000 BAM -

No.	Description	31.03.2018.		31.03.2019.		Index
1	2	3	4	5	6	7=5/3
		Amount	% in total income/expenses	Amount	% in total income/expenses	31.03.2019/ 31.03.2018
	FINANCIAL INCOME AND EXPENSES					
1.	Interest income	2.748	29,7%	3.058	43,9%	111
1a)	Interest for financial leasing	2.206	23,8%	2.632	37,8%	119
1b)	Interest on placements with banks	86	0,9%	68	1,0%	79
1c)	Fees (for processing leasing arrangements, etc.)	146	1,6%	175	2,5%	120
1d)	Other interest income	310	3,3%	183	2,6%	59
2.	Interest expenses	773	12,3%	943	14,2%	122
2a)	Interest on borrowed funds	753	12,0%	917	13,8%	122
2b)	Fees for loan processing	20	0,3%	26	0,4%	130
2c)	Other interest expenses	0	0,0%	0	0,0%	n/a
3.	Net interest income	1.975	21,3%	2.115	30,3%	107
	OPERATING INCOME AND EXPENSES					
4.	Operating income	6.507	70,3%	3.913	56,1%	60
4a)	Fees for services	1	0,0%	1	0,0%	100
4b)	Fee for operational lease	2.886	31,2%	3.224	46,2%	112
4c)	Income from sale of leasing facilities	8	0,1%	0	0,0%	n/a
4d)	Other operating income	3.612	39,0%	688	9,9%	19
4d)1	Income from collected written-off receivables	3.073	33,2%	85	1,2%	3
4d)2	Income from notifications	52	0,6%	13	0,2%	25
4d)3	Other	487	5,3%	590	8,5%	121

5.	Operating expenses	5.332	84,9%	5.669	85,4%	106
5a)	Salaries and contributions	1.206	19,2%	1.408	21,2%	117
5b)	Costs of business premises	2.281	36,3%	2.203	33,2%	97
5c)	Other costs	1.845	29,4%	2.058	31,0%	112
6.	Costs of loan loss provisions	178	2,8%	23	n/a	n/a
7.	Profit before taxes	2.972	47,3%	336	4,8%	11
8.	Profit tax	0	0,0%	0	0,0%	n/a
9.	Net profit	2.972	32,1%	336	4,8%	11

Annex 23- General information on factoring company and the ownership structure as of 31.03.2019.

No.	Name of the company	Director	Date of issuing a licence	No. of employees	Website	Name of the Owner	Share
1.	Batagon factoring d.o.o. Sarajevo	Đenan Bogdanić	28.12.2017.	4	www.batagon-factoring.ba	Batagon International AG, Zug, Švicarska	100%



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**PUBLISHER
BANKING AGENCY OF THE FEDERATION OF BOSNIA AND HERZEGOVINA
Zmaja od Bosne 47b
71000 Sarajevo, Bosna i Hercegovina
Phone. +387 33 72 14 00
Fax +387 33 66 88 11
Website: www.fba.ba
e-mail: agencija@fba.ba**