



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

INFORMATION

**ON THE FEDERATION OF BOSNIA AND HERZEGOVINA
BANKING SYSTEM ENTITIES WITH BALANCE AS OF 31/12/2019
(AS PER FINAL UNAUDITED DATA)**

Sarajevo, March 2020

Acronyms and terms:

DIA	Deposit Insurance Agency of Bosnia and Herzegovina
AQR	Asset Quality Review
BD of B&H	Brčko District of Bosnia and Herzegovina
GDP	Gross Domestic Product
B&H	Bosnia and Herzegovina
CAMELS	Uniform internal bank rating system, which includes main components: capital, asset quality, governance and management, profitability, liquidity and sensitivity to market risk
CBB&H	Central Bank of Bosnia and Herzegovina
CEDB	Council of Europe Development Bank
CLR	Central Loan Register in B&H (for legal entities and private individuals)
DEG	Deutsche Investitions - und Entwicklungsgesellschaft (German Investment Corporation)
IP	International Payments
EBA	European Banking Authority
EBRD	European Bank for Reconstruction and Development
ECB	European Central Bank
EFSE	European Fund for Southeast Europe
EIB	European Investment Bank
EIR	Effective Interest Rate
EU	European Union
FBA	Federation of Bosnia and Herzegovina Banking Agency
FB&H	Federation of Bosnia and Herzegovina
FED	The Federal Reserve (US Central Bank)
FMF	FB&H Ministry of Finance
FID	Financial Intelligence Department
FSAP	Financial Sector Assessment Program
FX risk	Foreign Exchange Risk
ICAAP	Internal Capital Adequacy Assessment Process
ILAAP	Internal Liquidity Adequacy Assessment Process
LCR	Liquidity Coverage Ratio
MCC	Micro Credit Company
MCF	Micro Credit Foundation
MCO	Micro Credit Organisation
IMF	International Monetary Fund
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
NIR	Nominal Interest Rate
NPL	Non-Performing Loans
GCR	General Credit Risk
PLL	Potential Loan Losses
LLR	Loan Loss Reserves
RS	Republic of Srpska
WB	World Bank
BSE	FB&H Banking System Entities: banks, banking groups, development banks, MCOs, leasing companies, factoring companies, exchange offices, and other financial organizations whose operations are supervised by the FBA
AML&CTF	Anti-Money Laundering and Counter-Terrorism Financing
SREP	Supervisory Review and Evaluation Process
BAB&H	Banks Association of Bosnia and Herzegovina
B&HALC	B&H Association of Leasing Companies
DP	Domestic Payments
USAID	United States Agency for International Development - Financial Reform Agenda Activity Project
FINRA	Project
MB FBA	Management Board of the FB&H Banking Agency
LoA	Law on the Banking Agency of the Federation of Bosnia and Herzegovina
LoB	Law on Banks
LoF	Law on Factoring
LoL	Law on Leasing
LoMCO	Law on Micro Credit Organisations

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EXECUTIVE SUMMARY

FBiH Banking Sector's Key Performance Indicators

15 commercial banks, with 533 organizational units employing a total of 6,659 persons, operated in the FB&H as at December 12th, 2019.

The total net assets across the FB&H banking sector as of December 12th, 2019 were BAM 24.2 billion and were higher by BAM 2.1 billion or 9.6% compared to December 31st, 2018.

The FB&H banks' total capital amounted to BAM 3.1 billion as at December 12th, 2019, which was higher by BAM 160.3 million or 5.4% compared to the end of 2018, of which shareholders' capital was BAM 1.3 billion. The share of total capital in the funding sources across the FB&H banking sector was 13%. The own funds amounted to BAM 2.7 billion and increased by BAM 211.3 million or 8.5% compared to the end of 2018. Tier 1 capital increased by BAM 305.1 million or 13%, while Tier 2 capital decreased by BAM 93.8 million or 73.6%.

The FB&H banking sector's own funds ratio was 17.9% as at December 12th, 2019 and was higher by 5.9 percentage points than the statutory minimum of 12%. It is higher by 0.4 percentage points compared to the end of 2018. Other capital ratios (Common Equity Tier 1 capital ratio and Tier 1 capital ratio) at the FB&H banking sector level were also higher compared to regulatory minimums.

The financial leverage ratio (i.e. the ratio of Tier 1 capital and total exposure of banks) across the FB&H banking sector was 10.5% as at December 12th, 2019 and was higher by 4.5 percentage points compared to the regulatory minimum of 6%. It is higher by 0.4 percentage points compared to the end of 2018.

As of 31.12.2019, risk assets at the FB&H banking sector level stood at BAM 19.6 billion, up by BAM 1.1 billion or 6.1% vs. the YE2018.

Non-performing assets of banks were BAM 1.3 billion and went by 5.2% or BAM 69 million down compared to end of 2018. The rate of regulatory LLP coverage of non-performing assets is 79%, meaning it went down by 2.7 percentage points vs. YE2018.

Default items at the FB&H banking sector level at YE2019 stood at BAM 1.3 billion with impairment coverage rate of 72.5%, while at YE2018 these items were at BAM 1.4 billion with the rate of impairment coverage of 73.8%.

Loans, participating with 62.8% in total assets, have posted a rise vs. YE2018 of BAM 895.1 million or 6.2%, thus arriving to the figure of BAM 15.2 billion as of 31.12.2019. The loans increase as at 31.12.2019 vs. 31.12.2018 was seen with regards to retail loans, loans to private companies, public companies, banking institutions and non-banking financial institutions, while the reduced loan rate was seen with government institutions and other sectors.

Corporate loans went up by BAM 348.8 million or 4.7% to BAM 7.8 billion as of 31.12.2019. Their share in total loans was 51.4%. Over the same period, retail loans posted a rise by BAM 546.3 million or 8% to BAM 7.4 billion as of 31.12.2019, thus participating in total loans with 48.6%.

The share of NPLs dropped from 8.5% to 7.6% as a result of a loan growth, collection activities and performed write offs. The corporate NPL share in total corporate loans is 9.4%, down by 1.2 percentage points compared to YE2019, while the share of retail NPLs in total retail loans is 5.7%, being 0.5 percentage points lower in the observed period.

Cash funds equal BAM 7.6 billion and hold a share of 31.6% in total assets, thus being by BAM 1 billion or 15.9% higher than at the end of 2018.

As of 31.12.2019, investments in securities amounted BAM 1.5 billion holding a share of 6% in assets and posting a rise of 11.6% vs. YE2018.

Deposits, being the key source of funding for banks, have risen by BAM 1.8 billion or 10.3% and reached an amount of BAM 19.4 billion with a share of 80.2% in total liabilities. Savings deposits as the most significant and the biggest segment of deposit and financial potential of banks, increased by BAM 769.3 million or 8.7% to BAM 9.6 billion.

The loans taken amounted to BAM 856.6 million with a share of 3.5% in total liabilities, thus going down by BAM 6.7 million or 0.7% vs. YE2018.

By observing the key liquidity indicators, qualitative and quantitative requirements, as well as other factors affecting banks' liquidity position, it could be inferred that the FB&H banking sector's liquidity was satisfactory as of 31.12.2019.

According to reporting data as of 31.12.2019, the FB&H banking sector posted a positive financial result – profit of BAM 273.9 million, thus being BAM 17.7 million or 6.9% higher than in the same period in 2018. With an exception of one bank, all banks posted operating profit.

FB&H Micro Credit Sector's Key Performance Indicators

In the FB&H, as of 31.12.2019, 14 MCOs comprising the FB&H microcredit sector had a license issued by the FBA, of which 11 were MCFs (non-profit organizations) and 3 MCCs (profit organizations). In 2019, the number of organisational parts of MCOs seated in the FB&H was 374 employing 1,522 persons.

Total assets of the FB&H micro credit sector as of 31.12.2019 were BAM 631.3 million, which is by BAM 50.9 million or 8.8% higher than as at 31.12.2018. Over the observed period, the rate of assets increase of MCCs was 9.7% and 8.5% in MCFs.

Total net micro loans were BAM 504.4 million, thus constituting 79.9% of total assets of the FB&H micro credit sector. This is BAM 50.4 million or 11.1% more than as of 31.12.2018. The net MCCs' micro loans increased by 4.2%, while the total increase reported at the MCFs' level was 13.9% compared to 31.12.2018.

The FB&H micro credit sector's total liabilities under loans taken were BAM 301.7 million as of 31.12. 2019, with a share of 47.8% in the total liabilities and increasing by BAM 22.1 million or 7.9% compared to 31.12.2018. In the reporting period, MCCs' credit obligations increased by 4.1%, while MCFs' credit obligations increased by 10.1%.

The total capital across the FB&H micro credit sector was BAM 294.3 million or 46.6% of the total liabilities as of 31.12.2019 and was higher by BAM 21.4 million or 7.8% compared to the

end of 2018, where the total capital of MCCs rose by 15.9% and the total capital of MCFs by 6.5%.

Across the FB&H micro credit sector, in the period from 01.01.2019 to 31.12.2019, positive financial performance of BAM 19.5 million was reported, which is 7% lower compared to the same period of 2018. The MCCs reported net profit of BAM 3.2 million, which is a decrease by 39.2% compared to the same period of the preceding business year. This is a result of a loss of BAM 2 million posted by two MCCs that have just initiated their operations in 2019. The MCFs reported a total surplus of revenues over expenses of BAM 16.3 million, which is an increase by 3.8% compared to the same period of 2018.

Operational efficiency of the FB&H micro credit sector was 18.8% as of 31.12.2019, which was within the regulatory indicator of up to 45%, while reported return on assets, adjusted by the inflation rate, market price of capital and donations, was positive and amounted to 2.9%, which was in compliance with the regulatory limit.

FB&H microcredit sector's key performance indicators show an increase of total assets, micro credit portfolio, headcount level and total capital. The sector's operations with a positive financial performance continued. The micro credit portfolio quality indicators across the sector were within the regulatory limits and did not change significantly.

FB&H Leasing Sector's Key Performance Indicators

The FB&H leasing system comprised, as of 31.12.2019, five leasing companies (leasing sector) and one commercial bank performing financial leasing operations. The FB&H leasing sector employed a total of 112 persons (full-time employees) as of 31.12.2019.

The FB&H leasing sector's total assets were BAM 323.7 million as at 31.12.2019 and were higher by BAM 26.5 million or 8.9% compared to December 31st, 2018.

The net receivables under financial leasing, as the most significant item in the composition of total assets, were BAM 241.1 million or 74.5% of the total assets and were higher by BAM 26.4 million or 12.3% compared to December 31st, 2018. With respect to the FB&H leasing sector's asset quality in 2019, an increase in overdue receivables of 36.1% was seen with respect to 31.12.2018, as well as an increase in financial leasing loss reserves of 197.1% compared to the same period (caused by an increase of reserves with one leasing company holding a share of 78.8% in total loss reserves). Out of the posted amount of loss reserves, 78.8% refers to one leasing company recognising the biggest loss in 2019. The total number and value of newly concluded leasing contracts (financial and operational leasing) in the reporting period recorded increases of 18.5% and 2.2% respectively.

The largest item in the composition of the FB&H leasing sector's total liabilities constituted, as of 31.12.2019, liabilities of BAM 286.3 million under loans taken, all of which were of a long-term character and accounted for 88.4% of the total liabilities. Compared to December 31st, 2018, these liabilities increased by BAM 33.9 million or 13.4%.

The FB&H leasing sector's total capital was BAM 29.5 million as at 31.12.2019, comprising 9.1% of the FB&H leasing sector's total liabilities and decreasing by a total of BAM 7.3 million or 19.8% compared to December 31st, 2018.

Across the FB&H leasing sector, in the January 1 - December 31, 2019 period, a loss of BAM 1.0 million was reported, which is a decrease by BAM 4.3 million compared to the same period of the preceding financial year, as a result of an increase of interest expenses due to higher loans of leasing companies and a major increase of costs of loss reserves.

FB&H Factoring Sector's Key Indicators

As of 31.12.2019, there were four commercial banks in the FB&H performing the factoring business, three of which are members of international banking groups established in the EU member states and one in majority domestic ownership. In the 4th quarter of 2019, the FBA revoked a license to perform factoring operations from the only registered factoring company.

In the FB&H, 361 factoring contracts were concluded with the total volume (nominal amount) of purchased monetary claims as of 31.12.2019 was BAM 175.8 million and with total volume of settled payables (reverse factoring) of BAM 2.3 million. Compared to the total number of concluded factoring contracts in the previous year, this number increased in 2019 by 21%, while the nominal value of purchased monetary claims and settled payables also saw a rise by 35.1% vs. the same period the year before.

The factoring service providers' total income in the FB&H for the January 1 - December 31, 2019 period was BAM 2.2 million, which is higher by 29.9% vs. the same period in 2018.

INTRODUCTION

The FBA was established in 1996 as an independent and self-standing institution which exercises its competences in accordance with the prescribed provisions of the LoA, international standards and supervision principles and professional rules. The MB performs general supervision of the FBA's operations, taking measures for efficient performance of the functions from the FBA's purview in accordance with its statutory competences and reporting to the FB&H Parliament. As part of its regular execution of its statutory competences, the FBA draws up and discloses publicly on its website quarterly updates on BSEs approved by the FBA's MB.

Accordingly, this Information on the BSEs, with balance as of 31.12.2019 subject to final unaudited data was drawn up using reference sources, comprising processed reporting data provided by the BSEs to the FBA in the prescribed formats and within the prescribed timelines, and other data and information provided by the FB&H BSEs to the FBA and used in regular supervision of the BSEs.

Content-wise, this Information is divided into five sections. First section covers the macroeconomic environment, bank operations in the EU and main challenges and risks for the banking system in B&H. Second section presents information on the FBA's regulatory activities with respect to BSEs in 2019, i.e. with respect to segments of relevance for performance of supervision activities. Third section includes a detailed analysis of the FB&H banking sector regarding bank supervision, its structure, financial performance indicators, regulations and FBA's recommendations for the FB&H banking sector. Fourth section relates to a detailed analysis of non-deposit financial institutions, as well as compliance of their operations with the laws and regulations within which microcredit and leasing sectors, as well as factoring business, in the FB&H were addressed as separate segments, with the related specific FBA's recommendations. Fifth section covers banks' compliance with respect to the payments segment and BSEs' compliance with AML&CTF standards.

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

An integral part of this Information is also an overview of legal framework regarding activities and operations of BSEs provided in form of Annex 1 – Legal Framework for FBA and BSEs in the FB&H.

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

1. MACRO ECONOMIC ENVIRONMENT AND OVERVIEW OF CREDIT INSTITUTIONS' OPERATIONS

The FB&H banking system is liquid, well capitalised and profitable. Accordingly, entity-level banking agencies organise and perform examinations of BSEs by taking into account weaknesses and risks, current environment and regulatory framework. Over the course of 2019, an upward trend regarding deposits and loans has continued under conditions of economic growth and high liquidity, as well as a trend of interest rate reduction and assets quality improvement in banks.

An important contributor to high liquidity and interest rate decrease comes from an international environment. In 2019, ECB introduced relaxation over the monetary policy instruments and FED reduced interest rates on three occasions by 25 basis points respectively.

The monetary expansion strengthening during 2019 came after tightening of the monetary policy in the second half of 2019. The monetary expansion measures have been re-introduced due to a slow-down of global, US and European economic growth in 2019. Such trends were especially pronounced in the second half of 2019. The slow-down was caused by an increased uncertainty after culmination of tensions between China and the U.S. and after a drop in industry activities, thus especially affecting German industrial production, i.e. car industry primarily.

1.1. Macro Economic Environment and Operations of Banks in the EU

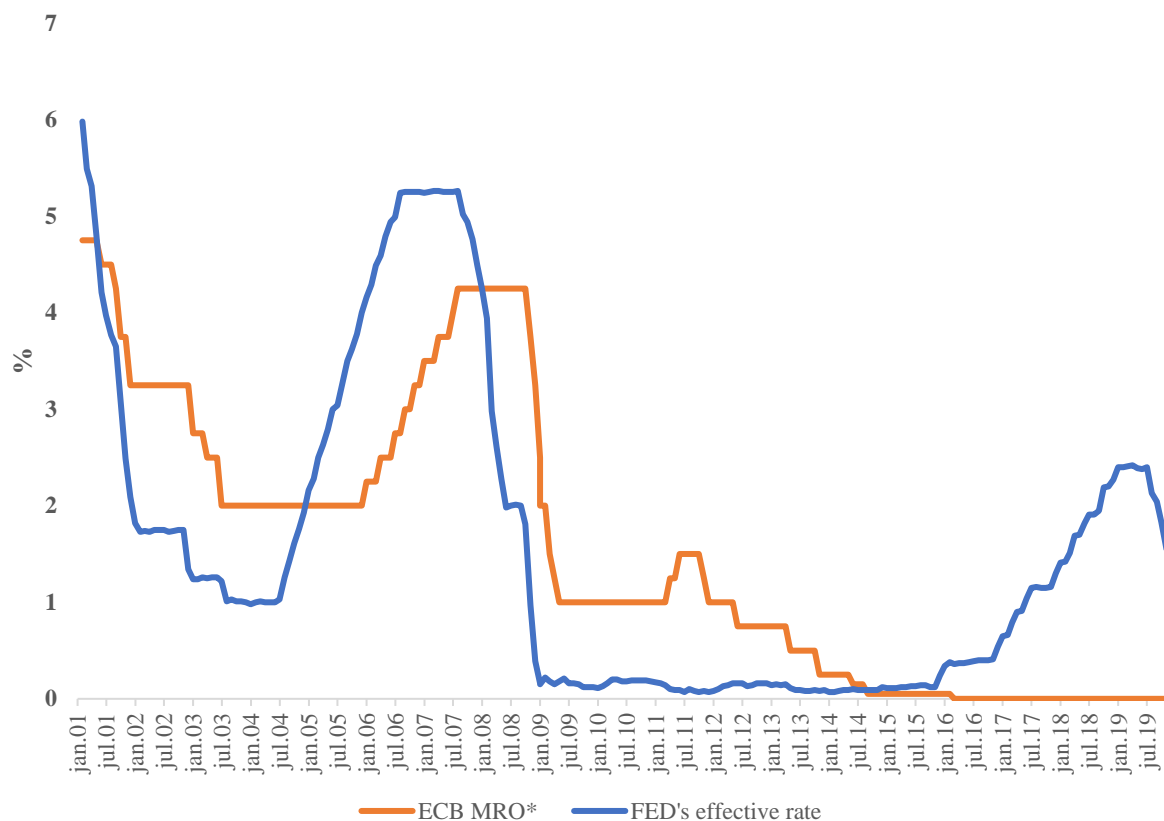
Preliminary data on the GDP growth in Germany as the European's largest economy show a much slower trend of increase compared to previous years (by app. 0.6% in 2019). Such result represents a significant underachievement compared to expectations. The Italian economy continued to waver on the edge of recession, i.e. around zero growth rate, while somewhat more dynamic French economy started to show signs of a slow-down near the end of 2019.

Main causes of this slow-down may be seen with these three types of uncertainties:

- First factor of the growth slow-down refers to China being the key market for the German industry, i.e. car industry in particular;
- Second factor relates to internal problems of the car industry linked with emission standards and technology changes;
- Third uncertainty refers to a so called „hard Brexit“ that has been adversely affecting the European economy for quite some time.

Under such conditions, the Governing Council of ECB has decided to re-initiate monthly bond purchases at the rate of EUR 20 billion per month (i.e. the Asset Purchase Program, - APP). They have also relaxed conditions for use of funds from the Target Long Term Operations program, (TLTRO), reduced interest rates on deposits of credit institutions with ECB from -0.4% to -0.5% and introduced a new calculation system. In order to weaken the monetary policy impact on the reduction of interest margin on credit institutions in the Euro Zone, the negative interest rate is being paid only in relation to excess liquidity that exceeds six-time the value of legal reserve.

Chart 1: Main interest rates of major central banks



* Marginal Refinancing Operations
Source: ECB, FED

Following the interest rate increase in the period from 2016 to 2018, FED faced a sharp reduction of stock prices in late 2018. The interest rate increase on FED funds has stopped at the range of 2.25%-2.50%, followed by three interest rate reductions at 0.25 percentage points each starting from the mid to late 2019.

In late 2019, the range of interest rate on FED funds was 1.50% to 1.75%. The U.S. economy continued to grow at higher rates than the European economy (i.e. app. 2% p.a.).

The monetary expansion has extended the economic growth period and caused further decrease of interest rates. Since EU interest rates are by app. 1.50% lower than in the U.S., the first-class state bonds, like German 10-year bonds, re-entered the zone of negative yields. The yields have been negative ever since May 2019. The trend spilled over to the general reduction of interest rates, hence Slovenian 10-year government bonds have also been periodically posting negative yields.

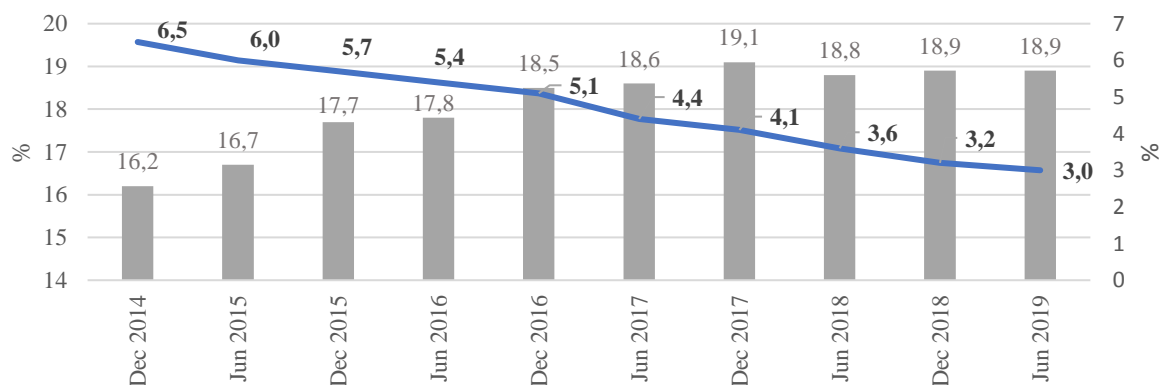
Under such conditions, the SEE economies continued to post economic growth. Slovenia, being closely related to the slowed German economy, has also shown signs of slow-down compared to 2016-2018, while Croatia and Serbia had relatively dynamic economic growth at rate of app. 3%-4%.

Table 1: Selected macroeconomic indicators

	2014	2015	2016	2017	2018	2019
GDP growth in %						
USA	2.6	2.9	1.5	2.2	2.9	2.4
Euro Zone	1.4	2.1	1.9	2.5	1.9	1.2
EU	1.8	2.4	2.1	2.7	2.1	1.5
Slovenia	3.0	2.3	3.1	4.8	4.1	2.5
Croatia	-0.1	2.4	3.5	3.1	2.7	2.9
Serbia	-1.6	1.8	3.3	2.1	4.3	3.5
B&H	1.2	3.1	3.2	3.1	3.6	2.8
Change of consumer prices (CPI), annual average in %						
USA	1.6	0.1	1.3	2.1	1.9	2.3
Euro Zone	0.4	0.2	0.2	1.4	1.7	1.8
B&H	-0.9	-1.0	-1.6	0.8	1.4	1.1
Key interest rates						
6-month Euribor in % ¹	0.18	-0.05	-0.22	-0.27	-0.25	-0.35
Yield on 10-year German government bonds in % ²	0.59	0.55	0.25	0.30	0.19	-0.30
Yield on 10-year Italian government bonds in %	1.99	1.58	1.89	1.80	2.98	1.37

Under conditions of preserved, although slower, economic growth, European banks elevated their lending activities and risk exposures. The increase of risk-weighted assets equaled 3% in the period from mid-2018 to mid-2019. Retail loans rose at the rate of 3.4% and corporate loans at 2.8%. The share of NPLs dropped from 3.6% to 3%. At the same time, the own funds ratio remained on relatively high level of nearly 19%. Profitability, measured by return on equity, has dropped from 7.2% to 7%, thus raising concerns due to intensified competition in the sector, stronger competition from the non-banking sector („fintech“ in particular) and very low market valuations of bank shares, thus limiting banks in their ability to collect fresh capital.

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



Source: EBA Risk Assessment, November 2019

¹ Data for this period refer to Euribor on the first working day in the last month of the reporting period.

² Eurostat for EU member states, 10-year yield used in the calculation of criteria from Maastricht: data for the last month in the reporting period

Source: IMF, World Economic Outlook Database, October 2019; Eurostat.

1.2. Main Challenges and Risks for the B&H Banking System

Favourable external environment, economic growth, reduction of administrative unemployment rate from 19.2% to 18.4% in 2019, as well as high liquidity and interest rate decrease (being especially pronounced with consumer loans) have all contributed to increased activities of banks in the FB&H. The ratio of bank assets and GDP exceeded 100% in late 2018 and continued to climb moderately in 2019 as well.

Average loans per capita in the FB&H reached an amount of BAM 3,334 by 30.09.2019. This amount represents nearly 3.6 average monthly salaries. This ratio rose moderately against end of 2018 when it stood at 3.5. The ratio of retail loans and GDP has risen from 31.1% at YE2018 to estimated app. 32% at YE2019. This ratio ranges in the vicinity of expected values considering the achieved development level. The high share of consumer loans calls for caution by banks when shaping their credit policies.

The share of NPLs in total loans of the FB&H banking sector shows a reduction trend, thus reaching 7.6% as at 31.12.2019. According to available data, the share of NPLs in total loans in the EU was 2.9% and 3.4% in the Euro system area.

Looking into performance indicators of the B&H banking system, as well as the economic environment, challenges and risks for the B&H banking system, they mostly refer to the interest rate level, NPLs, liquidity, economic conditions, profitability maintenance, conditions on traditional markets, political situation, etc.

Operations under conditions of low interest rates may provide stimulus to the economic growth. However, low and negative interest rates have long term effects on the assets and liabilities structure. Inevitable changes in the income and expense structure of banks may also result in changes to the business models and vice versa. Banks are focusing more intensively on segments with somewhat higher interest rates („retail“ segment and consumer products) or products with possible quicker approach changes in case of an interest rate increase (intensified short term corporate lending). Weaknesses contained in the economy are still present, so a sudden interest rate increase or business model change in banks may result in subsequent unfavourable effects (e.g. NPL increase).

The share of NPLs has been continuously dropping as a result of an active collection approach and measures prescribed by entity-level banking agencies. We have especially insisted on transparent disclosure of quality assets and precise planning of NPA management. In general, in addition to implementation of measures aligned with principles applied in the EU, there is a need for constant analysis of market condition and relevant approaches.

The banking system and the „traditional“ banking approach are main hallmarks of the financial system in B&H. Although technological development effects insofar are quite evident, implementation of new technologies in the future may have significant impact on business models in banks and provide leave way to new participants to the marketplace.

The FB&H banking system stability and development was unquestionable despite occasional pronounced local and regional political instabilities. This banking system includes banks seated in the EU that, as such, hold relevance when it comes to forming regional economic ties and relations with the EU. EU-related mechanisms have a role in maintaining the overall stability

Possible measures to be implemented by entity-level banking agencies depend on further assessments of risks and challenges. In addition to an on-going alignment of the regulatory framework with all risk management segments, „cyber“ risks exposures, risks related to payments systems and AML&CTF gain even more relevance and are hence being considered more intensively.

The B&H economy is quite sensitive to changes in economic conditions outside its boundaries (EU, regional and global economic trends, as well as latest threats caused by Corona virus). The pandemic caused by COVID-19 emergence will have negative effect on the global economy, thus reflecting on the B&H economy as well over the forthcoming period.

The approach taken so far by the entity-level banking agencies (i.e. prudent and conservative approach) will be adjusted to the new challenges. High capitalisation rate of the banking system gives room for absorption of higher level of risk banks might be exposed to under crisis conditions and ensure key preconditions for their business continuity. Entity-level banking agencies are fully committed to an adequate implementation of the regulatory framework prescribed by relevant EU institutions regarding existing and new segments of risk management.

2. BSE REGULATORY FRAMEWORK

FBA activities regarding supervision and development of banking sector regulations in 2019 were focused on preservation of stability, safety, liquidity and sound capitalisation rate of the FB&H banking sector.

For purpose of implementation of new regulations for banks, new accounting standards (IFRS 9, 16, etc.) and introduction of SREP, significant development projects have been finalised or are pending (with technical assistance by WB and USAID). We have also performed activities planned with respect to the long term SREP project (establishment of a new process of supervisory review and assessment, adoption of the SREP methodology). New regulations have been developed regarding implementation of IFRS 9 and ILAAP, a methodological framework has been prepared for supervisory stress testing, supervisory assessment was performed related to ICAAP reports of banks, plus recovery plans have been assessed and first resolution plans have been formed, etc.

We have continued our activities on strengthening and improving cooperation with both, local and international financial institutions, as well as regional and other organisations. We have reinforced bilateral and multilateral cooperation with banking regulators from the country, region and beyond, subject to existing and new agreements on cooperation and information exchange.

As for the segment of operations and supervision of non-deposit financial institutions, FBA has improved the regulatory framework in line with its competencies, thus enacting a set of new and changing the existing regulations prescribing operations and supervision of MCOs, leasing companies and factoring business in the FB&H.

FBA will continue to improve and develop regulations in the segment of supervision of non-deposit financial institutions according to its prescribed competencies, all for purpose of preserving and strengthening stability of the non-deposit financial institutions sector in the FB&H and for purpose of improving its lawful, safe and sound operations.

3. BANKING SECTOR

3.1. FB&H BANKING SECTOR'S STRUCTURE

3.1.1. Status, Number and Business Network

As of 31.12.2019, 15 commercial banks had banking license in the FB&H. Number of banks remained the same as on December 31st, 2018. All banks are members of the DIA.

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

Annex 2 provides basic information about the FB&H banks as at 31.12.2019.

The FB&H banks had, as of December 31st, 2019, a total of 533 organizational units, which was fewer by 16 organisational parts or 2.9% compared to December 31st, 2018. In the territory of the FB&H there are 470 organizational units of banks. Seven banks from the FB&H had 53 organizational units in the RS, while nine banks had ten organizational units in the BD.

Three banks from the RS have 27 organisational parts in the FB&H, up by two compared to December 31st, 2018.

The table below shows organisational structure of banks in the FB&H as of 31.12.2019:

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

No.	Bank name	Business unit/ branch	Other organisational parts	POS devices	ATMs
I Banks seated in the FB&H (in the territory of B&H)					
1.	Addiko Bank d.d. Sarajevo	38	-	-	81
2.	ASA Banka d.d. Sarajevo	8	6	-	27
3.	Bosna Bank International d.d. Sarajevo	34	1	-	55
4.	Intesa Sanpaolo Banka d.d. BiH Sarajevo	53	-	2,889	116
5.	Komercijalno-investiciona banka d.d. V. Kladuša	10	2	-	4
6.	NLB Banka d.d. Sarajevo	38	-	1,817	83
7.	Privredna banka Sarajevo d.d. Sarajevo	14	-	-	23
8.	ProCredit Bank d.d. Sarajevo	6	-	-	14
9.	Raiffeisen Bank d.d. BiH Sarajevo	106	-	8,728	282
10.	Sberbank BH d.d. Sarajevo	32	-	33	67
11.	Sparkasse Bank d.d. BiH Sarajevo	49	-	-	108
12.	UniCredit Bank d.d. Mostar	74	-	8,805	277
13.	Union Banka d.d. Sarajevo	13	-	-	15
14.	Vakufska banka d.d. Sarajevo	17	-	-	23
15.	ZiraatBank BH d.d. Sarajevo	18	14	840	66
	Total I:	510	23	23,112	1,241
II Organisational parts of banks from the RS doing business in the FB&H					
1.	Komercijalna banka a.d. Banja Luka	2	-	-	1
2.	Nova banka a.d. Banja Luka	12	2	603	28
3.	MF banka a.d. Banja Luka	11	-	-	11
	Total II:	25	2	603	40

3.1.2. Ownership Structure and Market Share

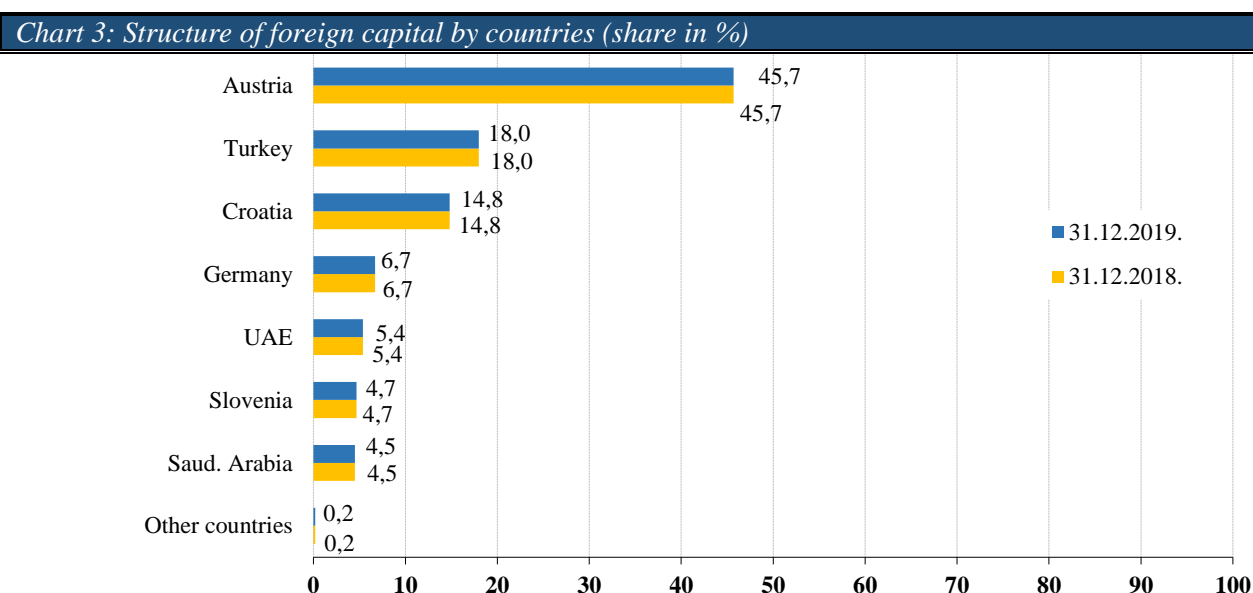
Ownership structure of the FB&H banks³ as of 31.12.2019, based on the available information and insight in the banks themselves, is the following:

- privately owned and predominantly privately owned - 14 banks,
- state-owned and predominantly state-owned⁴ - one bank.

Of 14 predominantly privately owned banks, four banks are majority-owned by domestic legal and natural persons (residents), while ten banks are majority foreign-owned.

If only foreign capital is analyzed, according to the shareholder country of origin criterion, as at 31.12.2019, the situation is unchanged compared to the end of 2018, since the highest share is still held by the shareholders from Austria (45.7% of foreign capital), followed by the shareholders from Turkey (18%) and Croatia (14.8%), while other countries have no major individual shares.

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

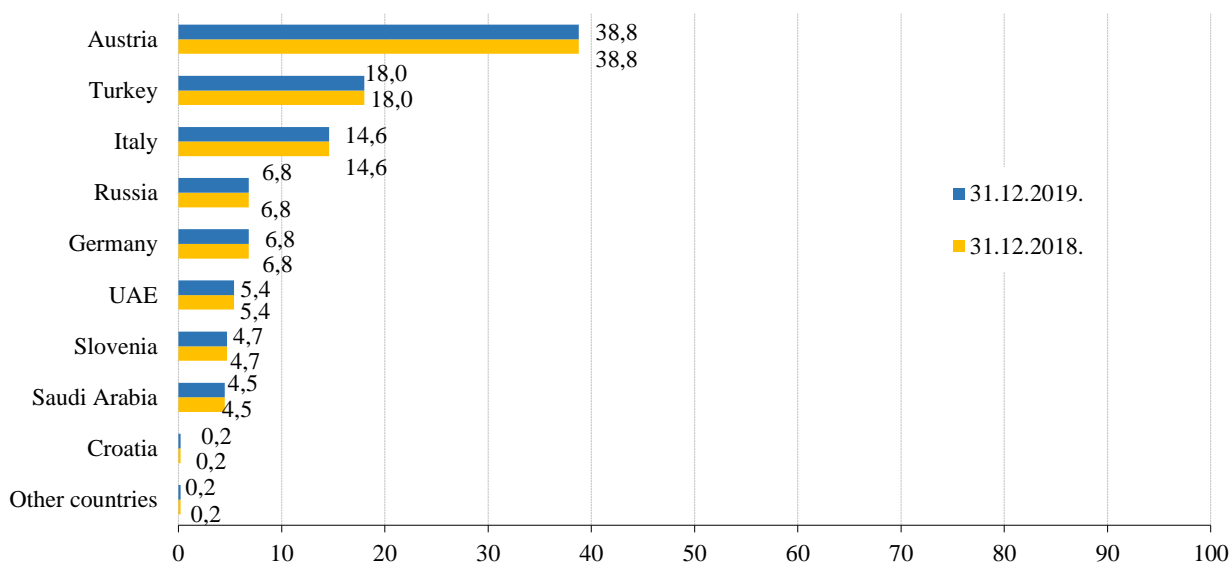


If the capital ties are considered, the foreign capital structure can also be viewed according to the criterion of the country of residence of the parent, i.e. the banking group that majority-owns (directly or indirectly through the members from the banking group) the FB&H banks. According to this criterion the situation as at 31.12.2019 is unchanged compared to the end of 2018, since the highest share is held by the banking groups and banks from Austria, followed by the banking groups and banks from Turkey and Italy, while the banking groups and banks from other countries have no major individual shares (below 7%).

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

³ Criteria here was the ownership over shareholder capital in banks.

⁴ State ownership refers to the capital of the FB&H Government.

Chart 4: Structure of foreign capital by countries – residence of the group⁵ (share in %)

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

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Table 3: Ownership structure according to total capital

Banks	31.12.2017		31.12.2018		31.12.2019		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)
State-owned banks	53.507	1.9	61.488	2.1	68.881	2.2	115	112
Private banks	2,811,542	98.1	2,909,598	97.9	3,062,473	97.8	103	105
Total	2,865,049	100	2,971,086	100	3,131,354	100	104	105

The total capital of the FB&H banking sector with the balance as at 31.12.2019 increased by 5.4% compared to the end of 2018, amounting to BAM 3.1 billion.

The increase of total capital by BAM 160.3 million was realized as a net effect of: increase on the basis of the current financial result of BAM 274 million, increase in the value of securities classified at fair value through other comprehensive income of BAM 19.8 million, increase based on fair value of tangible assets of BAM 2.0 million and decrease on the basis of transfers to the dividend payment obligations (against Y2018 profit) in three banks in the total amount of BAM 129.8 million, transfers to the accrued tax liabilities in four banks on the transferred loan loss reserves created from the profits in Tier 1 capital of BAM 2.7 million, as well as decrease based on correction of collected fee based on insurance policy on loans in Y2018 of BAM 3.0 million (one bank).

Viewed through the state-owned, private and foreign capital shares in the share capital of the banks, resulting in a more detailed analytical overview on the ownership structure of banks' capital in the FB&H, which is shown in the following table:

⁵ In addition to the countries of residence of the parent-banking group whose members are the banks from the FBiH, the countries that all other foreign shareholders of the banks from the FBiH come from are also included.

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

Share capital	31.12.2017		31.12.2018		31.12.2019		Index	
	Amount	% share	Amount	% share	Amount	% share	(4/2)	(6/4)
	1	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	139,355	10.7	98	100
Foreign capital (non-residents)	1,052,061	85.8	1,118,444	86.1	1,118,725	86.1	106	100
Total	1,225,789	100	1,299,700	100	1,299,699	100	106	100

The total banks' share capital, as well as the state-owned capital, private capital (residents) and foreign capital (non-residents) shares as of 31.12.2019, remained at the same level compared to the end of 2018.

3.1.3. Staff Structure

The number of employees across the banking sector as at 31.12.2019 is 6,659, which is lower by 80 employees or 1.2% compared to the end of 2018. A decrease in the number of employees is present in nine banks, while the number of employees increased in six banks.

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

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

Qualification level	31.12.2017		31.12.2018		31.12.2019		Index	
	Number of employees	% share	Number of employees	% share	Number of employees	% share	(4/2)	(6/4)
	1	3	4	5	6	7	8	9
University degree	3,970	59.7	4,102	60.9	4,125	61.9	103	101
Two-year post-secondary school degree	525	7.9	520	7.7	485	7.3	99	93
Secondary school degree	2,149	32.3	2,108	31.3	2,041	30.7	98	97
Others	11	0.2	9	0.1	8	0.1	82	89
Total	6,655	100	6,739	100	6,659	100	101	99

An increase in the number of employees in the FB&H banking sector as of 31.12.2019 compared to the end of 2018 is present in the employees with a university degree, which has the highest share in the overall qualification structure of employees in the FB&H banks.

One of indicators affecting the assessment of the performance of an individual bank and banking sector is the assets to number of employees ratio, i.e. the amount of assets per an employee, where a higher ratio is an indicator of better operational efficiency of the bank and the overall sector.

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

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Table 6: Total assets per employee

31.12.2017			31.12.2018			31.12.2019		
No. of employ.	Assets	Assets per employee	No. of employ.	Assets	Assets per employee	No. of employ.	Assets	Assets per employee
6,655	20,209,851	3,037	6,739	22,094,135	3,279	6,659	24,210,567	3,636

3.2. FINANCIAL PERFORMANCE INDICATORS

3.2.1. Balance Sheet

The presented indicators of the FB&H banks' performance and banking sector analyses include the indicators from the active sub-balance sheet of one bank with a majority of state-owned capital⁶, in accordance with provisions of the FB&H Law on the Opening Balance Sheet of Enterprises and Banks, under which banks with a majority of state-owned capital are required to report to the FBA based on the „total“ balance sheet broken down into: passive, neutral, and active sub-balance sheets.

In that respect, the data are reported in Annex 3 of this Information - Balance Sheet of FB&H Banks According to the FBA Scheme (Active Sub-Balance Sheet). Annex 4 provides an overview of assets, loans, deposits and financial performance of the FB&H banks as at 31.12.2019.

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

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Table 7: Balance sheet

Description	31.12.2017		31.12.2018		31.12.2019		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	5,794,664	28.7	6,591,117	29.8	7,641,570	31.6	114	116
Securities	1,228,432	6.1	1,304,626	5.9	1,456,321	6.0	106	112
Placements to other banks	350,980	1.7	270,604	1.2	149,197	0.6	77	55
Loans	13,178,860	65.2	14,325,634	64.8	15,220,759	62.8	109	106
Impairments	1,166,804	5.8	1,190,760	5.4	1,120,940	4.6	102	94
Net loans (loans minus impairments)	12,012,056	59.4	13,134,874	59.5	14,099,819	58.2	109	107
Business premises and other fixed assets	529,941	2.6	531,767	2.4	600,684	2.5	100	113
Other assets	293,778	1.5	261,147	1.2	262,976	1.1	89	101
TOTAL ASSETS	20,209,851	100	22,094,135	100	24,210,567	100	109	110
LIABILITIES:								
Deposits	15,814,723	78.3	17,604,487	79.7	19,414,294	80.2	111	110
Borrowings from other banks	0	0.0	0	0.0	0	0.0	0	0
Liabilities on loans	835,667	4.1	862,931	3.9	856,626	3.5	103	99
Other liabilities	694,412	3.4	655,631	3.0	808,293	3.3	94	123
CAPITAL								
Capital	2,865,049	14.2	2,971,086	13.4	3,131,354	13.0	104	105
TOTAL LIABILITIES (LIABILITIES AND CAPITAL)	20,209,851	100	22,094,135	100	24,210,567	100	109	110

The total net assets across the FB&H banking sector as of 31.12.2019 are BAM 24.2 billion, which is by BAM 2.1 billion or 9.6% higher compared to the end of 2018. The banks' net loans have the highest share (58.2%) within the assets in the banks' balance sheet, followed by cash (31.6%), securities (6%), fixed assets (2.5%), other assets (1.1%), and placements to other banks (0.6%). The deposits (80.2%) have the highest share within the liabilities in the banks' balance sheet, followed by capital (13%), liabilities based on loans (3.5%) and other liabilities (3.3%).

As of 31.12.2019, compared to the end of 2018, cash in the assets in the banks' balance sheet increased by BAM 1.1 billion or 15.9%, securities by BAM 151.7 million or 11.6%, loans by BAM 895.1 million or 6.2%, business premises and other fixed assets by BAM 68.9 million or 13%, as well as other assets by BAM 1.8 million or 0.7%. The deposits in the liabilities in the

⁶ The majority state-owned banks report in the "total" balance sheet passive and neutral items of BAM 712.8 million, which are to be taken over by the government once the privatization program has been executed.

banks' balance sheet increased by BAM 1.8 billion or 10.3% in the reporting period, other liabilities by BAM 152.7 million or 23.3%, as well as the total capital by BAM 160.3 million or 5.4%, while liabilities on loans dropped by BAM 6.3 million or 0.7%.

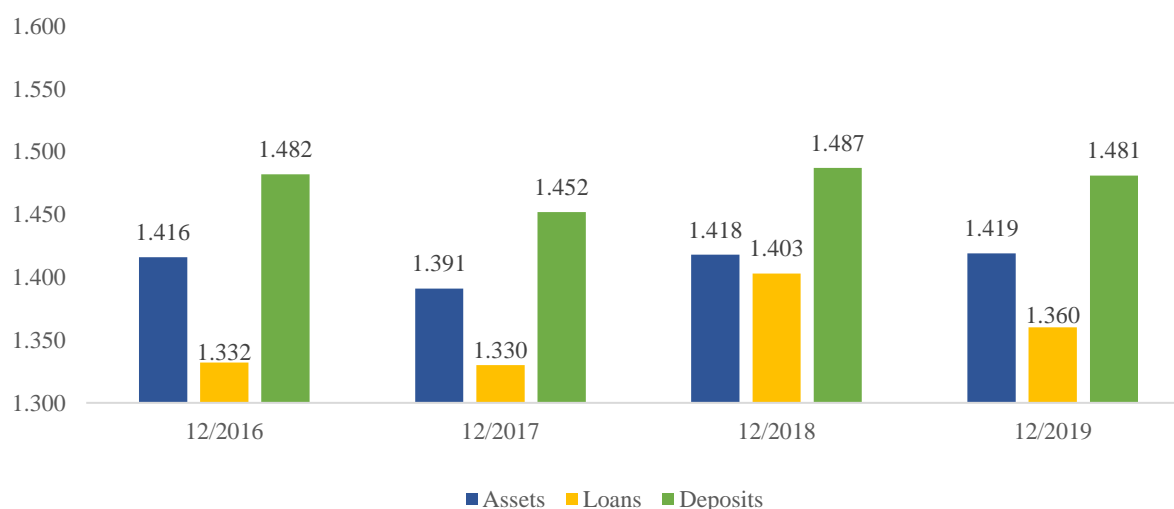
The following table provides an overview of the banks' assets banks according to ownership structure:

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Banks	31.12.2017			31.12.2018			31.12.2019			Index	
	Number of banks	Assets (BAM '000s)	% share	Number of banks	Assets (BAM '000s)	% share	Number of banks	Assets (BAM '000s)	% share		
1	2	3	4	5	6	7	8	9	10	11=(6/3)	12=(9/6)
State-owned	1	654,373	3.2	1	775,490	3.5	1	801,261	3.3	119	103
Private	14	19,555,478	96.8	14	21,318,645	96.5	14	23,409,306	96.7	109	110
Total	15	20,209,851	100	15	22,094,135	100	15	24,210,567	100	109	110

An indicator of the concentrations in the three most important segments of the banking business: in the assets, loans, and deposits is the value of the Herfindahl index⁷. Its overview by periods is provided in the following chart:

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



The Herfindahl index of concentration as of 31.12.2019, compared to the end of 2018, dropped for the loans by 43 units and for deposits by 6 units, while this index increased by one unit for assets. The Herfindahl index of concentration for the reporting period shows a moderate concentration⁸ in all three relevant categories (assets, loans, and deposits).

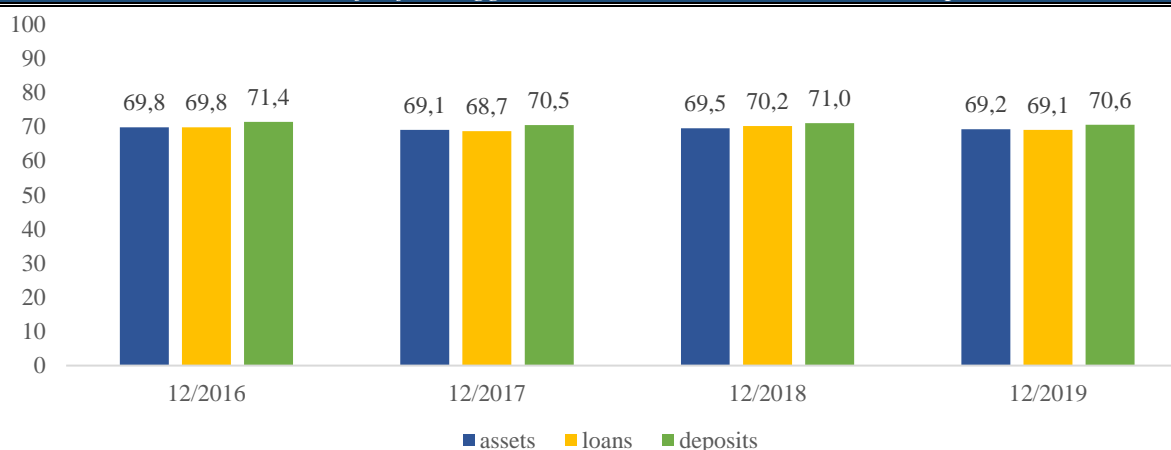
⁷ It is also called Hirschmann-Herfindahl index or HHI and it is calculated according to the formula $HI = \sum_{j=1}^n (S_j)^2$, representing the sum of the squares of the percentage shares of a specific size (e.g. assets, deposits, loans) of all market participants in the system. It should be noted that the index does not increase linearly and that the value of e.g. 3000 does not mean that the concentration in the system is 30%. In a hypothetical case of there being only one bank in the system, the HHI would be maximum 10000.

⁸ If the HHI value is less than 1000, it is considered that there is no market concentration, for the index value between 1000 and 1800 units there is a moderate market concentration, if the HHI value is above 1800, it is an indicator of there being a high concentration.

Another indicator of the banking sector concentration is the market concentration ratio, i.e. the concentration ratio⁹ (hereinafter: CR), showing a total share of the biggest banks in the sector in the selected relevant categories: assets, loans, and deposits. If a total share of the five biggest banks in the sector - CR5 as of 31.12.2019 is viewed compared to the end of 2018, there is a sharp decrease across all categories – in market share by 0.3 percentage points, loans by 1.1 percentage points and deposits by 0.4 percentage points. The two biggest banks in the sector account for 46.4% of the market (assets 46.8%, loans 44.2%, and deposits 48.3%).

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

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



The banking sector can also be analyzed according to the criterion of classification to the groups created according to the size of assets¹⁰. As of 31.12.2019, three banks in the FB&H banking sector with a 56.5% share stand out according to the size of assets, comprising group I of banks with the assets of over BAM 2.0 billion.

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

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

Amount of assets	31.12.2017			31.12.2018			31.12.2019		
	Amount	% share	Number of banks	Amount	% share	Number of banks	Amount	% share	Number of banks
I (over BAM 2 billion)	9,404,805	46.5	2	12,456,111	56.4	3	13,686,527	56.5	3
II (BAM 1-2 billion)	6,626,507	32.8	5	6,075,531	27.5	5	6,645,925	27.5	5
III (BAM 0.5-1 billion)	2,465,564	12.2	3	2,168,293	9.8	3	3,451,044	14.2	5
IV (BAM 0.1-0.5 billion)	1,613,136	8	4	1,394,200	6.3	4	427,071	1.8	2
V (below BAM 0.1 billion)	99,839	0.5	1	0	0.0	0	0	0.0	0
Total	20,209,851	100	15	22,094,135	100	15	24,210,567	100	15

A change in the structure, i.e. share of groups in total assets of the FB&H banking sector as of 31.12.2019 vs. YE2018 occurred with regards to the group III (share increase by 4.4 percentage points) due to a transition of two banks from the group IV to the group III. During the reporting period, none of the banks had assets below BAM 100 million.

⁹ Concentration Ratio (CR) designated according to the number of banks included in the calculation.

¹⁰ Banks are divided into five groups depending on the size of assets.

Cash across the FB&H banking sector as of 31.12.2019 amounted to BAM 7.6 billion and its overview through the periods is provided in the following table:

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Table 10: Banks' cash

Cash	31.12.2017		31.12.2018		31.12.2019		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	1,004,445	13.1	114	110
Reserve account with CBB&H	3,823,980	66.0	4,002,281	60.7	4,329,659	56.7	105	108
Accounts with deposit institutions in B&H	41,411	0.7	38,746	0.6	48,611	0.6	94	125
Accounts with deposit institutions abroad	1,127,877	19.5	1,639,544	24.9	2,258,758	29.6	145	138
Cash in process of collection	1,181	0.0	65	0.0	97	0.0	6	149
Total	5,794,664	100	6,591,117	100	7,641,570	100	114	116

As of 31.12.2019, compared to the end of 2018, there was an increase of the banks' cash funds across all accounts. The most significant increase of cash funds refers to banks' funds with deposit institutions abroad – up by BAM 735.4619.2 million or 37.8%. The currency structure of cash funds as of 31.12.2019 (compared to the end of 2018) the share of local currency dropped from 71.3% to 66.7%, along with a simultaneous increase of the share in foreign currency from 28.7% to 33.3%.

The portfolio of securities as at 31.12.2019 amounted to BAM 1.5 billion, which was higher by 11.6% compared to the end of 2018, with a 6% share in the assets. The following tables provide an overview of the portfolio according to the type of instruments and issuer:

- BAM 000 -

Table 11: Investments in securities according to type of instrument

Investments in securities	31.12.2017		31.12.2018		31.12.2019		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	5,313	0.4	298	101
Debt securities:	1,226,659	99.9	1,299,345	99.6	1,451,008	99.6	106	112
- Securities of all levels of governments in B&H	751,163	61.2	619,536	47.5	747,632	51.3	82	121
- Government securities (other countries)	400,855	32.6	533,666	40.9	549,649	37.7	133	103
- Corporate bonds ¹¹	74,641	6.1	146,143	11.2	153,727	10.6	196	105
Total	1,228,432	100	1,304,626	100	1,456,321	100	106	112

The most significant item within the investments in debt securities are the securities of the entity governments, namely the securities issued by the FB&H¹² of the total value of BAM 532.1 million, and the securities of the RS as the issuer of BAM 201.1 million. There was a trend of increase of the investments in the entity governments' bonds.

- BAM 000 -

Table 12: Securities of B&H entity governments

Investments in securities	31.12.2017		31.12.2018		31.12.2019		Index	
	Amount	% share	Amount	% share	Amount	% share	4/2	6/4
1	2	3	4	5	6	7	8	9
Debt securities of FB&H as issuer:	587,687	78.9	436,164	71.3	532,147	72.6	74	122
- Treasury bills	99,949	13.4	35,179	5.7	18,921	2.6	35	54
- Bonds	487,738	65.5	400,985	65.6	513,226	70.0	82	128

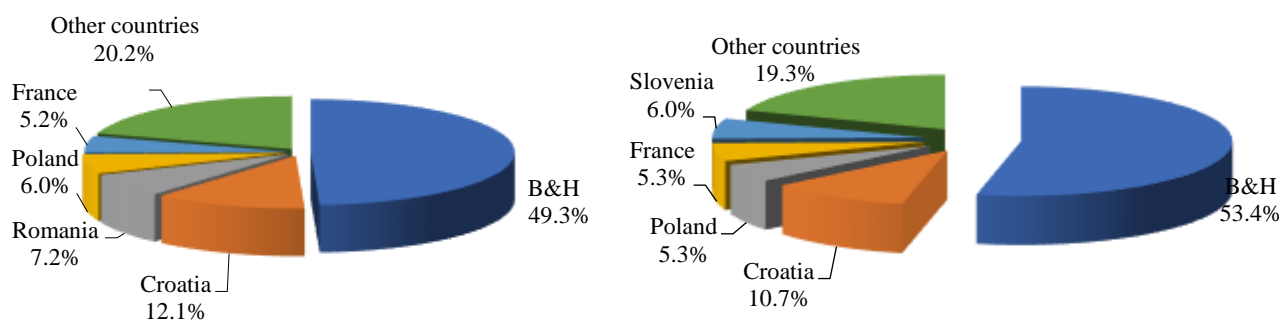
¹¹ Majority, i.e. app. 77%, relates to the EU and US banks' bonds, while the remainder relates to the EU and B&H companies' bonds.

¹² All types of securities of the FB&H as the issuer.

Debt securities of RS:	157,353	21.1	175,395	28.7	201,089	27.4	111	115
- Treasury bills	65,848	8.8	0	0.0	0	0.0	0	0
- Bonds	91,505	12.3	175,395	28.7	201,089	27.4	192	115
Total	745,040	100	611,559	100	733,236	100	82	120

If total investments in securities are analyzed according to the exposures by countries, the highest share of 53.4% is to the issuers from B&H, followed by Croatia with a 10.7% share, Slovenia with 6% share, Poland and France with a 5.3% share each and other countries with individual shares below 5%.

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



3.2.2. Liabilities

As of 31.12.2019, the share of deposits, as the most significant source of the banks' funding, increased to 80.2% (by 0.5 percentage points), as well as the share of loan obligations, amounting to 3.5% (by 0.4 percentage points).

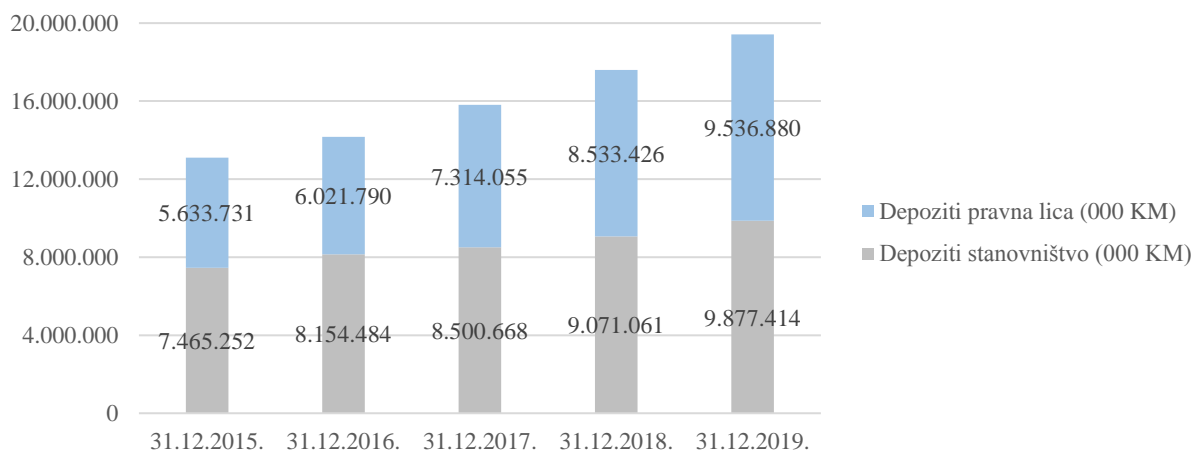
The banks' loan obligations with the amount of BAM 856.6 million have a slight downward trend of BAM 6.3 million or 0.7% compared to the end of 2018. If subordinated loans of BAM 189.1 million are also added to the loan obligations, total loans have a 4.3% share in the funding sources.

The deposits recorded an increase of BAM 1.8 billion or 10.3% compared to the end of 2018, amounting to BAM 19.4 billion as at 31.12.2019. According to the data reported by the banks, out of the total amount of deposits at the end of the reporting period, BAM 1.2 billion or 6.1% relate to deposits collected in the FB&H banks' organizational parts in the RS and BD.

In 2019, total deposits have risen more quickly than total assets and loans at the rate of 10.3%. Retail deposits increased at the rate of 8.9% and corporate deposits at the rate of 11.8% vs. end of 2018. Quicker increase of corporate deposits led to the share of corporate deposits in total deposits (49.1%) near the share held by retail deposits (50.9%).

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

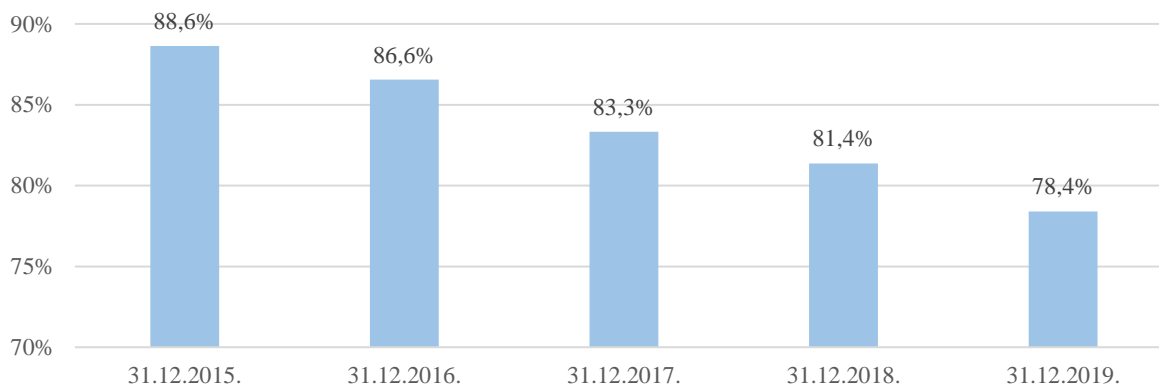
Chart 8: Total deposits (BAM 000)



* Depoziti pravna lica (000 KM) – Corporate deposits (BAM 000); Depoziti stanovništvo (000 KM) – Retail deposits (BAM 000).

Quicker growth of deposits vs. loans caused continued downward trend of the loan-to-deposit ratio. This trend shows a sustainable structure of financing of the loan expansion out of domestic funding sources.

Chart 9: Loan-to-deposit ratio



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

-BAM 000-

Table 13: Sector structure of deposits

Sectors	31.12.2017		31.12.2018		31.12.2019		Index	
	Amount	% share	Amount	% share	Amount	% share	(4/2)	(6/4)
1	2	3	4	5	6	7	8	9
Government institutions	1,482,708	9.4	1,778,835	10.1	2,157,147	11.1	120	121
Public enterprises	1,310,610	8.3	1,538,501	8.7	1,651,976	8.5	117	107
Priv. enterp. and companies	2,612,441	16.5	2,834,717	16.1	3,236,224	16.7	109	114
Banking institutions	847,965	5.4	1,215,334	6.9	1,208,613	6.2	143	99
Non-bank fin. institutions	655,360	4.1	746,690	4.3	803,516	4.1	114	108
Retail	8,500,668	53.8	9,071,061	51.5	9,877,414	50.9	107	109
Other	404,971	2.5	419,349	2.4	479,404	2.5	104	114
Total	15,814,723	100	17,604,487	100	19,414,294	100	111	110

The largest share in the sector structure of deposits refers to retail loans with 50.9% and this share dropped against YE2018 by 0.6 percentage points. As of 31.12.2019, retail deposits stood at BAM 9.9 billion.

An increase in deposits as of 31.12.2019, compared to the end of 2018, was realized in relation to the government institutions' deposits by BAM 378.3 million or 21.3%, public enterprises' deposits by BAM 113.5 million or 7.4%, private enterprises' deposits by BAM 401.5 million or 14.2%, non-bank financial institutions' deposits by BAM 56.8 million or 7.6%, retail deposits by BAM 806.4 million or 8.9%, as well as other deposits by BAM 60.1 million or 14.3%.

A decrease of deposits as of 31.12.2019, compared to the end of 2018, was recorded only in relation to banking institutions' deposits by BAM 6.7 million or 0.6%. The banking group's financial support is present in seven FB&H banks, so 87.3% of the total banking institutions' deposits relate to banking groups' financial support.

The currency structure of deposits as at 31.12.2019 changed compared to the end of 2018. The deposits in BAM increased by BAM 1.6 billion or 15%, while deposits in foreign currencies increased by BAM 254.4 million or 3.5%. Compared to the end of 2018, the currency structure of deposits changed, i.e. the share of deposits in domestic currency increased from 58.7% to 61.2%, while the share of deposits in foreign currency decreased from 41.3% to 38.8%.

The structure of deposits according to the origin of depositors as of 31.12.2019, compared to the end of 2018, has the following structure: residents' deposits of BAM 17.8 billion have a 91.9% share (+0.4 percentage points), while non-residents' deposits are BAM 1.6 billion, which was 8.1% of the total deposits (-0.4 percentage points). The changes in the structure are a result of an increase of residents' deposits (BAM 1.7 billion or 10.8%) and increase of non-residents' deposits (BAM 74.8 million or 5%).

The long-term upward trend in savings deposits, as the most significant segment of the banks' deposit and financial potential, continued as at 31.12.2019 too. As of 31.12.2019, savings deposits amounted to BAM 9.6 billion, up by BAM 769.3 million or 8.7% compared to the end of 2018.

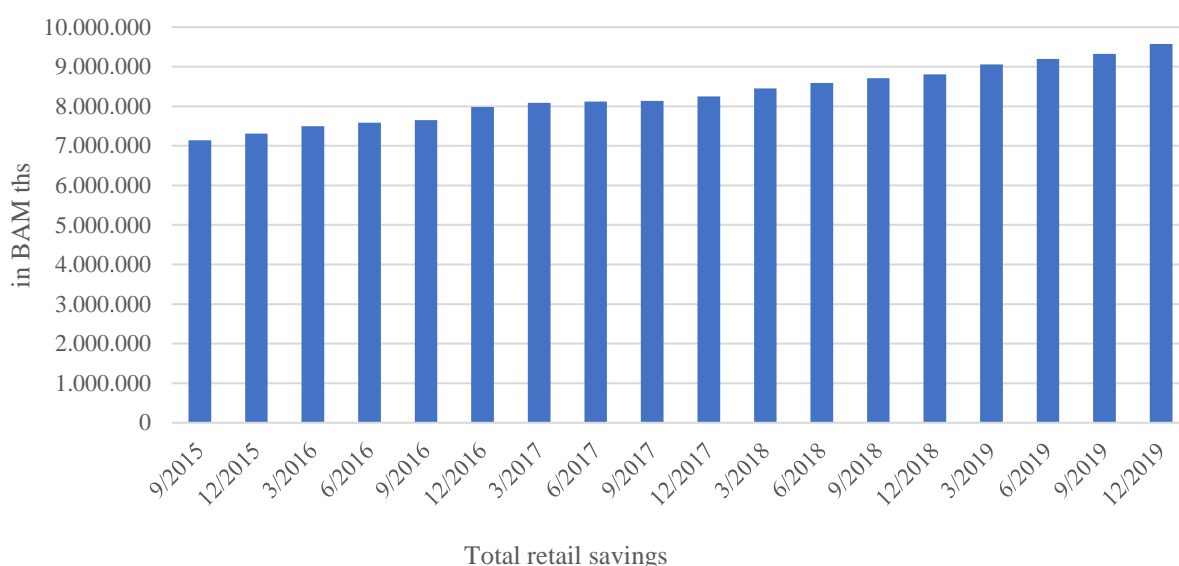
The retail savings trend is shown in the following table and chart:

- BAM 000 -

Table 14: Retail savings by periods

Banks	Amount			Index	
	31.12.2017	31.12.2018	31.12.2019	(3/2)	(4/3)
1	2	3	4	5	6
State-owned	83,530	91,645	96,979	110	106
Private	8,166,750	8,712,454	9,476,470	107	109
Total	8,250,280	8,804,099	9,573,449	107	109

Chart 10: Retail savings by periods



54.8% of savings are concentrated in the two biggest banks, while five banks have the individual shares of less than 2%, amounting to 5.4% of the total savings in the sector. Of the total amount of the savings, 47.9% relate to savings deposits in domestic currency, while 52.1% relate to savings deposits in foreign currency.

The maturity structure of savings deposits compared to the end of 2018 changed as a result of an increase of short-term deposits by BAM 657.2 million or 13.2%, as well as their share by 2.4 percentage points as a result of the interest rate decrease. This can be seen in the following table:

- BAM 000 -

	31.12.2017		31.12.2018		31.12.2019		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	5,634,426	58.9	112	113
Long term savings deposits	3,789,546	45.9	3,826,898	43.5	3,939,023	41.1	101	103
Total	8,250,280	100	8,804,099	100	9,573,449	100	107	109

Retail loans as of YE2019 amounted to BAM 7.4 billion, up by 8% vs. YE2018. At the same time, retail deposits rose by 8.9% to BAM 9.9 billion as of 31.12.2019.

- BAM 000 -

	31.12.2017	31.12.2018	31.12.2019	Index	
	Amount	Amount	Amount	(3/2)	(4/3)
1	2	3	4	5	6
1. Retail loans	6,358,707	6,853,979	7,400,278	108	108
2. Retail savings	8,250,280	8,804,099	9,573,449	107	109
2.1. Term deposits	4,125,240	4,126,382	4,280,620	100	104
2.2. Demand deposits	4,125,040	4,677,717	5,292,829	113	113
3. Loans/savings	77%	78%	77%	-	-
4. Retail deposits	8,500,668	9,071,061	9,877,414	107	109
Loans/Retail deposits	75%	76%	75%	-	-

Over the reporting period, there was a trend of increase in both, retail loans and retail deposits, with somewhat quicker rate of increase on the deposits side.

3.2.3. Capital and Capital Adequacy

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

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

As of 31.12.2019, the total banks' capital was BAM 3.1 billion, increasing by BAM 160.3 million or at the increase rate of 5.4% compared to the end of 2018 (more details are provided under Subheading 1.1.2 - Ownership Structure and Market Share).

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

- BAM 000 -

Table 17: Report on the balance of own funds

No.	Description	31.12.2018	31.12.2019	Index
1.	Own funds	2,478,985	2,690,298	109
1.1.	Tier 1 capital	2,351,425	2,656,534	113
1.1.1.	Common Equity Tier 1	2,351,425	2,656,534	113
1.1.1.1.	Paid-up capital instruments	1,290,878	1,299,335	101
1.1.1.2.	Share premium	137,290	137,290	100
1.1.1.3.	(-) Own Common Equity Tier 1 instruments	-215	-215	100
1.1.1.4.	Previous year retained profit	238,344	403,027	169
1.1.1.5.	Recognized gain or loss	-34,743	-36,302	104
1.1.1.6.	Accumulated other comprehensive income	10,296	26,630	259
1.1.1.7.	Other reserves	876,626	970,088	111
1.1.1.8.	(-) Other intangible assets	-56,116	-57,589	103
1.1.1.9.	(-) Deferred tax assets that rely on future profitability and of up to not arise from temporary differences less related tax liabilities	-101	-14	14
1.1.1.10.	(-) Deduction from Addition Tier 1 items exceeding Additional Tier 1	0	-1,255	-
1.1.1.11.	(-) Deferred tax assets that are deductible and rely on future profitability and arise from temporary differences	-1,625	-1,349	83
1.1.1.12.	(-) Financial sector entities' Common Equity Tier 1 instruments if bank has material investment	-12,118	-15,950	132
1.1.1.13.	Elements or deductions from Common Equity Tier 1 – other	-97,091	-67,162	69
1.1.2.	Additional Tier 1	0	0	-
1.2.	Deduction from Additional Tier 1 items exceeding Additional Tier 1 (deducted from Common Equity Tier 1 capital)	127,560	33,764	26
1.2.1.	Tier 2 capital	105,592	170,158	161
1.2.2.	Paid-up capital instruments and subordinated debts	-14	-14	100
1.2.3.	(-) Own Tier 2 instruments	153,706	163,569	106
1.2.4.	General impairments for credit risk under standardized approach	0	1,255	-
1.2.5.	Deduction from Tier 2 items exceeding Tier 2 capital (deducted from Additional Tier 1 capital)	-131,724	-301,204	229

The FB&H banks' own funds as of 31.12.2019 were BAM 2.7 billion and compared to the end of 2018 increased by BAM 211.3 million or 8.5%. The banks' Tier 1 capital as at the reporting period is BAM 2.7 billion, with a realized increase of BAM 305.1 million or 13%, while Tier 2 capital is BAM 33.8 million, with a realized decrease of BAM 93.8 million or 73.5% compared to the end of 2018. During the reporting period, the own funds' structure has improved via increased share of Tier 1 capital, as largely referring to allocation of profit from 2018 into Tier 1

capital in an amount of BAM 105.8 million and allocation of profit from 2019 in an amount of BAM 11.8 million, as well as referring to a transfer of LLPs formed against profit into Tier 1 capital, all in line with resolutions reached by the general meetings of shareholders in banks (in 11 banks) in an amount of BAM 139.5 million.

The share of Tier 1 capital in the own funds structure of the FB&H banking sector is 98.7%, while the share of Tier 2 capital is 1.3% in the FB&H banking sector's total own funds. The biggest effect on the own funds increase relates to the already mentioned increase in Tier 1 capital under 2018 profits allocation to Tier 1 capital of BAM 105.8 million, 2019 profits allocation to Tier 1 capital of BAM 11.8 million, increase of subordinated debt with one bank by BAM 58.7 million, as well as increase in the value of securities classified at fair value via other comprehensive income of BAM 19.8 million.

The total risk exposure under the Decision on Capital Calculation in Banks is the sum of risk weighted exposures for credit, market, operational risk, settlement/free delivery risk and risk associated with large exposures arising from the trading book items. The FB&H banking sector's total risk exposure with the balance as at 31.12.2019 was BAM 15 billion, whose structure is provided in the following table:

- BAM 000-

Table 18: Risk exposure structure

No.	Description	31.12.2018		31.12.2019		Index
		Amount	% share	Amount	% share	
1.	Risk weighted exposures for credit risk	12,296,292	86.7	13,085,560	87.1	106
2.	Settlement/free delivery risk exposures	0	0.0	0	0.0	0
3.	Market risk (position and currency risk) exposures	223,778	1.6	228,011	1.5	102
4.	Risk exposures for operational risk	1,657,561	11.7	1,705,834	11.4	103
5.	Total risk exposure amount	14,177,631	100	15,019,405	100	106

The total risk exposure amount across the FB&H banking sector increased in the reporting period by BAM 841.8 million or 5.9%. The biggest increase by BAM 789.3 million or 6.4% was realized within the risk weighted exposure for credit risk. The risk exposure rose at the lower rate than the increase rate of Tier 1 capital and total regulatory capital (own funds).

As of 31.12.2019, banks were most exposed to the credit risk (87.1% share), which is dominant in the FB&H banking sector. In the reporting period there were changes in the shares by individual risk types, i.e. the share of the risk weighted credit risk exposure increased by 0.4 percentage points, while the share of the market risk exposure decreased by 0.1 percentage point and the operational risk exposure decreased by 0.3 percentage points.

The banking sector's capital adequacy has continuously been maintained above 15% in the last few years, which is satisfactory capitalization across the sector. The Decision on Capital Calculation in Banks provides that banks must at all times meet the capital requirements with respect to Common Equity Tier 1 capital ratio of 6.75%, Tier 1 capital ratio of 9% and own funds ratio of 12%. Also, it sets a requirement for banks to maintain capital buffer as own funds in the form of Common Equity Tier 1 capital in the amount of 2.5% of the total risk exposure amount.

The FB&H banking sector capital adequacy indicators with the balance as at 31.12.2019, are provided in the following table:

Table 19: Capital adequacy indicators

No.	Description	% and amount of regulatory minimum surplus or deficit	
		31.12.2018	31.12.2019
1.	Common Equity Tier 1 capital ratio	16.6%	17.7%
2.	Surplus (+) / Deficit (-) of Common Equity Tier 1 capital	1,394,434	1,642,724
3.	Tier 1 capital ratio	16.6%	17.7%
4.	Surplus (+) / Deficit (-) of Tier 1 capital	1,075,438	1,304,787
5.	Own funds ratio	17.5%	17.9%
6.	Surplus (+) / Deficit (-) of own funds	777,668	887,971

The own funds rate as at 31.12.2019 is 17.9% and it is considerably higher compared to the statutory minimum of 12%. Compared to the end of 2018, the own funds ratio as of 31.12.2019 increased by 0.4 percentage points, while Tier 1 capital rate rose by 1.1 percentage points. At the FB&H banking sector level, other capital ratios were higher compared to regulatory minimums (Common Equity Tier 1 capital and Tier 1 capital ratios).

The Decision on Capital Calculation in Banks also provides for a new calculation methodology and regulatory framework for monitoring of financial leverage levels. Banks are required to ensure and maintain the financial leverage ratio, as Tier 1 capital to total exposure measure ratio of minimum 6%. The following overview provides the FB&H banking sector's financial leverage ratio with the balances as at 31.12.2019 and as at 31.12.2018:

Table 20: Financial leverage ratio

No.	Exposure values	31.12.2018	31.12.2019
1.	Leverage ratio exposures - under Article 37(4) of Decision on Capital Calculation in Banks	23,162,644	25,201,918
2.	Tier 1 capital - under Article 37(3) of Decision on Capital Calculation in Banks	2,351,425	2,656,534
3.	Leverage ratio - under Article 37(2) of Decision on Capital Calculation in Banks	10.1%	10.5%

The leverage ratio across the banking sector as at 31.12.2019 is 10.5% and is higher by 0.4 percentage points compared to the end of 2018. As of 31.12.2019, five banks had their leverage ratios above the FB&H banking sector average and ten banks had their leverage ratios below the FB&H banking sector average.

3.2.4. Assets and Asset Quality

The Decision on Minimum Standards for Credit Risk Management and Bank Assets Classification lays down the criteria for assessing banks' credit risk exposures through a review of their assets quality and adequacy of their reserves for loan and other losses according to the risk profiles of the placements and assets-on- and off-balance sheet items. When assessing banks' credit risk exposures, banks are required to account for LLR in accordance with the criteria from the above Decision, while having regard for already created impairments of balance sheet assets and provisions for losses on off-balance sheet items recorded in the banks' books (accounted for in accordance with the applicable IAS and IFRS), also taking into account LLR created from the profits (in the capital accounts).

Since January 01st, 2018, banks are required to apply a new financial reporting standard IFRS 9 - Financial Instruments, which replaced IAS 39.

The following table provides an overview of the assets, LLR under regulatory requirements and impairments under IFRS:

- BAM 000-

Table 21: Assets (balance sheet and off-balance sheet), LLR according to regulator and impairments under IFRS

Description	31.12.2017		31.12.2018		31.12.2019		Index	
	1	2	3	4	5=(3/2)	6=(4/3)		
1. Risk assets ¹³		17,224,329	18,468,934	19,596,661	107	106		
2. Accrued regulatory LLR		1,492,475	1,479,654	1,409,755	99	95		
3. Impairment and reserves for off-balance sheet items		1,262,277	1,311,031	1,237,166	104	94		
4. Required regulatory reserves from profits for estimated losses		402,640	404,539	407,324	100	101		
5. Created regulatory reserves from profits for estimated losses		315,734	181,480	38,968	57	21		
6. Shortfall in regulatory reserves from profits for estimated losses		198,771	228,816	368,356	115	161		
7. Non-risk items		7,699,195	8,874,457	10,264,789	115	116		
8. Total assets (1+7)		24,923,524	27,343,391	29,861,450	110	109		

The FB&H banks' total assets with the off-balance sheet items (assets)¹⁴ as of 31.12.2019 are BAM 29.9 billion and are higher by BAM 2.5 billion or 9.2% compared to the end of 2018. Risk assets are BAM 19.6 billion and are higher by BAM 1.1 billion or 6.1%, while non-risk items are BAM 10.3 billion and are higher by BAM 1.4 billion or 15.7% compared to the end of 2018.

The following table provides an overview of the total assets, gross balance sheet assets, risk and non-risk asset items across the banking sector:

- BAM 000 -

Table 22: Total assets, gross balance sheet risk and non-risk assets

Description	31.12.2017		31.12.2018		31.12.2019		Index	
	Amount	% share	Amount	% share	Amount	% share	8=(4/2)	9=(6/4)
Loans	11,910,826	83.5	12,762,366	83.8	13,757,542	85.1	107	108
Interest	66,894	0.5	91,669	0.6	89,833	0.6	137	98
Past-due receivables	1,036,949	7.3	992,177	6.5	923,224	5.7	96	93
Receivables on paid guarantees	31,080	0.2	30,127	0.2	30,765	0.2	97	102
Other placements	400,584	2.8	511,914	3.4	405,182	2.5	128	79
Other assets	814,496	5.7	835,125	5.5	954,200	5.9	103	114
1. Balance sheet risk assets	14,260,829	100	15,223,378	100	16,160,746	100	107	106
2. Non-risk balance sheet assets	7,172,606		8,140,926		9,245,744		114	114
3. Gross balance sheet assets (1+2)	21,433,435		23,364,304		25,406,490		109	109
4. Off-balance sheet at risk	2,963,500		3,245,556		3,435,915		110	106
5. Non-risk off-balance sheet	526,589		733,531		1,019,045		139	139
6. Total off-balance sheet items (4+5)	3,490,089		3,979,087		4,454,960		114	112
7. Risk assets with off-balance sheet (1+4)	17,224,329		18,468,934		19,596,661		107	106
8. Non-risk items (2+5)	7,699,195		8,874,457		10,264,789		115	116
9. Assets with off-balance sheet (3+6)	24,923,524		27,343,391		29,861,450		110	109

The gross balance sheet assets¹⁵ are BAM 25.4 billion and are higher by BAM 2.0 billion million or 8.7% compared to the end of 2018, of which balance sheet risk assets are BAM 16.2 billion, which is 63.6% of gross balance sheet assets, with a realized increase of BAM 937.4 million or 6.2%, while non-risk balance sheet assets are BAM 9.2 billion and are higher by BAM 1.1 billion or 13.6%.

As of 31.12.2019, off-balance sheet risk items amounted to BAM 3.4 billion, up by BAM 190.4 million or 5.9%, while non-risk off-balance sheet items amounted to BAM 1.0 billion, up by BAM 285.5 million or 38.9% vs. YE2018.

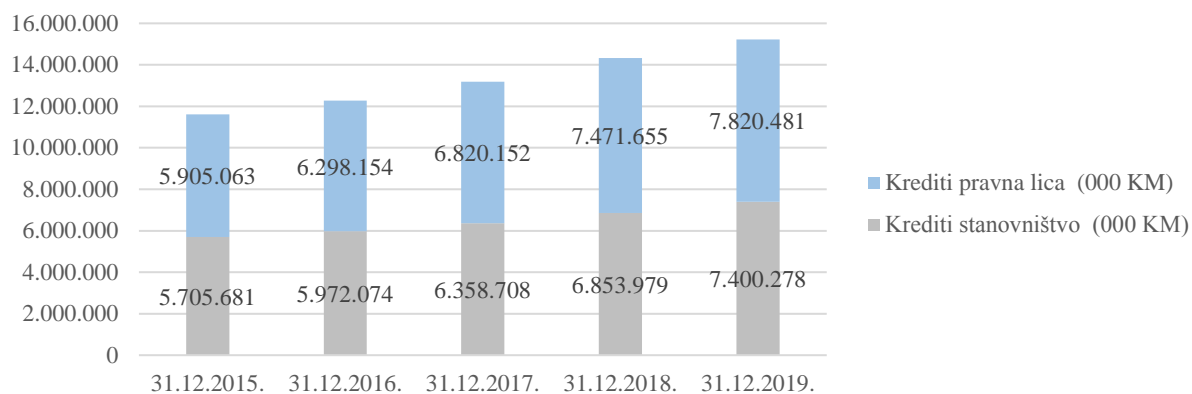
¹³ Excluding the amount of placements and contingent liabilities of BAM 261.5 million secured by cash deposits.

¹⁴ Assets defined by Article 2 of the Decision on Minimum Standards for Credit Risk Management and Bank Assets Classification („Official Gazette of the Federation of BiH“, number 85/11-consolidated text, 33/12-correction, 15/13).

¹⁵ Excluding the amount of loans of BAM 201.8 million covered by cash deposit (included in non-risk balance sheet assets).

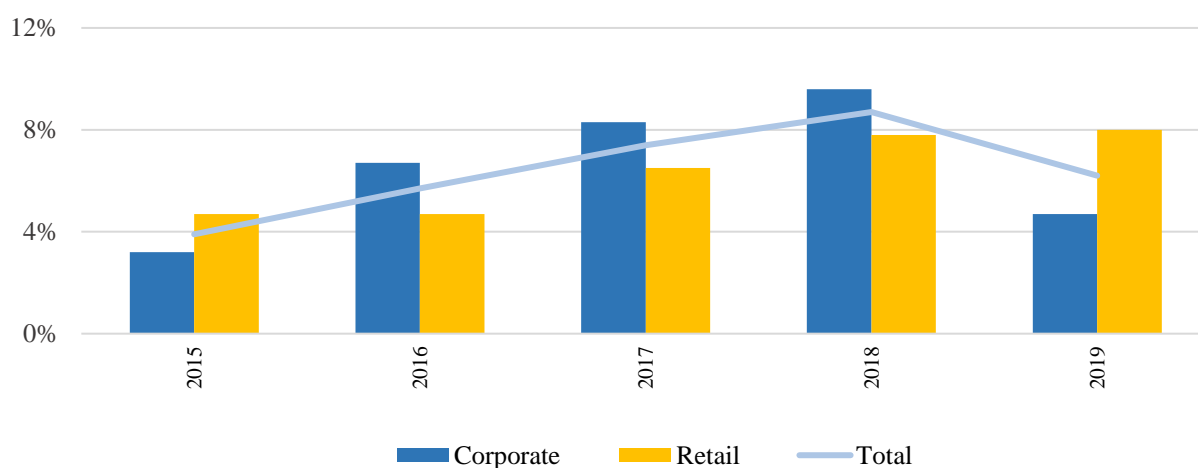
As of 31.12.2019, loans stood at BAM 15.2 billion, thus posting a rise by BAM 895.1 million or 6.2% vs. YE2018. Retail loans (holding a share in total loans of 48.6%) increased by 8%, while corporate loans (with a share of 51.4% in total loans) went up by 4.7%. The following charts provide an overview of retail loans and corporate loans, as well as annual growth rates of total loans in the FB&H banking sector in the period from 2015 to 2019:

Chart 11: Loans (BAM 000)



*Krediti pravna lica (000 KM) – Corporate loans (BAM 000); Krediti stanovništvo (000 KM) – Retail loans (BAM 000).

Chart 12: Credit growth



Looking into annual growth rates of loans, the biggest increase rate of total loans was seen in 2018 of 8.7%, while in 2019 this rate dropped by 2.5 percentage points. As for corporate loans, the biggest increase rate was realised in 2018 of 9.6%, while in 2019 this rate went down by 4.9 percentage points.

Contrary to the increase rates of total loans and corporate loans, the biggest increase rate of retail loans was realised in 2019 of 8%, thus showing an upward trend since 2017 (in 2015 and 2016, it remained the same at 4.7%).

The trend and changes to share of individual sectors in total structure of loans are provided in the following table:

- 000 KM -

Sectors	31.12.2017		31.12.2018		31.12.2019		Index	
	Amount	% share	Amount	% share	Amount	% share		
1	2	3	4	5	6	7	8=(4/2)	9=(6/4)
Government institutions	245,102	1.9	216,596	1.5	189,360	1.2	88	87
Public enterprises	210,461	1.6	321,493	2.3	359,635	2.4	153	112
Private companies	6,295,558	47.8	6,625,641	46.3	6,922,742	45.5	105	104
Banking institutions	12	0.0	217,706	1.5	247,501	1.6	1814217	114
Non-bank finan.institutions	58,992	0.4	75,804	0.5	86,902	0.6	128	115
Retail	6,358,707	48.2	6,853,979	47.8	7,400,278	48.6	108	108
Other	10,028	0.1	14,415	0.1	14,341	0.1	144	99
Total	13,178,860	100	14,325,634	100	15,220,759	100	109	106

As of 31.12.2019, compared to the end of 2018, an increase of BAM 546.3 million or 8% was realised with retail loans, with an increase of BAM 297.1 million or 4.5% with private corporate loans, as well as an increase of BAM 38.1 million or 11.9% with loans approved to public companies and an increase of BAM 29.8 million or 13.7% of loans to banking institutions plus BAM 11.1 million or 14.6% increase with loans approved non-bank financial institutions.

As of 31.12.2019, compared to the end of 2018, a decrease in loans was recorded in two sectors, i.e. a decrease of BAM 27.2 million or 12.6% in loans approved to government institutions and decrease of BAM 74 ths or 0.5% in loans to other sectors.

The table below provides a maturity structure of loans by sectors with the balance as of 31.12.2019:

- BAM 000 -

Sectors	31.12.2018			31.12.2019			Index		
	ST loans (up to 1 Y)	LT loans (over 1 Y)	Receivables due	ST loans (up to 1 Y)	LT loans (over 1 Y)	Receivables due			
1	2	3	4	5	6	7	8=(5/2)	9=(6/3)	10=(7/4)
Government institutions	1,650	213,827	1,119	40	189,215	105	2	88	9
Public enterprises	54,510	256,960	10,023	39,363	307,603	12,668	72	120	126
Private enterprises and companies	2,137,840	3,822,847	664,954	2,414,723	3,897,580	610,440	113	102	92
Banking institutions	217,698	0	8	247,491	0	10	114	0	125
Non-bank financial institutions	20,418	50,135	5,251	26,103	55,779	5,020	128	111	96
Retail	411,274	6,102,780	339,925	423,373	6,651,895	325,010	103	109	96
Other	7,315	6,073	1,027	7,772	5,686	883	106	94	86
Total	2,850,705	10,452,622	1,022,307	3,158,865	11,107,758	954,136	111	106	93

As of 31.12.2019, compared to the end of 2018, short term loans in the FB&H banking sector have risen by BAM 308.2 million or 10.8% and long term loans by BAM 655.1 million or 6.3%. Receivables due amount to BAM 954.1 million, down by BAM 68.2 million or 6.7% vs. YE2018.

The loans approved in domestic currency have the highest share of 49.7% or BAM 7.6 billion in the loans' currency structure, followed by loans approved with a currency clause with a share of 47.9% or BAM 7.3 billion (EUR: BAM 7.3 billion or 99.8%, CHF: BAM 17.5 million or 0.2%), while the loans approved in foreign currency have the lowest share of 2.5% or BAM 361.5 million (of which BAM 360.4 million or 99.7% relate to EUR). The total amount of loans with CHF currency clause of BAM 20.017.5 million has a share of 0.1% in the sector's total loan portfolio and the entire amount relates to one bank in the sector.

The quality of assets and off-balance sheet risk items, GCR and PLL by classification categories are provided in the following table:

- BAM 000 -

Table 25: Asset classification, GCR and PLL

Classification category	31.12.2017		31.12.2018			31.12.2019			Index		
	Classified assets	% share	GCR PLL	Classified assets	% share	GCR PLL	Classified assets	% share	GCR PLL	11=(5/2)	12=(8/5)
1	2	3	4	5	6	7	8	9	10		
A	14,834,609	86.1	296,693	16,225,548	87.9	324,512	17,425,779	88.9	348,517	109	107
B	1,032,373	6.0	82,700	919,119	4.9	72,972	915,649	4.8	69,402	89	100
C	166,456	1.0	45,486	140,776	0.8	40,189	164,243	0.8	46,619	85	117
D	301,598	1.8	178,304	345,526	1.9	204,017	340,767	1.7	194,993	115	99
E	889,293	5.1	889,292	837,965	4.5	837,964	750,223	3.8	750,223	94	90
Risk assets (A-E)	17,224,329	100	1,492,475	18,468,934	100	1,479,654	19,596,661	100	1,409,754	107	106
Classified (B-E)	2,389,720	13.9	1,195,782	2,243,386	12.1	1,155,142	2,170,882	11.1	1,061,237	94	97
Non-performing (C-E)	1,357,347	7.9	1,113,082	1,324,267	7.2	1,082,170	1,255,233	6.4	991,835	98	95
Non-risk assets ¹⁶	7,699,195			8,874,457			10,264,789			115	116
Total (risk and non-risk)	24,923,524			27,343,391			29,861,450			110	109

Classified assets (categories from B to E) as at 31.12.2019 are BAM 2.2 billion, while non-performing assets (categories from C to E) are BAM 1.3 billion. As of 31.12.2019, compared to the end of 2018, classified assets decreased by BAM 72.5 million or 3.2%. Non-performing assets decreased in the reporting period by BAM 69 million or 5.2%, as a result of a decrease of non-performing assets with most of banks.

The total level of accrued LLR as of 31.12.2019 is BAM 1.4 billion and a decrease of BAM 69.9 million is reported compared to the end of 2018, while individually by categories, an increase in LLR was realized for A and C categories, while in the rest of the categories a decrease in LLR was realized compared to the end of 2018. The reserves for A category increased by 7.4% and for C category by 16%, while a 4.9% decrease in LLR was reported for B category, as well as a 4.4% decrease for D category, and a 10.5% decrease for E category.

One of the most important asset quality indicators, the ratio of PLL and risk assets is 5.4% and is lower by 0.8 percentage points compared to the end of 2018. As at 31.12.2019, banks had on average, approximately the same level as at the end of 2018, the accrued reserves at a 8% rate for B category, at a 28% rate for C category, as well as at a 57% rate for D category, and at a 100% rate for E category.¹⁷

As of 31.12.2019, compared to the end of 2018, a downward trend was realized in the following FB&H banking sector asset quality indicators: non-performing assets to risk assets ratio amounting to 6.4% (decrease of 0.8 percentage points) and share of classified assets in risk assets amounting to 11.1% (decrease of 1.0 percentage point).

Annexes 5 and 5a provide separate overviews of the classification of the total balance sheet assets and total off-balance sheet risk items.

¹⁶ The assets items that are, under Article 2(2) of the Decision on the Minimum Standards for Credit Risk Management and Bank Assets Classification, not classified and items on which, under Article 22(8) of the Decision, no 2% reserves for ECL are accrued.

¹⁷ Under the Decision on the Minimum Standards for Credit Risk Management and Bank Assets Classification, banks are required to account for LLR by classification categories in the following percentages: A-2%, B 5-15%, C 16-40%, D 41-60%, and E 100%.

The sector analysis of data is based on the quality indicators of loans granted in relation to the two most important sectors: corporate and retail. The following table provides a detailed overview of the classification of retail and corporate loans:

- BAM 000 -

Classification category	31.12.2018						31.12.2019						Index
	Retail	% share	Corporate	% share	Total		Retail	% share	Corporate	% share	Total		
					Amount	% share					Amount	% share	
1	2	3	4	5	6 (2+4)	7	8	9	10	11	12=(8+10)	13	14=(12/6)
A	6.275.311	91,5	6.107.597	81,7	12.382.908	86,4	6.793.509	91,8	6.563.885	83,9	13.357.394	87,8	108
B	151.062	2,2	573.795	7,7	724.857	5,1	183.147	2,5	524.157	6,7	707.304	4,6	98
C	60.150	0,9	73.815	1,0	133.965	0,9	75.220	1,0	83.073	1,1	158.293	1,0	118
D	46.055	0,7	288.575	3,9	334.630	2,3	43.343	0,6	290.460	3,7	333.803	2,2	100
E	321.401	4,7	427.873	5,7	749.274	5,3	305.059	4,1	358.906	4,6	663.965	4,4	89
Total	6.853.979	100	7.471.655	100	14.325.634	100	7.400.278	100	7.820.481	100	15.220.759	100	106
B-E loan classification	578.668	8,4	1.364.058	18,2	1.942.726	13,6	606.769	8,2	1.256.596	16,1	1.863.365	12,2	96
C-E non-performing loans	427.606	6,2	790.263	10,6	1.217.869	8,5	423.622	5,7	732.439	9,4	1.156.061	7,6	95
		47,8		52,2		100		48,6		51,4		100	
Share by sectors in classified loans, non-performing loans, and B category:													
B-E classification		29,8		70,2		100		32,6		67,4		100	
C-E non-performing		35,1		64,9		100		36,6		63,4		100	
B category		20,8		79,2		100		25,9		74,1		100	

As of 31.12.2019, the share of classified loans decreased by 1.4 percentage points and was 12.2%. Classified retail loans increased by BAM 28.1 million or 4.9%, while classified corporate loans decreased by BAM 107.5 million or 7.9%. As of 31.12.2019, non-performing loans decreased by BAM 61.8 million or 5.1%. Decreases were recorded in all categories within non-performing loans: a BAM 24.3 million decrease in C category, BAM 0.8 million decrease in D category, and BAM 85.3 million decrease in E category.

The share of NPLs decreased from 8.5% to 7.6%, dominantly as a result of the credit growth and collection activities. Out of total corporate loans, NPLs account for BAM 732.4 million or 9.4%, which is lower by 1.2 percentage point than at the end of 2018. NPLs in the retail sector are BAM 423.6 million or 5.7%, which is lower by 0.5 percentage points than at the end of 2018.

An overview of NPLs for the period 2015 – 2019 is provided in the chart below:

Chart 13: Share of NPLs in loans



A more detailed and complete analysis of NPLs is based on data on industry concentration of loans within the corporate sector (by sectors) and retail sector (by purpose) and is provided in the following table:

- BAM 000 -

Table 27: Sector concentration of loans

Description	31.12.2018				31.12.2019				Index	
	Total loans		NPLs		Total loans		NPLs		10=6/2	11=8/4
	Amount	% share	Amount	% share	Amount	% share	Amount	% share		
1	2	3	4	5=(4/2)	6	7	8	9=8/6		
1. Corporate loans for:										
Agriculture (AGR)	187,278	1.3	36,311	19.4	147,255	1.0	28,004	19.0	79	77
Industrial sector (IND)	2,130,781	14.9	269,505	12.6	2,268,136	14.9	262,599	11.6	106	97
Construction (CON)	441,833	3.1	74,092	16.8	498,624	3.3	68,677	13.8	113	93
Trade (TRD)	2,642,599	18.4	274,333	10.4	2,895,977	19.0	240,635	8.3	110	88
Hotels and restaurants (HTR)	268,239	1.9	16,074	6.0	252,634	1.7	33,934	13.4	94	211
Other ¹⁸	1,800,925	12.6	119,948	6.6	1,757,855	11.5	98,590	5.6	98	82
Total 1	7,471,655	52.2	790,263	10.6	7,820,481	51.4	732,439	9.4	105	93
2. Retail loans for:										
General consumption	5,574,057	38.9	326,714	5.9	5,996,402	39.4	357,397	6.0	108	109
Housing	1,178,483	8.2	87,273	7.4	1,309,758	8.6	55,245	4.2	111	63
Pursuit of business (craftspeople)	101,439	0.7	13,619	13.4	94,118	0.6	10,980	11.7	93	81
Total 2	6,853,979	47.8	427,606	6.2	7,400,278	48.6	423,622	5.7	108	99
Total (1+2)	14,325,634	100	1,217,869	8.5	15,220,759	100	1,156,061	7.6	106	95

The trade sector (19%) and production sector (14.9%) have the highest share in corporate loans compared to total loans.

BAM 2.3 billion loans placed to the production sector increased as of 31.12.2019 compared to the end of 2018 by BAM 137.4 million or 6.4%, while NPLs in these loans are BAM 262.6million and decreased by BAM 6.9 million or 2.6%. Notwithstanding the decrease of 1.0 percentage point compared to the end of 2018, their share is still high at 11.6%.

Loans approved to the trade sector as of 31.12.2019 are BAM 2.9 billion and increased by BAM 253.4 million or 9.6% compared to the end of 2018, while NPLs are BAM 240.6 million and decreased by BAM 33.7 million or 12.3%, while their share also decreased by 2.1 percentage point, i.e. to 8.3%.

In corporate loans as of 31.12.2019, the highest NPLs shares are present in loans approved to agriculture (19%, down by 0.4 percentage point compared to the end of 2018) and in loans approved to the construction sector (13.8%, down by 3.0 percentage point compared to the end of 2018).

General consumption loans (39.4%) and housing loans (8.6%) have the highest shares in retail loans compared to total loans. As of 31.12.2019, compared to the end of 2018, the general consumption loans increased by BAM 422.3 million or 7.6%, while NPLs share rose by 0.1 percentage point or 9.4%. Housing loans had an increase of BAM 131.3 million or 11.1% and decrease of 3.2 percentage points in the NPLs share compared to the end of 2018, which are 4.2% as at the reporting date.

Credit risk is the dominant risk in the FB&H banking sector, which is why the supervisor's focus is on reviewing the credit risk management practices, i.e. credit risk identification, measurement, monitoring, and control and asset classification. The FB&H banking sector's key asset quality indicators point to improved asset quality as of 31.12.2019 in line with positive economic trends.

¹⁸ Including the following sectors: transport, storage and communications (TRC); financial intermediation (FIN); real estate, renting and business activities (RER); public administration and defense, compulsory social security (GOV) and other.

3.2.5. Profitability

Bank profitability is affected the most by asset quality, i.e. risks, structure, diversification and funding costs, cost efficiency, FB&H banking, i.e. financial sector specific external factors (financial system development, regulatory features, industry concentration, etc.) and external macroeconomic factors (economic growth, global market interest rates, employment and unemployment rates, salary trend, inflation, etc.).

From a supervisory perspective, profitability of the FB&H banking sector, as well as that of individual banks in the sector, is viewed in the context of sustainability, i.e. the stability of the earnings level and quality and strengthening of the capital base through retained earnings.

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

Positive financial performance of BAM 273.9 million across the FB&H banking sector was reported for the January 1 - December 31, 2019 period, which was higher by BAM 17.7 million or 6.9% compared to the same period of 2018. The total net profit was BAM 275.5 million (14 banks), with a BAM 1.6 million net loss reported by one bank. The three biggest banks, which account for 56.5% of the total balance sheet assets across the FB&H banking sector according to the assets level as of 31.12.2019, reported the net profit of BAM 191.9 million, accounting for 70.1% of the total financial performance. A bank that, according to assets level, holds the biggest share of 27.2% of the FB&H banking sector's total assets, accounts for 36.9% of the sector's total financial performance.

Annex 6 shows the FB&H banks' income statement for the January 1 – December 31, 2019 period, according to the FBA's scheme, with the comparative data for the same reporting period of 2018.

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

-BAM 000-

Table 28: Actual financial performance: profit/loss

Description	31.12.2017		31.12.2018		31.12.2019	
	Amount	Number of banks	Amount	Number of banks	Amount	Number of banks
1	2	3	4	5	6	7
Profit	247,261	13	290,979	14	275,448	14
Loss	-7,288	2	-34,743	1	-1,559	1
Total	239,973	15	256,236	15	273,889	15

The reported financial performance across the FB&H banking sector has continuously recorded an increase through the reporting periods. Y2018 financial performance is higher by 6.8% than the financial performance in 2017, while the growth rate in 2019 vs. 2018 is 6.9%. The total performance increase in 2019 vs. 2018 occurred primarily due to a loss reduction.

FB&H Banking Sector's Total Income

According to the banks' reporting data as of 31.12.2019, the total income across the FB&H banking sector is BAM 1.2 billion and, compared to 31.12.2018, it increased by BAM 20.4 million, which is an increase of 1.7%.

Structure of total income	31.12.2018		31.12.2019		Index
	Amount	%	Amount	%	
1	2	3	4	5	6=(4/2)
I Interest income and similar income					
Interest-bearing deposit accounts with deposit institutions	4.525	0,4	5.478	0,5	121
Loans and leasing operations	657.927	55,7	649.995	54,1	99
Other interest income	78.914	6,7	78.259	6,5	99
Total I	741.366	62,8	733.732	61,1	99
II Operating income					
Service fees	327.944	27,8	352.906	29,4	108
Income from FX operations	60.374	5,1	63.284	5,2	105
Other operating income	51.477	4,4	51.625	4,3	100
Total II	439.795	37,2	467.815	38,9	106
The total income (I+II)	1.181.161	100	1.201.547	100	102

In the total income structure, interest income and similar income hold a share of 61.1%, while operating income participate with 38.9%.

Total interest and similar income reported a slight decrease in the reporting period, which is a result of a decrease in the interest income on loans and leasing operations, whose share in total income decreased by 1.6 percentage points. At the same time, the share of loans and leasing type receivables in total assets slightly decreased from 64.8% to 62.9% (by 1.9 percentage points), while average interest receivables related to loans went down from 3.56% to 3.27% (by 0.3 percentage points). The share of interest-bearing deposit accounts with deposit institutions in the FB&H banking sector's total assets increased from 16.4% to 17.8% in the reporting period (by 1.4 percentage points).

Within other interest income, there was an increase of BAM 0.7 million or 19.6% was recorded on the position of the interest income on securities held to maturity, where the share of this interest income in the total interest income is below 1%. Out of total interest income on securities in 2019, 85% refers to one bank. Other interest income in the reporting period include also income from interest on facilities to other banks. This position posted a rise of BAM 1.6 million or 63.5%, but there share in total interest income is also below 1%. The biggest part of this income (96%) relates to two banks

Looking into the sector structure of interest income, most of this refers to income from the retail segment (60.4%), although retail loans make up for 48.6% of total loan portfolio of the FB&H banking sector and higher income is being generated via higher average interest rates amounting to 5.42% for retail and 2.53% for corporate. Out of total interest income, the part that refers to public enterprises is 29.8% and 5.6% refers to government institutions.

The total operating income recorded an increase of BAM 28 million or 6.4% in the reporting period, where their share in total income increased by 1.7 percentage points. The largest item in the structure of total operating income is income from service fees which recorded an increase of 7.6%. There was also an increase in the income from foreign exchange operations by BAM 2.9 million or 4.8%, while other operating income remained nearly the same as in 2018 (+0.3%).

FB&H Banking Sector's Total Expenses

According to the banks' reporting data as of 31.12.2019, total expenses across the FB&H banking sector are BAM 882.7 million, which decreased by BAM 8.7 million or 1% compared to 31.12. 2018. The structure of the FB&H banking sector's total expenses in the reporting period is provided in the following table:

Table 30: Structure of total expenses

Structure of total expenses	31.12.2018		31.12.2019		Index
	Amount	%	Amount	%	
1	2	3	4	5	6=(4/2)
I Interest expenses and similar expenses					
Deposits	104,053	11.7	95,143	10.8	91
Liabilities on loans and other borrowings	9,089	1.0	9,229	1.0	102
Other interest expenses	16,911	1.9	26,296	3.0	155
Total I	130,053	14.6	130,668	14.8	100
II Total non-interest expenses					
Costs of impairments of assets at risk, provisions on contingent liabilities and other value adjustments	108,662	12.2	77,315	8.8	71
Salary and contribution costs	256,407	28.7	260,389	29.5	102
Business premises costs and depreciation	153,348	17.2	160,432	18.1	105
Other operating and direct costs	126,140	14.2	139,986	15.9	111
Other operating costs	116,783	13.1	113,943	12.9	98
Total II	761,340	85.4	752,065	85.2	99
Total expenses (I+II)	891,393	100	882,733	100	99

The total expenses structure is dominated by non-interest expenses with a share of 85.2%, while interest expenses and similar expenses account for 14.8%.

In the reporting period, interest and similar expenses increased by 0.5%, whereas interest expenses on deposits, which are the FB&H banking sector's dominant funding source, dropped by 8.6%, while other interest income rose by 55.5% primarily due to negative interest rate on deposits with foreign banks and negative fee for banks' funds in excess of the legal reserve with CBBH. During 2019, the total deposit potential of the FB&H banking sector has risen by BAM 1.8 billion or 10.3%, whereas their share in the total balance sheet sum increased by 0.5 percentage points. The increase of interest-bearing deposits (participating in the total deposit potential with 73% share) represents 96.8% of the total increase of deposits in the reporting period. Average interest payables on deposits was 0.78%, which compared to the same period in 2018 represents an increase by 0.12 percentage points.

The share of interest expenses on loans and other borrowings rose by 1.5%, even though the FB&H banking sector's level of indebtedness on loans and other borrowings decreased by BAM 6.3 million or 0.7% in the reporting period.

Across the FB&H banking sector, there was a decrease by BAM 9.3 million or 1.2% in the total non-interest expenses in the reporting period, where the most significant structural changes relate to a decrease in the costs of impairments of risk assets and provisions for contingent liabilities and other value adjustments by BAM 31.3 million or 28.8%. A decrease in this category of costs is a net effect of the following: reduction of impairments and significant increase of the said category of expenses as a result of a different definition of default exposures and implementation of risk parameters for the impairment calculation.

Other operating and direct costs recorded the biggest increase of 11%, where the highest increase relates to the fees paid by two banks for international card services, as well as in the volume of transactions related to card operations.

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

The following table provides an overview of the most important ratios that are used as measures for assessing the FB&H banks' operational profitability, productivity, and efficiency:

- BAM 000 or % -

Table 31: Profitability, productivity, and efficiency ratios by periods			
	31.12.2017	31.12.2018	31.12.2019
Net profit	239,973	256,236	273,889
Average net assets	19,191,177	21,103,672	23,250,003
Average total capital	2,830,403	2,924,229	3,111,657
Total income	1,026,103	1,051,108	1,070,879
Net interest income	604,563	611,313	603,064
Operating income	421,540	439,795	467,815
Operating expenses	527,472	526,538	534,764
Operating and direct expenses	226,170	234,802	217,301
Other operating and direct expenses	114,096	126,140	139,986
Return on average assets (ROAA)	1.3	1.2	1.2
Return on average equity (ROAE)	8.5	8.8	8.8
Total income/average assets	5.4	5.0	4.6
Net interest income/average assets (NIM)*	3.2	2.9	2.6
Net interest margin (interest income /average interest-bearing assets – interest expenses/average interest-based liabilities)	3.1	2.9	2.7
Operating expenses/total income minus other operating and direct expenses (CIR)**	57.8	56.9	57.5

* NIM - Net Income Margin

** CIR - Cost-income Ratio

Return on average assets and return on average equity has been maintained stable in the observed reporting periods, while other indicators of profitability are showing a slight downward trend in the observed reporting periods, especially regarding net interest margin indicators.

Looking into the net interest income, there is a decrease vs. YE2018 by BAM 8.2 million or 1.3%. This item constitutes 56.3% of total income, while in 2018 its share was 58.2%.

3.2.6. Weighted NIR and EIR

In order to increase transparency and facilitate the comparability of the banks' terms for approving loans and receiving deposits, as well as to protect clients through introduction of transparent disclosure of the loan costs, i.e. the deposit income, in accordance with the international standards, criteria, and practices in other countries, the FBA prescribed a uniform method of calculating and disclosing EIR for all banks seated in the FB&H, as well as the organizational parts of the banks seated in the RS, which operate in the FB&H, and mandatory monthly reporting to the FBA on weighted NIR and EIR on approved loans and received deposits in the reporting month, in accordance with the prescribed methodology¹⁹.

For purposes of loan beneficiaries and when analyzing the interest rate trend, it is relevant to monitor the weighted EIR trend since it includes all costs paid by the client, which are directly related to the loan, i.e. the terms of use of the loan, and are factored in the pricing of the loan (for example, loan processing costs, insurance premium costs for natural persons if insurance is a loan approval requirement, then other costs related to ancillary services paid by the client, which are a requirement for using the loan).

Annex 7 provides weighted average NIR and EIR on loans and deposits as of 31.12.2019, while Annex 7a provides weighted average NIR and EIR on loans and deposits by periods.

¹⁹ Decision on Uniform Method of Calculating and Disclosing Effective Interest Rates on Loans and Deposits ("Official Gazette of the Federation of B&H", No. 81/17), and Instruction for Calculating Weighted Nominal and Effective Interest Rates

The total weighted average EIR on loans in the FB&H banking sector as of 31.12.2019 is 3.86% and is lower by 0.29 percentage points compared to the end of 2018, when it was 4.15%.

The downward trend in the weighted average EIR is present across the FB&H banking sector in the reporting period, both in short-term loans (0.3 percentage points, decrease from 2.97% to 2.67%) and in long-term loans (0.13 percentage points, from 5.62% to 5.49%). Viewed in the aforementioned period according to the sector structure, EIR on total corporate loans decreased by 0.32 percentage points (from 3.13% to 2.81%), while on retail loans it decreased by 0.33 percentage points (from 7.22% to 6.89%).

The total weighted average EIR on deposits in the FB&H banking sector as of 31.12.2019 is 0.75% and is higher by 0.10 percentage point compared to the end of 2018, when it was 0.65%. Viewed according to the deposit maturity, the weighted average EIR on short-term deposits recorded a decrease of 0.03 percentage points (from 0.36% to 0.33%), while it increased by 0.03 percentage points (from 1.16% to 1.19%) on long-term deposits.

On the overall level in the reporting period, the decrease in EIR on loans (0.29 percentage points) was more pronounced compared to the increase in EIR on deposits (0.1 percentage point).

3.2.7. Liquidity

In addition to credit risk management, liquidity risk management is one of the most important and complex segments of banking operations. Maintaining liquidity in market economy is a permanent requirement for a bank and a main prerequisite for its sustainability in the financial market, as well as one of key prerequisites for building and maintaining trust in the banking sector in any country, its stability and security.

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

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

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Table 32: LCR

Description	31.12.2018	31.12.2019	Index
1	2	3	4 (3/2)
Liquidity buffer	4,325,281	4,617,579	107
Net liquidity outflows	1,392,629	1,614,247	116
LCR	311%	286%	92

As of 31.12.2019, LCR across the FB&H banking sector was 286%. All banks in the FB&H banking sector with the balance as at 31.12. 2019 meet the requirements in respect of LCR, while the majority of banks are significantly above the regulatory minimum.

In the banking sector's funding structure as at 31.12.2019, deposits have the highest share of 80.2%, followed by the loans taken (including subordinated debts) with a 4.3% share.

The loans taken are with longer maturity periods and are a high-quality source for long-term placements, improving the maturity matching of financial assets and financial liabilities, even though there has been a downward trend present in them already for a while now.

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

- BAM 000 -

Table 33: Maturity structure of deposits by residual maturity

Deposits	31.12.2017		31.12.2018		31.12.2019		Index	
	Amount	% share	Amount	% share	Amount	% share	8=4/2	9=6/4
1	2	3	4	5	6	7		
Savings and sight deposits (up to 7 days)	9,227,317	58.4	10,562,758	60.0	11,196,133	57.7	114	106
7-90 days	988,235	6.2	1,058,414	6.0	855,191	4.4	107	81
91 days to one year	2,144,316	13.6	2,616,873	14.9	3,175,998	16.4	122	121
1. Total short-term	12,359,868	78.2	14,238,045	80.9	15,227,322	78.5	115	107
Up to 5 years	3,280,639	20.7	3,193,809	18.1	3,983,643	20.5	97	125
Over 5 years	174,216	1.1	172,783	1.0	203,329	1.0	99	118
2. Total long-term	3,454,855	21.8	3,366,592	19.1	4,186,972	21.5	97	124
Total (1 + 2)	15,814,723	100	17,604,637	100	19,414,294	100	111	110

As of 31.12.2019, short-term deposits had a 78.5% share, while long-term ones had a 21.5% share, with the share of the short-term deposits decreasing, i.e. the share of the long-term ones increasing by 2.4 percentage points compared to the end of 2018.

In the reporting period, an increase of BAM 989.3 million or 6.9% was recorded in relation to short-term deposits, with an increase of BAM 820.4 million or 24.4% recorded in relation to long-term deposits. An increase in long-term deposits was also realized in the deposits of up to 5 years (by BAM 789.8 million or 24.7%) and in deposits of over 5 years (by BAM 30.5 million or 17.7%).

Looking into the structure of long term deposits with residual maturity, evidently they are dominated by deposits with residual maturity of up to 5 years (95.1% of long term deposits and 20.5% of total deposits).

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

- % -

Table 34: Liquidity ratios

Ratios	31.12.2017	31.12.2018	31.12.2019
1	2	3	4
Liquid assets ²⁰ /net assets	30,2	30,8	31,9
Liquid assets/ short-term financial liabilities	47,6	46,3	49,2
Short-term financial liabilities/ total financial liabilities	74,9	77,7	75,4
Loans/deposits and loans taken ²¹	79,2	77,6	75,1
Loans/ deposits, loans taken and subordinated debts ²²	78,5	77,1	74,4

The loans to deposits and loans taken ratio as at 31.12.2019 was 75.1%, which was lower by 2.5 percentage points compared to the end of 2018. In one bank, this ratio is higher than 85.0%. The share of short-term financial liabilities in total financial liabilities is still high, but the liquid assets to total assets ratio is continuously satisfactory.

²⁰ Liquid assets in narrow sense: cash and deposits and other financial assets with residual maturity period of less than three months, excluding interbank deposits.

²¹ Empirical standards are: less than 70% - very solid, 71%-75% - satisfactory, 76%-80% - borderline satisfactory, 81%-85% - insufficient, over 85% - critical

²² Previous ratio is expanded, the funding also includes subordinated debts, which is a more realistic indicator.

An important aspect of the liquidity position monitoring and analysis is matching of residual maturities of financial assets and financial liabilities against the timeline set by the minimum limits and created for a 180-day time horizon²³.

For purpose of planning the required level of liquid resources, banks should plan the funding and structure of an adequate liquidity potential and also plan a credit policy accordingly. The maturity of placements, i.e. the loan portfolio is determined precisely by the maturity of funding.

Given that the maturity transformation of funds in banks is inherently related to functional characteristics of banking operations, banks continuously control and hold maturity mismatches between the funding and placements in accordance with regulatory limits.

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

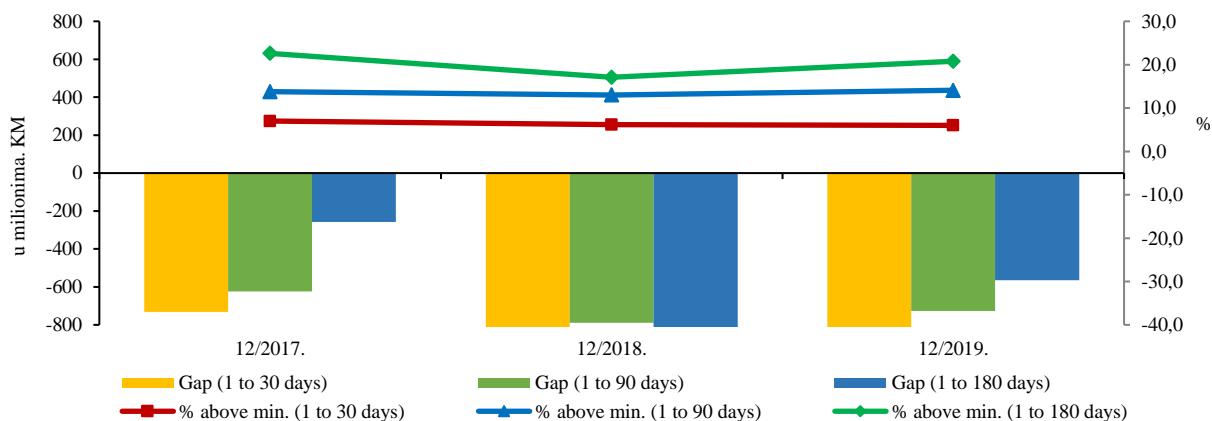
- BAM 000 -

Table 35: Maturity matching of financial assets and financial liabilities of up to 180 days

Description	31.12.2017	31.12.2018	31.12.2019	Index	
	Amount	Amount	Amount	5=3/2	6=4/3
1	2	3	4		
I 1-30 days					
1. Amount of financial assets	8,462,124	9,513,412	10,579,834	112	111
2. Amount of financial liabilities	9,193,511	10,425,706	11,624,766	113	112
3. Balance (+ or -) = 1-2	-731,387	-912,294	-1,044,932	-	-
<i>Calculation of compliance with regulatory requirements in %</i>					
a) Actual %= no. 1 / no. 2	92.0%	91.2%	91.0%		
b) Regulatory minimum %	85.0%	85.0%	85.0%		
More (+) or less (-) = a - b	7.0%	6.2%	6.0%		
II 1-90 days					
1. Amount of financial assets	9,416,671	10,556,830	11,641,857	112	110
2. Amount of financial liabilities	10,041,101	11,345,741	12,367,913	113	109
3. Balance (+ or -) = 1-2	-624,430	-788,911	-726,056	-	-
<i>Calculation of compliance with regulatory requirements in %</i>					
a) Actual %= no. 1 / no. 2	93.8%	93.0%	94.1%		
b) Regulatory minimum %	80.0%	80.0%	80.0%		
More (+) or less (-) = a - b	13.8%	13.0%	14.1%		
III 1-180 days					
1. Amount of financial assets	10,476,675	11,640,075	12,985,569	111	112
2. Amount of financial liabilities	10,734,265	12,644,902	13,550,664	118	107
3. Balance (+ or -) = 1-2	-257,590	-1,004,827	-565,095	-	-
<i>Calculation of compliance with regulatory requirements in %</i>					
a) Actual %= no. 1 / no. 2	97.6%	92.1%	95.8%		
b) Regulatory minimum %	75.0%	75.0%	75.0%		
More (+) or less (-) = a - b	22.6%	17.1%	20.8%		

²³ Article 41 of the Decision on Liquidity Risk Management in Banks („Official Gazette of the Federation of BiH“ No. 81/17): „Until NSFR from Article 34 hereof is introduced as a mandatory quantitative requirement for banks, the banks shall apply and report on maturity matching of financial assets and financial liabilities and the structure of the largest funding sources, and accordingly Articles 6(3)(1), 6a, 6b, 11(2), and 12 of the Decision on the Minimum Standards for Liquidity Risk Management in Banks („Official Gazette of the Federation of BiH“ Nos. 48/12, 110/12, and 45/14) shall remain effective“. Regulatory percentages for the maturity matching of financial assets and financial liabilities: minimum 85% of the funding with the maturity period of up to 30 days must be engaged in placements with the maturity period of up to 30 days, minimum 80% of the funding with the maturity period of up to 90 days must be engaged in the placements with the maturity period of up to 90 days, and minimum 75% of the funding with the maturity period of up to 180 days must be engaged in the placements with the maturity period of up to 180 days.

Chart 14: Maturity matching of financial assets and financial liabilities of up to 180 days



As of 31.12.2019, financial assets in all three time buckets were lower than financial liabilities, and the actual percentages of maturity matching were above the prescribed minimum: in the first time bucket by 6%, in the second one by 14.1% and in the third time bucket by 20.8%. Compared to the end of 2018, actual percentages of maturity matching were higher in the time bucket of 1-90 days by 1.1 percentage points and in the time bucket of 1-180 days by 3.7 percentage points, while in the time bucket of 1-30 days they were lower by 0.2 percentage points.

By observing the key liquidity indicators, qualitative and quantitative requirements, as well as other factors affecting banks' liquidity position, it could be inferred that the FB&H banking sector's liquidity as of 31.12.2019 is satisfactory. Since this business area and liquidity risk exposure level are in correlation with credit risk (lower inflows of liquid assets relate to difficulties in collection of loans), while having regard to other important factors (maturity structure of deposits, repayment of past-due loan obligations, and significantly lower borrowing from international financial institutions, which was the banks' funding source of the highest quality in the previous years from the aspect of maturity), it should be noted that liquidity risk management and monitoring should be in the focus of banks through establishment and implementation of liquidity policies, which will ensure meeting of all obligations as they come due in a timely fashion, based on ongoing planning of future liquidity needs, thus taking into account changes in operational, economic, regulatory, and other conditions of the banks' business environment.

3.2.8. Foreign Exchange (FX) Risk

In their operations, banks are exposed to risks arising from potential losses related to on- and off-balance sheet items resulting from changes in market prices. One of those risks is also FX risk, arising as a result of changes in exchange rates and/or mismatches in the levels of assets, liabilities, and off-balance sheet items in the same currency - individual foreign exchange position or all currencies combined with which the bank operates – the bank's total foreign exchange position. The Decision on Foreign Exchange Risk Management in Banks²⁴, provides for how the foreign exchange position is calculated and maximum permitted FX risk exposure, i.e. the limits for open individual and total foreign exchange positions (long or short), calculated

²⁴ FB&H Official Gazette No. 81/17

by reference to the bank's eligible capital²⁵. In order for the FBA to monitor banks' compliance with the regulatory limits and FX risk exposure level, banks are required to report to the FBA on a daily basis. Based on the control, monitoring and analysis of reports, it could be inferred that banks comply with the regulatory limits and perform their FX activities within such limits

According to the balance as at 31.12.2019, the items in foreign currencies amounted to BAM 3.8 billion, with a 15.7% share (BAM 3.2 billion or 14.4% at the end of 2018) in the currency structure of the banks' assets across the banking sector. The currency structure of liabilities is significantly different, because the share of liabilities in foreign currency is significantly higher and amounts to BAM 8.6 billion or 35.5% (BAM 8.3 billion, with 37.6% share at the end of 2018). The following table provides the structure of financial assets and financial liabilities and foreign exchange position for EUR, as the most important currency, and total foreign exchange position across the banking sector:

- BAM million -

Description	31.12.2018				31.12.2019				Index	
	EUR		Total		EUR		Total		EUR	Total
	Amount	% share	Amount	% share	Amount	% share	Amount	% share	(6/2)	(8/4)
1	2	3	4	5	6	7	8	9	10	11
I Financial assets										
1. Cash	1.437	15,5	1.882	19,0	2.065	20,6	2.543	23,8	144	135
2. Loans	264	2,9	265	2,7	336	3,4	337	3,2	127	127
3. Loans with currency clause	6.482	70,1	6.490	65,6	6.651	66,3	6.655	62,2	103	103
4. Other	843	9,1	1.029	10,4	727	7,2	911	8,5	86	89
5. Other financial assets with currency clause	225	2,4	225	2,3	251	2,5	251	2,3	112	112
Total I (1+2+3+4+5)	9.251	100	9.891	100	10.030	100	10.697	100	108	108
II Financial liabilities										
1. Deposits	6.614	74,8	7.284	76,5	6.841	73,8	7.529	75,6	103	103
2. Loans	855	9,7	855	9,0	850	9,2	850	8,5	99	99
3. Deposits and loans with currency clause	1.204	13,6	1.204	12,7	1.363	14,7	1.364	13,7	113	113
4. Other	166	1,9	172	1,8	213	2,3	221	2,2	128	128
Total II (1+2+3+4)	8.839	100	9.515	100	9.268	100	9.964	100	105	105
III Off-balance sheet										
1. Assets	80		131		37		79			
2. Liabilities	456		463		764		771			
IV Position										
Long (amount)	37		44		35		41			
%	1,5%		1,8%		1,3%		1,5%			
Short										
%										
Permitted	30,0%		30,0%		30,0%		30,0%			
Less than permitted	28,5%		28,2%		28,7%		28,5%			

Viewed by banks and as the total across the FB&H banking sector, it could be noted that the banks and sector's FX risk exposures as of 31.12.2019 ranged within the regulatory limits. As of 31.12.2019, ten banks had long foreign exchange positions, while five banks had short positions. A long foreign exchange position of 1.5% of the banks' total eligible capital was reported across the sector, which was lower by 28.5 percentage points than the permitted one. The individual foreign exchange position for EUR was 1.3%, which was lower by 28.7 percentage points than the permitted one, where the financial asset items were higher than the financial liabilities (long position).

²⁵ Article 3 of the Decision on Foreign Exchange Risk Management in Banks provides for the limits: maximum of up to 30% for individual foreign exchange position for EUR, up to 20% for other currencies, and maximum of up to 30% of the bank's eligible capital for the bank's foreign exchange position.

²⁶ Source: Form 5 – Foreign Exchange Position

If the structure of foreign currencies in the financial assets is analyzed²⁷ the EUR's 82.5% share is dominant (80.1% as at December 31st, 2018), with an increase in the nominal amount of BAM 584.4 million or 23%. The EUR's share in financial liabilities is 91.9% and, compared to the end of 2018, it increased by BAM 269.7 million or 3.5%. The calculation basis for EUR's share in financial assets and financial liabilities does not include the items with a currency clause.

3.3. BANKING SECTOR RECOMMENDATIONS

The previous period in the banking supervision was marked by major, demanding, and extensive processes related to the reform of the regulatory banking supervisory and operating framework and establishment of a new framework for resolution of banks, implementation of a multi-year project of transitioning from the current CAMELS-based supervisory methodology to a completely new supervisory framework - SREP, and establishment of a new supervisory reporting framework. To that effect, the FBA has continued to strengthen its supervisory capacities with a view to implementing a new regulatory framework in accordance with the LoB, LoA, and set of the regulations issued based on them.

The FBA will, in accordance with its prescribed supervisory authorities for the FB&H banks' operations, continue to undertake measures and activities to maintain and strengthen the banking sector's stability and to protect depositors, as well as to improve the FB&H banks' safe, quality and lawful operations. The above measures and activities will especially focus on continuation of ongoing supervision of the banks, with an emphasis on:

- controls of the dominant risky business areas, examinations of the systemically important banks in terms of the development of credit activities and banks in which large amounts of savings and other deposits are concentrated, and examinations of practices applied in banks in the segment of protection of financial users and guarantors, etc.;
- implementation of capital strengthening plans of banks, especially those with a major increase in assets, and banks wherein capital adequacy ratios are decreasing;
- monitoring of the IAS/IFRS implementation, with a view to adequately value financial assets and allocate reserves for expected credit losses for purpose of maintaining adequate capitalization of the FB&H banks
- establishing, expanding, and improving cooperation with competent supervisory authorities for the supervision of banking groups from the EU and third countries whose members are seated in the FB&H, with a view to supervising more efficiently and improving supervisory practices and cooperating and sharing information with the ECB and EBA on the issues of supervision and banking regulations, as well as with the international financial institutions;
- improving cooperation by signing new cooperation agreements with relevant institutions in B&H, which are included in the institutional framework for the performance of supervision, crisis and systemic risk management, financial users' protection; and
- continuing cooperation with the BAB&H, with a view to improving banks' operations, compliance of their operations with regulations, international standards, and professional rules, and market requirements, etc.

Starting from the prescribed competencies, FBA will continue to undertake measures and activities with a view to implementing the FSAP mission's recommendations aimed at improving the quality of the banking sector supervision, as well as the commitments undertaken under the Letter of Intent signed by the governments in B&H as part of the arrangement with the

²⁷ Source: Report on Bank's Foreign Exchange Position: Part of Financial Assets (in Foreign Currencies Denominated in BAM). Financial assets are reported in net terms, i.e. minus impairments and reserves for contingent liabilities.

IMF, relating to the entity-level banking agencies, banking supervision strengthening projects under the technical assistance provided by the international financial institutions WB and IMF, and under the USAID FINRA Project, etc.

Implementation of the above activities is conditioned by continued engagement and concerted institutional actions of all elements of the system, judicial, legislative, and executive authorities, efficient implementation of economic reforms, in order to align the progress achieved in the monetary sphere and banking sector by improving legal regulations in the segments of accounting and auditing, asset management, establishment of mechanisms for out-of-court corporate debt workout, security and safety of money in banks' vaults and cash in hand and in transport, working out or mitigating overindebted citizens' issues, special commercial departments in courts, etc., which is a prerequisite for creating a more conducive overall economic environment, which would have a stimulating effect on the banking sector, real sector, and public.

Performance of supervisory measures and activities requires ongoing operational development of the information system, as an important prerequisite for efficient supervision of banks' operations, i.e. the IT support for purpose of early warning and preventive action in addressing weaknesses in banks' operations, as well as permanent staff training and professional development.

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

- corporate and retail credit support, with implementation of the regulatory requirements in respect of credit risk management and maintenance of adequate capitalization against banks' risk profiles;
- efficiency of an integrated risk management system and improvement of a system for early increased credit risk identification, i.e. deterioration in the loan portfolio's quality, as well as more efficient NPL management measures;
- bringing operations in compliance with the new regulatory requirements for banks' operations and supervision, including also the requirements related to recovery planning and resolution of banks;
- consistent and full implementation of the IAS/IFRS;
- improving ICAAP and ILAAP in accordance with the new regulatory requirements;
- consistent implementation of regulations in the segments of payment operations, AML/CTF, protection of financial users and guarantors, security and safety of money in banks and in transport;
- active participation in implementation of reform measures and measures to address the issues of over indebtedness of citizens, and in corporate financial consolidation, etc.

4. NON-DEPOSIT FINANCIAL INSTITUTIONS SECTOR

In accordance with the FBA's prescribed supervisory authorities for non-deposit financial institutions in the FB&H (MCOs, leasing companies and factoring business, for which founding, operations, management, supervision and termination of their activities are regulated under special laws and regulations), this section of the Information provides an overview of the structure and financial indicators of operations of the aforementioned non-deposit financial institutions in the FB&H in 2019.

4.1. MICROCREDIT SECTOR

4.1.1. MICROCREDIT SECTOR STRUCTURE IN THE FB&H

4.1.1.1. Status, Number and Business Network

In the FB&H as of 31.12.2019, FBA's operating licenses were held by 14 MCOs that comprise the microcredit sector in the FB&H, of which 11 are MCF (non-profit organizations) and three are MCC (profit organizations). Compared to December 31, 2018, an operating license of the FBA was awarded to two MCCs in February and September 2019, of which one MCC started operating in the second quarter of 2019 and the other launched its operations in the fourth quarter of 2019.

The microcredit sector in the FB&H is, as of 31.12.2019, operates through the total of 374 registered organizational parts of MCOs seated in the FB&H, which, compared to data as of December 31, 2018 represents an increase by 12 organizational parts, i.e. 3.3%. As of 31.12.2019, four MCCs with headquarters in the RS operate in the FB&H through 48 organizational units, thus being an increase by two organisational units or 4.3% compared to December 31, 2018. In 2019, one MCC from the RS had its license revoked in the FB&H since it did not initiate business activities within the defined legal timeframe.

Annex 8 provides basic information on MCFs and MCCs which, as of 31.12.2019 held the FBA's a license for performing the micro lending activity.

4.1.1.2. Ownership Structure

MCO is a legal person that, in accordance with regulations, can be founded and do business as MCF or MCC. MCF in the FB&H was founded by non-governmental, mostly humanitarian organizations, citizens' associations and natural persons. The founders had, with the capital donated for founding the MCF, acquired the right to be registered as founders without the right of ownership over capital. Out of three MCCs, one MCC is in 100% ownership of a MCF, one MCC is in the ownership of one non-resident legal entity and one MCC is in 100% ownership of one resident legal entity.

4.1.1.3. Staff Structure

The microcredit sector in the FB&H, as of 31.12.2019, had a total of 1,522 employees, which is higher by 61 employees, i.e. 4.2%, compared to December 31, 2018. More precisely, in six MCFs and one MCC there is an evident increase in the number of employees, in four MCFs there is a decrease in the number of employees, and in one MCF the number of employees remained unchanged. The increase in the number of employees in the microcredit sector was further affected by employment in two newly founded MCCs that started operating in 2019. Out

of the total number of employees in the microcredit sector in the FB&H, MCFs employ 1,196, i.e. 78.6 %, while MCCs employ 326, i.e. 21.4%.

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

No.	Qualification	31.12.2018		31.12.2019		Index
		No. of employees	% share	No. of employees	% share	
1	2	3	4	5	6	7=5/3
1.	University qualifications	725	49.6	798	52.4	110
2.	Two-year post-secondary school qualifications	135	9.3	127	8.3	94
3.	Secondary school qualifications	589	40.3	587	38.6	100
4.	Other	12	0.8	10	0.7	83
	Total	1,461	100	1,522	100	104

An analysis of data on staff efficiency in the FB&H microcredit sector as of 31.12.2019 shows that, out of the total number of employees, 724 or 47.6% are loan officers, whereas number of active micro loans per loan officer is 227 – no major changes vs. 31.12.2018.

4.1.2. FINANCIAL INDICATORS OF PERFORMANCE

4.1.2.1. Balance Sheet

Total assets of the FB&H microcredit sector as of 31.12.2019 amount to BAM 631.3 million and are higher by BAM 50.9 million, i.e. 8.8% compared to December 31, 2018. The increase in balance sheet total vs. end of the previous year was seen with eight MCFs and one MCC, while a decrease was evident with three MCFs, while two MCCs started their operations in 2019. The biggest share on the total balance sheet of MCOs is with five MCFs and one MCC with assets amounting to BAM 579.4 million or 91.8% of total assets of the microcredit sector.

Annexes 9 and 10 provide a summary overview of balance sheets of MCFs and MCCs.

The aggregate balance sheet of the FB&H microcredit sector as of 31.12.2019 and comparative data with December 31, 2018 are shown in the following table:

- BAM 000 -

No.	Description	31.12.2018				31.12.2019				Index
		Balance for MCFs	Balance for MCCs	Total	%	Balance for MCFs	Balance for MCCs	Total	%	
1	2	3	4	5=3+4	6	7	8	9=7+8	10	11=9/5
ASSETS										
1.	Cash	48,291	9,107	57,398	9.9	35,596	13,281	48,877	7.7	85
2.	Placements to banks	210	0	210	0.0	2,150	0	2,150	0.3	1024
3.	Microloans	322,369	134,551	456,920	78.7	367,431	140,870	508,301	80.5	111
4.	Loan loss provisions	-2,232	-672	-2,904	-0.5	-2,600	-1,312	-3,912	-0.6	135
5.	Net microloans	320,137	133,879	454,016	78.2	364,831	139,558	504,389	79.9	111
6.	Premises and other fixed assets	24,918	1,751	26,669	4.6	27,505	5,748	33,253	5.3	125
7.	Long-term investments	33,061	0	33,061	5.7	33,061	0	33,061	5.2	100
8.	Other assets	6,900	2,270	9,170	1.6	7,134	2,692	9,826	1.6	107
9.	Reserves on other items in assets, apart from loans	-135	-36	-171	0.0	-159	-99	-258	0.0	151
	Total assets	433,382	146,971	580,353	100	470,118	161,180	631,298	100	109
LIABILITIES										
10.	Liabilities on loans	177,970	101,712	279,682	48.2	195,860	105,883	301,743	47.8	108
11.	Other liabilities	21,647	6,155	27,802	4.8	25,257	9,982	35,239	5.6	127
12.	Capital	233,765	39,104	272,869	47.0	249,001	45,315	294,316	46.6	108
	Total liabilities	433,382	146,971	580,353	100	470,118	161,180	631,298	100	109
13.	Off-bal.sheet records	105,572	1,506	107,078		99,681	2,555	102,236		95

In the structure of assets of the FB&H microcredit sector as of 31.12.2019, the level and the share of cash is reduced, long term investments posted by one MCF remained the same, while other balance sheet positions recorded an increase in the reporting period. The biggest increase rate is disclosed in relation to facilities to banks and 93% of this amount refers to term deposits of one MCF with banks for a term of over 90 days. The increase rate of 24.7% was posted in relation to business premises and other fixed assets, which is mostly caused by the application of IFRS 16 - Leases, which is mandatory from January 1, 2019, and which is connected with the increase in other liabilities.

The rate of fixed assets compared to total assets (reduced by donated capital across the FB&H microcredit sector) as of 31.12.2019 amounts to 5.7%, which is within the prescribed limit (up to 10.0%). Therein, one MCF and one MCC reported a rate outside the prescribed limit.

The net microloan portfolio, as a dominant assets item in the microcredit sector amounts to BAM 504.4 million with a share of 79.9% in total assets, hence it recorded an increase in absolute amount of BAM 50.4 million, i.e. 11.1%, of which BAM 44.7 million, i.e. 13.9% relate to an increase in net microloans in MCFs, and BAM 5.7 million, i.e. 4.2% relate to MCCs, compared to December 31, 2018. The level of loan loss provisions (LLP) for the entire microcredit portfolio in the reporting period is higher by BAM 1 million, i.e. 34.7%, where BAM 0.4 million relates to an increase with MCFs, with the increase rate of 16.5%, while the amount of BAM 0.6 million BAM, with the increase rate of 95.2%, relates to MCCs.

Total off-balance sheet records as of 31.12.2019 amounted to BAM 102.2 million and compared to December 31, 2018 they are reduced by BAM 4.8 million, i.e. 4.5%, where in MCF they were reduced by BAM 5.9 million, i.e. 5.6%, while in MCCs they increased by BAM 1 million, i.e. 69.6%. Of the total amount in off-balance sheet records as of 31.12.2019, the largest item relates to the written off principal under microloans of BAM 90.3 million, i.e. 88.3%, while the amount of BAM 9.8 million, i.e. 9.6% relates to written off interest. The total number of written off microcredit sub-accounts as of December 31, 2019 is 37,272, which, compared to December 31, 2018, represents a decrease by the total of 1,884 microcredit sub-accounts, as a net effect of the number of new write offs, permanent write offs and fully recovered microcredit sub-accounts.

4.1.2.2. Capital and Liabilities

The biggest items in liabilities in the FB&H microcredit sector as of 31.12.2019 relate to liabilities on loans taken, which amount to BAM 301.7 million, i.e. 47.8% of the total liabilities and capital, amounting to BAM 294.3 million and representing 46.6% of total liabilities. The remaining amount of BAM 35.3 million, i.e. 5.6% relates to other liabilities (under profit tax, liabilities to employees, suppliers, etc.). Compared to December 31, 2018, in 2019 there is an evident increase in liabilities for loans take, by BAM 22.1 million, i.e. 7.9%.

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

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No.	Description	31.12.2018				31.12.2019				Index
		MCFs	MCCs	Total	%	MCFs	MCCs	Total	%	
1	2	3	4	5=3+4	6	7	8	9=7+8	10	11=9/5
1.	Liabilities on short-term loans taken	69,189	33,197	102,386	36.6	82,452	56,995	139,447	46.2	136
2.	Liabilities on long-term loans taken	108,781	68,515	177,296	63.4	113,408	48,888	162,296	53.8	92
	Total	177,970	101,712	279,682	100	195,860	105,883	301,743	100	108

In the structure of total liabilities on loans taken as of 31.12.2019, loan obligations of MCFs represent 64.9%, while loan obligations of MCCs represent 35.1%. In respect of the maturity structure of loan obligations compared to December 31, 2018, there is an increased share of short term liabilities by 36.2% with a decrease of long term liabilities by 8.4%. The largest creditors of the FB&H microcredit sector, according to their share in total loan obligations of MCCs as of 31.12.2019, are EFSE Luxembourg with 15.3%, Responsibility Luxembourg with 7.3% and Symbiotics - Switzerland with 6.3%.

In the reporting period, across the FB&H microcredit sector, the total increase in capital amounted to BAM 21.4 million, i.e. 7.8%, of which the amount of BAM of 15.2 million, i.e. 6.5% relates to the capital increase in MCFs, while the capital of all the MCCs in the reporting period increased by BAM 6.2 million, i.e. 15.9%. The structure of capital of the FB&H microcredit sector is shown in the following table:

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Table 40: Microcredit sector's capital structure

No	Description	31.12.2018					31.12.2019					Index
		Balance for MCF	%	Balance for MCC	Balance for MCF	Total	Balance for MCF	%	Balance for MCC	Balance for MCF	Total	
1	2	3	4	5	6	7=3+5	8	9	10	11	12=8+10	13=12/7
1.	Donated capital	48,076	20.6	0	0.0	48,076	48,076	19.3	0	0	48,076	100
2.	Tier 1 capital	3,820	1.6	30,600	78.3	34,420	3,868	1.6	31,600	69.7	35,468	103
3.	Surplus & deficit of revenue over expenses	181,168	77.5	0	0.0	181,168	196,939	79.1	0	0	196,939	109
4.	Emission premium	0	0.0	0	0.0	0	0	0.0	0	0	0	-
5.	Unallocated profits	0	0.0	6,504	16.6	6,504	0	0.0	9,187	20.3	9,187	141
6.	Regulatory reserves	0	0.0	2,000	5.1	2,000	0	0.0	2,528	5.6	2,528	126
7.	Other reserves	701	0.3	0	0.0	701	118	0.0	2,000	4.4	2,118	302
	Total capital	233,765	100	39,104	100	272,869	249,001	100	45,315	100	294,316	108

Of the total capital of the FB&H microcredit sector which, as of 31.12.2019 amounted to BAM 294.3 million, the total capital of MCFs amounted to BAM 249 million, i.e. 84.6%, and the biggest items are the surplus of revenues over expenses, amounting to BAM 196.9 million and representing 79.1% of total capital of MCFs, and donated capital, amounting for BAM 48.1 million, i.e. 19.3%. Out of the total amount of donated capital, donations for credit fund were reported by nine MCFs, where 64.5% relate to three MCFs, of which one MCF is responsible for 39.1% of the total donations for the credit fund. Five largest individual donors in MCF in the FB&H participate with 69.1% (BAM 33.2 million), where the largest donor participates with BAM 10.1 million, i.e. 21.0% of the total donated capital.

Total capital of MCCs amounts to BAM 45.3 million, comprising 15.4% of the total capital of microcredit sector. Its structure includes these key items: Tier 1 capital of BAM 31.6 million, i.e. 69.7%, and unallocated profit of BAM 9.2 million, i.e. 20.3%. The remaining BAM 4.5 million, i.e. 10% of MCC capital relate to statutory and other reserves.

Looking into the capital rate reduced by donated capital vs. assets, as of 31.12.2019, it amounted 39% at the microcredit sector level. Thus, we find that it is in line with the prescribed limit (more than 10%), whereas two MCFs are not aligned with this standard since they posted this rate in a negative value.

Other liabilities across the FB&H microcredit sector as of 31.12.2019 amounted to BAM 35.2 million, i.e. 5.6% of total liabilities, and compared to December 31, 2018 they have increased by BAM 7.4 million, i.e. 26.7%, which was primarily the consequence of the initial application of

IFRS 16 - Leases and is connected with the increase in balance sheet positions for business premises and other fixed assets.

4.1.2.3. Assets and Asset Quality

The microloan portfolio reported in gross amount in the balance sheet total of the FB&H microcredit sector as of 31.12.2019 amounted to BAM 508.3 million, i.e. 80.5% of total assets of the microcredit sector, i.e. with a reduction for the corresponding LLR in the total amount of BAM 3.9 million, the net microloan portfolio amounts to BAM 504.4 million, i.e. 79.9% of total assets the FB&H microcredit sector. Compared to December 31, 2018, the gross microloan portfolio increased by BAM 51.4 million, i.e. by 11.2%, while the net microloan portfolio increased by the amount of BAM 50.4 million, i.e. 11.1%.

In the same period, the level of LLR increased by BAM 1 million, i.e. 34.7%. The LLR to total gross microloan portfolio ratio as of 31.12.2019 amounted to 0.7%, which, compared to the same ratio as of December 31, 2018, when it amounted to 0.6%, represents an increase by 0.1 percentage point. In the structure of total net portfolio of the microcredit sector in the FB&H as of 31.12.2019, the net microloans of MCFs amounted to BAM 364.8 million and represent 72.3% of the total net microloans across the sector, while the amount of BAM 139.6 million, i.e. 27.7% of the total net microloans across the sector relate to MCCs. Compared to December 31, 2018, net microloans of MCFs increased by BAM 44.7 million, i.e. 13.9%, while the net microloans of MCCs increased by BAM 5.7 million, i.e. 4.2%.

Net microloans as of 31.12.2019, comprising total gross microloans reduced by LLR, are shown in the following table:

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Table 41: Net micro loans

No.	Description	31.12.2018			31.12.2019			Index
		MCF	MCC	Total	MCF	MCC	Total	
1	2	3	4	5=3+4	6	7	8=6+7	9=8/5
1.	Micro loans (gross)	322,369	134,551	456,920	367,431	140,870	508,301	111
2.	LLP	-2,232	-672	-2,904	-2,600	-1,312	-3,912	135
3.	Net micro loans (1.-2.)	320,137	133,879	454,016	364,831	139,558	504,389	111

In relative terms, the increase rates of loan loss provisions in the reporting period exceeded the increase rates of total (gross) microloans.

Detailed data on the sector and the maturity structure of the microloan portfolio as of 31.12.2019 are shown in the following table:

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Table 42: Sector and maturity structure of microloans

No.	Micro loans	ST micro loans	LT micro loans	Receivables due	Total	%
1	2	3	4	5	6=3+4+5	7
1.	Corporate					
a)	Services	237	7,539	50	7,826	57.3
b)	Trade	165	2,711	18	2,894	21.2
c)	Agriculture	21	827	0	848	6.2
d)	Manufacturing	122	1,850	5	1,977	14.5
e)	Other	19	95	1	115	0.8
	Total 1:	564	13,022	74	13,660	100
2.	Retail					
a)	Services	4,586	89,487	202	94,275	19.1
b)	Trade	1,083	13,389	46	14,518	2.9
c)	Agriculture	6,544	157,014	266	163,824	33.1
d)	Manufacturing	488	8,869	24	9,381	1.9

e) Housing needs	3,152	109,235	162	112,549	22.8
f) Other	17,003	82,555	536	100,094	20.2
Total 2:	32,856	460,549	1,236	494,641	100
Total (1+2):	33,420	473,571	1,310	508,301	-

In the maturity structure of total microloan portfolio as of 31.12.2019, reported on gross basis, the highest share is the share of long-term micro loans with 93.2%, while short-term micro loans have a 6.6% share and receivables due on micro loans have a 0.2% share.

Upon observing the sector structure, the dominant share is the share of retail microloans, with 97.3%, while the remaining 2.7% relate to corporate microloans. Within the retail microloan portfolio, the biggest is the share of microloans approved for agriculture, which amounts to 33.1% and for housing needs, at 22.8%. By share levels, other sectors follow with 20.2% and services with 19.1%. The share of microloans for trade is 2.9% and for manufacturing 1.9%. In the structure of corporate microloans, the dominant share is the share of microloans for services – 57.3%.

As of 31.12.2019, the FB&H microcredit sector has 164,643 active microcredit sub-accounts, which is, by 7,940 sub-accounts, i.e. 5.1%, higher compared to the end of 2018.

The average amount of microloans at sector level, as of 31.12.2019 is BAM 3,087, which is, compared to December 31, 2018, higher by 5.8%. From analytical perspective, the average amount of microloans in MCFs amounts to BAM 2,715 and has increased, by 6.4%, compared to December 31, 2018, while in MCCs it amounts to BAM 4,805, and in the reporting period it has increased by 8.6%.

The following table provides an overview of receivables with related provisions by groups according to the number of days in default, as well as data on outstanding overdue receivables over 180 days (being removed from the balance sheet), as of 31.12.2019:

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Table 43: LLP

No.	Days in default	Rate of provisions	Amount of loans	Share (%)	Interest due		Amount of other assets items	Provisions			Total provisions
					Rate of provisions	Amount of interest		By micro loan	By past -due interest	By other items in assets	
1	2	3	4	5	6	7	8	9=4x3	10=7x6	11=8x3	12=9+10+11
1.	0	0%	498,565	98.1	0%	5	397	0	0	0	0
2.	1–15	2%	2,713	0.5	2%	35	0	56	0	0	56
3.	16–30	15%	2,645	0.5	100%	33	0	412	35	0	447
4.	31–60	50%	1,489	0.3	100%	47	0	747	47	0	794
5.	61–90	80%	965	0.2	100%	46	0	773	46	0	819
6.	91–180	100%	1,924	0.4	100%	132	0	1,924	130	0	2,054
Total			508,301	100		298	397	3,912	258	0	4,170
7.	over 180	Write off	1,058	-	100%	87	0	0	0	0	0

In the total microloan portfolio at the sector level, 98.1% relate to microloans without defaults, while in the remaining 1.9% microloans there are defaults, of which defaults up to 30 days represent 1.1%, while 0.9% are defaults of 31 to 180 days. Out of the total amount of due interest (BAM 0.3 million), defaults up to 30 days represent 22.8%, while defaults of 31 to 180 days represent 75.5%. For due interest that has not been collected within the deadline of up to 15 days, MCOs are required to form loan loss provisions in 100% amount of receivables. During 4th quarter of 2019, MCOs have written off BAM 1.1 million of principal and interest.

Out of the total amount of provisions under microloans, interest and other asset items as of 31.12.2019 (BAM 4.2 million), the largest item corresponds to provisions formed for microloans

in default of 91 to 180 days, which amount to BAM 2.1 million and represent 49.2% of total amount of provisions.

Key Indicators of Microcredit Portfolio Quality

The risk portfolio indicator for more than 30 days in default (PAR>30 days) as of 31.12.2019 amounts to 0.86% at the level the microcredit sector and it increased by 0.14 percentage points compared to December 31, 2018. This risk indicator of the microloan portfolio at the sector level is within the prescribed standard (below 5%), whereas one MCF (18.46%) and one MCC (13.91%) failed to comply with the prescribed standard.

The risk portfolio indicator for more than one day of default (PAR>1 day) at the microcredit sector level as of 31.12.2019 amounted to 1.92% and, compared to December 31, 2018, it increased by 0.33 percentage points.

The NPL rate across the FB&H microcredit sector as of 31.12.2019 amounted to 17% and ever since December 31, 2014, when it amounted to 34.8%, it has been posting a decrease. Compared to December 31, 2018, the NPL rate decreased by 2.2 percentage points.

At the microcredit sector level, the rate of write off of microloans as of 31.12.2019 amounted to 0.87, which is within FBA standards (below 3%). Compared to 31.12.2018, this rate dropped by 0.08 percentage points. Therein, two MCFs failed to comply with that standard, as their indicator is above 3% (6.79% and 4.53% respectively). Thereof, one MCF does not even meet the standard in respect of risk portfolio for over 30 days of default and the other MCF is near the upper limit of this standard.

Weighted NIR and EIR on micro loans

Over the reporting period, MCOs seated in the FB&H had average weighted NIR on total microloans of 19.51% and EIR of 24.38%, whereas NIR on short term microloans was 20.80% and on long term ones 19.29% and EIR on short term microloans was 31.85% and on long term ones 23.09%. Average weighted EIR on total microloans disbursed by MCOs seated in the FB&H posted an increase by 0.25 percentage points vs. the same period in 2018, whereas average weighted EIR on short term microloans posted a rise by 2.74 percentage points and on long term microloans a drop by 0.18 percentage points.

Looking into NIR and EIR on total microloans disbursed by MCOs seated in the RA and doing business in the FB&H, their average weighted NIR was 16.67%, while EIR was 51.92, thus being much higher than with MCOs registered in the FB&H (by 27.54 percentage points).

Average weighted NIR on short term loans disbursed by MCOs seated in the RS and doing business in the FB&H was 14.62%, while EIR was 129.57. The level of EIR on short term microloans of these MCOs was affected by high average weighted EIR for microloans for other purposes (568.19%) that is mainly being charged by one MCC seated in the RS regarding disbursed micro loans for these purposes.

Average weighted NIR and EIR on long term microloans disbursed during the reporting period by MCOs seated in the RS and doing business in the FB&H were 17.50% and 20.66% respectively and they are lower compared to MCOs seated in the FB&H (by 1.79 percentage points, i.e. 2.43 percentage points respectively).

Annex 11 provides an overview of average weighted NIR and EIR by maturity and purpose related to microloans disbursed in the period from 01.01.2020 to 31.12.2019 by MCOs seated in the FB&H and by MCOs seated in the RS and doing business in the FB&H. In the FB&H MCOs, the position of short term non-purpose loans – basic needs shows a major difference between NIR (16.47%) and EIR (48.87%) resulting from a microcredit product of one MCC that does not arrange NIR, but charges high one-off fee that gets reflected to the EIR calculation.

Annex 11a. Provides a comparative overview of average weighted NIR and EIR on disbursed microloans (short term, long term and total) in the period from 2015 to 2019.

4.1.2.4. Financial Performance of the FB&H Microcredit Sector

According to reporting data for MCOs, in the period from 01.01.2019 to 31.12.2019, total financial performance at the level of the FB&H microcredit sector was positive and amounted to BAM 19.5 million, down by BAM 1.5 million or 7% compared to the same period in 2018.

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

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Table 44: Income statement of the microcredit sector

No.	Description	01.01. - 31.12.2018				01.01. - 31.12.2019				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	63,610	19,714	83,324	90,5	67,337	24,133	91,470	91.2	110
1.2.	Operating income	6,976	1,740	8,716	9,5	6,820	1,993	8,813	8.8	101
2.	Total income (1.1.+1.2.)	70,586	21,454	92,040	100	74,157	26,126	100,283	100	109
3.	Expenses									
3.1.	Interest expenses and similar expenses	8,415	3,760	12,175	14,7	8,179	4,655	12,834	14.2	105
3.2.	Operating expenses	56,689	10,420	67,109	80,5	56,135	15,940	72,075	79.6	107
3.3.	Costs of provisions for loan and other losses	2,760	1,271	4,031	4,8	3,739	1,883	5,622	6.2	139
4.	Interest expenses and similar expenses	67,864	15,451	83,315	100	68,053	22,478	90,531	100	109
5.	Total expenses (3.1.+3.2.+3.3.)	13,738	65	13,803		10,833	265	11,098		80
6.	Extraordinary income	786	169	955		659	72	731		77
7.	Extraordinary expenses	15,674	5,899	21,573		16,278	3,841	20,119		93
8.	Total income-expenses (2+5-4-6)	15,674	-	15,674		16,278	-	16,278		104
9.	Surplus / deficit of income over expense	-	5,899	5,899		-	3,841	3,841		65
10.	Profit before taxation	-	620	620		-	630	630		102
11.	Taxes	-	5,279	5,279		-	3,211	3,211		61
12.	Net profit/loss	15,674	5,279	20,953		16,278	3,211	19,489		93

MCFs reported surplus of revenues over expenses of BAM 16.3 million, which is by BAM 0.6 million, i.e. 3.8% higher compared to 31.12.2018. In the reporting period, total income of MCFs rose by BAM 3.6 million or 5.1%, whereas interest and similar income went up by BAM 3.7 million or 5.9% and operating income went down by BAM 0.1 million or 16.2%. Extraordinary income at the level of MCFs decreased by BAM 2.9 million or 21.2%, while extraordinary expenses decreased by BAM 0.1 million or 16.2%. The costs of reserves for loan and other losses in MCFs increased by BAM 1 million or 35.5%.

More precisely, as of 31.12.2019, two MCFs posted a shortage of income over expenses, while other MCFs saw a surplus income over expenses. In regular operations, four MCFs posted shortage of income over expenses in total amount of BAM 2.1 million, whereas 84.7% refers to one MCF that, thanks to extraordinary income, still posted surplus income over expenses at YE2019.

At the level of MCCs, total net profit was reported in an amount of BAM 3.2 million, which, compared to 31.12.2018 represents a decrease by BAM 2.1 million, i.e. 39.2%. Therein, during the reporting period, one MCC posted a net profit of BAM 5.2 million, while two newly established MCCs posted a loss of BAM 2.0 million. As of 31.12.2019, net financial income of MCCs (a difference between total interest income and total interest expenses) was BAM 19.5 million, up by BAM 3.5 million or 22.1% compared to the same period in 2018. Total operating income of MCCs is higher by KM 0.3 million or 14.5% and extraordinary income by BAM 0.2 million or 307.7%. Total operating expenses of MCCs posted a major increase by BAM 5.5 million or 53%, whereas dominant share of 64.7% in total operating expenses is with costs of salaries and contributions of BAM 10.3 million.

In the reporting period, extraordinary expenses of MCCs went down by 57.4%. Cost of reserves for loan and other losses in MCCs was BAM 1.9 million, up by BAM 0.6 million or 48.1% compared to 31.12.2018.

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

Efficiency and Sustainability Indicators for the FB&H Microcredit Sector

Operational efficacy of business operations of the FB&H microcredit sector as of 31.12.2019 amounted to 18.8%, which is within the prescribed range for the indicator of up to 45%, whereas three MCFs and one MCC deviate from the prescribed indicator.

According to reporting data at the FB&H microcredit sector as of 31.12.2019, the return on assets adjusted for inflation, market price of capital and donations (AROA) was positive at 2.9%. Therein, three MCFs and two MCCs showed negative values, which is not in line with the prescribed limits. The indicator of operational sustainability of the FB&H microcredit sector (which is used as a general standard and which represents a ratio of total income from regular operations (without extraordinary income) and total expenses) amounts to 109.9%. Therein, five MCFs and two MCCs were not operationally sustainable on the reporting date.

4.1.3. MICROCREDIT SECTOR RECOMMENDATIONS

The FBA will, within its prescribed supervisory authorities for the FB&H microcredit sector continue with planned supervisory activities, which shall be focused on the supervision of:

- compliance of MCOs' business operations with laws and regulations, with the aim of full implementation of the Law on MCOs in respect of achievement of the prescribed objectives of micro lending in terms of improving the financial position of microloan users, contributing to increase of employment and supporting entrepreneurship development;
- implementation of the regulatory framework for business operations and supervision of MCOs in the FB&H, with the aim of fully and adequately enforcing applicable regulations and increasing the transparency of business operations of the FB&H microcredit sector and undertaking appropriate supervisory measures;
- timely and adequate undertaking of activities in MCOs according to the corrective measures imposed to eliminate irregularities and weaknesses in business operations;

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

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

- performance of micro lending activities to improve the financial position of users, increase employment and support entrepreneurial development, starting from legally prescribed micro lending goals with consistent application of legal provisions for the protection of financial service users, including aligning interest rates policies on microloans with the prescribed micro lending goals, thus contributing to stability and sustainability of the FB&H microcredit sector;
- maintaining and enhancing sound risk management practices for risks to which MCOs are or might be exposed, efficiency of internal control systems and independent internal audit functions;
- resource optimizing and applying the principles of responsible micro lending, i.e. sound practices in business operations with MCF assets;
- harmonization, i.e. improvement of operational efficiency and operational sustainability indicators;
- regular, up-to-date and accurate submission of data to CBB&H for the CLR management purposes;
- improving business transparency, etc.

MCOs that are less capitalized and/or have a materially significant amount of written off microloans need to establish and implement clear and consistent strategic commitments in respect of business sustainability, i.e. potential seeking of acceptable partners for consolidation, i.e. mergers to larger and more powerful MCFs in order to optimize resources, preserve donated funds, ensure support from foreign creditors, and ensure perspectives for employees in MCOs, which will be subject to supervisory attention with a view to preserving the stability of the microcredit sector and achieving legally mandated goals and activities of micro lending in the FB&H.

4.2. LEASING SECTOR

4.2.1. FB&H LEASING SECTOR STRUCTURE

4.2.1.1. Number of Leasing Companies

The FBA license for leasing operations was, as of 31.12.2019, held by five leasing companies in the FB&H. In 2019, the number of leasing companies has declined, because the operating license was revoked from one leasing company (for purpose of registration change into another company), while one leasing company had its license revoked on its own request. During 2019, one leasing company changed its name, while for two leasing companies, an acquisition was approved for 100% ownership interest, i.e. 100% share in the core capital of the company.

Annex 14 provides basic information o leasing companies, which, as of 31.12.2019 represent the leasing sector in the FB&H.

4.2.1.2. Ownership Structure

The ownership structure of leasing companies in the FB&H, according to data as of 31.12.2019, is as follows: three leasing companies are in 100% ownership of nonresident legal persons, one

leasing company is majority-owned by a nonresident legal person, while one leasing company is in 100% ownership of resident legal person.

4.2.1.3. Staff Structure

As at 31.12.2019, there was a total of 117 employees in the leasing sector in the FB&H, of which 112 are engaged based on an employment contract (reporting category of “full-time employees”), while there are five employees engaged through the student employment services and through employment mediation organizations (reporting category of “temporary employees”). For reasons of reduced number of leasing companies in 2019, the number of full-time employees, compared to December 31, 2018, is lower by six employees, i.e. 5.1%.

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

Table 45: Qualification structure of full-time employees in leasing companies in the FB&H

No.	Qualifications	31.12.2018		31.12.2019		Index
		No. of FTEs	% share	No. of FTEs	% share	
1	2	3	4	5	6	7=5/3
1.	University qualifications	83	70.3	78	69.6	94
2.	Two-year post-secondary school qualifications	4	3.4	5	4.5	125
3.	Secondary school qualifications	19	16.1	20	17.9	105
4.	Other	12	10.2	9	8.0	75
Total		118	100	112	100	95

Efficiency of employees in the course of performance assessment of leasing companies is based on the ratio of assets and number of employees (assets per employee). According to indicators as at 31.12.2019, at the level of the leasing sector in the FB&H, each employee corresponded to BAM 2.9 million in assets. This indicators is higher by BAM 0.4 million or 14.8% compared to the same period the year before.

4.2.2. FINANCIAL INDICATORS OF PERFORMANCE

4.2.2.1. Balance Sheet

Total assets of the FB&H leasing sector as at 31.12.2019 amounted to BAM 323.7 million and are higher by BAM 26.5 million, i.e. 8.9% compared to December 31, 2018. Two leasing companies, viewed on the basis of asset size, are responsible for 74.2% of total assets of the FB&H leasing sector.

Upon comparing the amount of assets of individual leasing companies as of 31.12.2019 with data as of December 31, 2018, it could be inferred that in four leasing companies an increase was reported of the balance sheet sum of BAM 43.5 million, while one leasing company reported a decrease in balance sheet sum in the total amount of BAM 5.2 million.

Annex 15 provides an aggregate balance sheet of leasing companies in the FB&H as per reporting data of 31.12.2019.

In the structure of total assets of the FB&H leasing sector, the most significant share is the share of net receivables under financial leasing, which amounts to BAM 241.1 million, i.e. 74.5% of total assets. Compared to December 31, 2018, net receivables under financial leasing are higher by BAM 26.4 million, i.e. 12.3%, while gross receivables under financial leasing are higher by BAM 35.5 million, i.e. 15.2%.

In the same period, reserves for losses for receivables under financial leasing increased by BAM 1.8 million, i.e. 197.1%. As of 31.12.2019, one bank performing leasing operations posted net receivables under financial leasing in total amount of BAM 64 million, this indicating that net receivables at the leasing system level were BAM 305.1 million, up by BAM 8.4 million vs. end of the previous year.

In the structure of receivables under financial leasing at the level of the leasing sector in the FB&H, contracts which are approved for financing of passenger vehicles and vehicles for performing business activities participate with 84%, contracts for equipment financing participate with 15%, while 1% relates to contracts under which real estate is financed. If viewed by types of lessees, the most significant increase is with the retail segment – being 38.5% higher than as of 31.12.2018.

The following tables provide the structure of receivables under financial leasing at the level of the FB&H leasing sector (receivables before reduction for loss provisions) as of 31.12.2019 and a comparative overview of the structure of receivables as of December 31, 2018 and as of December 31, 2019:

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Table 46: Structure of financial leasing receivables

No.	Description	Short-term receivables	Long-term receivables	Due receivables	Total receivables	Share in total receivables
1	2	3	4	5	6	7
1. By leasing object						
1.1.	Passenger vehicles	35,037	74,374	2,033	111,444	45.7
1.2.	Vehicles for performing business activity (cargo and passenger vehicles)	36,713	55,957	780	93,450	38.3
1.3.	Machines and equipment	11,990	24,380	218	36,588	15.0
1.4.	Real estate	285	1,945	10	2,240	1.0
1.5.	Other	7	14	0	21	0.0
Total		84,032	156,670	3,041	243,743	100
2. By lessee						
2.1.	Corporate	75,405	135,968	1,294	212,667	87.3
2.2.	Entrepreneurs	2,219	3,927	38	6,184	2.5
2.3.	Retail	4,532	13,827	1,698	20,057	8.2
2.4.	Other	1,876	2,948	11	4,835	2.0
Total		84,032	156,670	3,041	243,743	100

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Table 47: Structure of financial leasing receivables – comparative overview

No.	Description	Receivables as of 31.12.2018	Receivables as of 30.09.2019	Index
1	2	3	4	5=4/3
1. By leasing object				
1.1.	Passenger vehicles	86,363	111,444	129
1.2.	Vehicles for performing business activity (cargo and passenger vehicles)	99,446	93,450	94
1.3.	Machines and equipment	27,434	36,588	133
1.4.	Real estate	2,324	2,240	96
1.5.	Other	4	21	525
Total		215,571	243,743	113
2. By lessee				
2.1.	Corporate	191,495	212,667	111
2.2.	Entrepreneurs	5,416	6,184	114
2.3.	Retail	14,478	20,057	139
2.4.	Other	4,182	4,835	116
Total		215,571	243,743	113

Net receivables under loans as of 31.12.2019 amount to BAM 5.3 million, i.e. 1.6% of total assets of the FB&H leasing sector. Compared to December 31, 2018, net receivables under loans decreased by BAM 0.9 million, i.e. 14.7%. Receivables under loans in the composition of total assets of leasing companies decreased due to the continuous decrease in receivables under loans, as the provisions of the LoL prohibit the leasing companies to conclude new loan agreements, that would remain recorded in the balance sheets of leasing companies in the FB&H until the contractual terms for which they were approved expire. The reported amount of net receivables under loans relates to receivables of one leasing company, holding in its portfolio significant amounts of receivables under loans of subsidiaries, through which real estate construction projects had been financed prior to entry into effect of the LoL.

The reported balance sheet position of cash and cash equivalents as of 31.12.2019 amounted to BAM 5.5 million (constituting 1.7% of total assets), which was by BAM 8.4 million, i.e. 60.4% lower compared to December 31, 2018. Placements to banks (posted by two leasing companies) as of 31.12.2019 amounted to BAM 13.6 million, comprising 4.2% of total assets the FB&H leasing sector, which was by BAM 3.7 million, i.e. 21.2% lower compared to December 31, 2018. Of the total amount of these placements, BAM 85.3% relates to term deposits held by one leasing company with commercial banks.

Net value of fixed assets financed through operational leasing as of 31.12.2019 amounts to BAM 49.2 million and has increased by BAM 13.8 million, i.e. 38.9% compared to December 31, 2018. Individually viewed, two leasing companies reported an increase of net value of fixed assets financed through operational leasing of BAM 14.3 million, while two leasing companies reported a decrease of BAM 0.5 million.

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

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Table 48: Structure of net balance sheet assets positions

No.	Description	31.12.2018	% share	31.12.2019	% share	Index
1	2	3	4	5	6	7=5/3
1.	Financial leasing	214,674	72.3	241,078	74.5	112
2.	Operational leasing	35,385	11.9	49,166	15.2	139
3.	Loan	6,253	2.1	5,331	1.6	85
4.	Other assets	40,842	13.7	28,119	8.7	69
	Total	297,154	100	323,694	100	109

4.2.2.2. Capital and Liabilities

Total capital of the FB&H leasing sector as of 31.12.2019 amounted to BAM 29.5 million, thus constituting 9.1% of total liabilities of the FB&H leasing sector. Compared to December 31, 2018, the aforementioned position was reduced by BAM 7.3 million, i.e. 19.8%. The reduction of total capital was caused by the fact that, during 2019, FBA revoked licenses from two leasing companies whose balance sheet data were included in the reports as of 31.12.2018. Observed individually, all five leasing companies saw an increase of total capital compared to 31.12.2018 of BAM 4 million.

Liabilities of leasing companies in the FB&H on loans taken amounted to BAM 286.3 million as at 31.12.2019 and represent the dominant source in structure of total liabilities of the FB&H leasing sector, as they represent 88.4% of total liabilities. Compared to December 31, 2018, the

position of loan obligations is higher by BAM 33.9 million, i.e. 13.4%. The entire amount of loan obligations (observed by contractual maturity) refers to long term loan obligations.

Borrowings from commercial foreign and domestic banks, which mostly belong to banking groups, to which leasing companies also belong, represent 42.3% of total loan obligations, 25.4% relates to direct borrowings from founders, and 32.3% relates to borrowings from EIB, EBRD and CEDB. Loan funds of these banks are, by their nature, earmarked and mostly relate to small and medium-size enterprise development, and are secured by bank guarantees issued by parent banks or their holding companies.

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

4.2.2.3. Assets and Asset Quality

According to reporting data at the level of the FB&H leasing sector, reported reserves for losses under financial leasing as of 31.12.2019 amount to BAM 2.7 million and are higher compared to December 31, 2018 by BAM 1.8 million, i.e. 197.1%, while major increase was recorded in the category of 60 to 90 days past due (442.1%). Out of the total amount of posted reserves for losses, 78.8% refers to one leasing company that posted the biggest loss in 2019. In the structure of receivables under financial leasing as of 31.12.2019, the total of BAM 3 million of overdue receivables was reported, which is by BAM 0.8 million, i.e. 36.1% higher compared to December 31, 2018.

This increase of past-due receivables and increase of loss reserves in 2019 indicate to changes in quality of the portfolio of financial leasing receivables requiring improvements with respect to credit risk management, timely recognition of collection difficulties regarding financial leasing and their efficient resolution.

The table below provides a detailed overview of financial leasing reserves as of 31.12.2019:

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Table 49: Overview of financial leasing reserves

No.	Days in default	Rate of reserv. for finan. leasing (movables)	Rate of reserv. for finan. leasing (immovables)	Amount of receivables for movables	Amount of receivables for immovables	Basis - movables	Basis - immovables	Reserve			Total reserves
								For movables	For immovables	Excess calculated and allocated reserves	
1	2	3	4	5	6	7	8	9=7*3	10=8*4	11	12=9+10+11
1.	0-60	0.50%	0.50%	238,344	2,271	37,074	955	185	5	699	889
2.	60-90	10%	10%	1,034	0	204	0	20	0	83	103
3.	90-180	50%	50%	728	29	277	11	139	5	202	346
4.	over 180	100%	75%	1,337	0	1,327	0	1,327	0	0	1,327
5.	over 360	100%	100%	0	0	0	0	0	0	0	0
Total				241,443	2,300	38,882	966	1,671	10	984	2,665

Reserves for loans as of 31.12.2019 amounted to BAM 3 ths and they decreased considerably compared to December 31, 2018, due to major amount of written off receivables in off-balance sheet records of one leasing company. Reserves refer to receivables of BAM 5.3 million with defaults in the interval of 0-60 days.

The total amount of written off receivables under financial leasing and loans as of 31.12.2019 amounted to BAM 23.5 million BAM and is lower compared to December 31, 2018, by BAM 49.5 million, i.e. 67.8%. This is due to the license being revoked from two leasing companies, which reported a total of BAM 51.2 million of written off receivables as of December 31, 2018. This resulted in reduction of this position in off-balance sheet records at the end of the observed reporting period.

The market value of foreclosed leasing objects, due to termination of leasing contracts with lessees as of 31.12.2019 at the level of the FB&H leasing sector, amounted to BAM 1.5 million, up by BAM 0.1 million or 9.8% compared to 31.12.2018. There was a total of 78 foreclosed objects, with a posted increase of the number of foreclosed objects by 48, of which 40 such objects or 83.3% refers to one leasing company. Of the total reported amount of appraised market value of foreclosed items in the FB&H leasing sector as of 31.12.2019, BAM 1 million or 62.6% refers to passenger vehicles and business vehicles. BAM 0.5 million or 37.4% relates to real estate (commercial facilities) for which leasing companies assumed possession for reasons of non-compliance with contractual liabilities on the part of lessees. The total amount of the above position relates to two leasing companies.

Viewed from the level of the FB&H leasing system as of 31.12.2019, the market value of foreclosed leasing items amounted to BAM 7.8 million and it decreased by BAM 2 million or 20.1% compared to December 31, 2018. Out of the above amount of foreclosed leasing items, items foreclosed by the bank that is performing leasing activities correspond to BAM 6.3 million, i.e. 81.1% of the total market value of foreclosed items reported at the level of the leasing system.

4.2.2.4. Profitability

According to the reporting data of leasing companies, across the FB&H leasing sector in the period from January 1 – December 31, 2019, a loss of BAM 1 million was reported, which represents a decrease by BAM 4.3 million compared to the same period the year before. Viewed individually, three leasing companies reported positive financial performance of BAM 3.4 million, of which one leasing company is responsible for BAM 3.1 million, i.e. 71.7% of the total reported negative financial performance.

The aggregate income statement for leasing companies in the FB&H for the period 01.01.2019 to 31.12.2019 is provided in the Annex 16.

Total income of the FB&H leasing sector for the period 01.01.2019 to 31.12.2019 amounted to BAM 32.7 million. The level and structure of total income with the comparative data for the same period of the preceding financial year are shown in the following table:

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No.	Structure of total income	31.12.2018		31.12.2019		Index
		Amount	% share	Amount	% share	
1	2	3	4	5	6	7=5/3
1.	Interest income and similar income					
1.1	Interest under financial leasing	9,223	28.3	11,794	36.1	128
1.2	Interest on placements to banks	318	1.0	392	1.2	123
1.3	Other interest income	1,648	5.1	1,601	4.9	97
	Total	11,189	34.4	13,787	42.2	123
2.	Operating income					

2.1.	Operating lease charges	12,614	38.8	14,943	45.7	118
2.2.	Service fees	5	0.0	2	0.0	40
2.3.	Other operating income	8,631	26.5	3,946	12.1	46
	Total	21,250	65.3	18,891	57.8	89
3.	Income from release of reserves for losses	98	0.3	0	0.0	-
	Total income (1+2+3)	32,537	100	32,678	100	100

The FB&H leasing sector's interest income in the January 1 – December 31, 2019 period amounted to BAM 13.8 million and it increased by BAM 2.6 million, i.e. 23.2%, compared to the same period last year. The most significant position in interest income is interest income from financial leasing in the total amount of BAM 11.8 million and it is by BAM 2.6 million, i.e. 27.9%, higher compared to the same period of the preceding financial year.

Operating income amounted to BAM 18.9 million and compared to the same period last year it is lower by BAM 2.4 million, i.e. 11.1%, due to decreased collection of written off receivables. There was an increase of operational leasing fee income by 18.5%.

Total expenses for the period 01.01.2019 to 31.12.2019 amounted to BAM 33.6 million, and the level and structure of total expenses compared to the same period of the preceding financial year are shown in the following table:

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Table 51: Structure of total expenses

No.	Structure of total expenses	31.12.2018		31.12.2019		Index
		Amount	% share	Amount	% share	
1	2	3	4	5	6	7=5/3
1.	Interest expenses and similar income					
1.1.	Interest on borrowed funds	3,135	10.8	4,307	12.8	137
1.2.	Fees for processing loans	99	0.3	97	0.3	98
1.3.	Other interest expenses	0	0.0	2	0.0	-
	Total	3,234	11.1	4,406	13.1	136
2.	Operating expenses					
2.1.	Salary and contribution costs	6,311	21.6	5,702	16.9	90
2.2.	Business premises costs	9,682	33.1	9,741	29.0	101
2.3.	Other costs	9,264	31.6	10,535	31.3	114
	Total	25,257	86.3	25,978	77.2	103
3.	Costs of reserves	0	0.0	2,142	6.4	-
4.	Profit tax	766	2.6	1,106	3.3	144
	Total expenses (I+II+III)	29,257	100	33,632	100	115

In the period from 01.01.2019 to 31.12.2019, interest expenses of the leasing sector amounted to BAM 4.4 million, up by BAM 1.2 million or 36.2% vs. the same period of the previous financial year. Interest expenses under loans taken have risen by BAM 1.2 million or 37.4%.

Over the observed period, total operating expenses of the leasing sector stood at BAM 26 million, up by BAM 0.7 million or 2.8% compared to the same period of the year before, whereas their structure reflects reduced costs of salaries and contributions by 9.6% (this is tied to reduced headcount in the leasing sector), increased costs of business premises by 0.6%, while other costs posted a rise by 13.7%. Total costs of loss reserves saw a major increase by BAM 2.1 million due to an increase of such reserves posted by one leasing company in an amount of BAM 1.8 million.

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

The value of newly concluded contracts for financial and operational leasing executed at the level of the leasing system in January 1 – December 31, 2019, amounts to BAM 197 million and

is higher by BAM 4.3 million, i.e. 2.2%, compared to the same period of the preceding financial year. Thereof, BAM 173.6 million or 88% of the total value of newly concluded contracts at the leasing system level refers to the leasing sector (consisting of five leasing companies). The number of newly concluded leasing contracts at the leasing system level in the same period was 5,174, which was by 806 contracts or 18.5% higher compared to the same period last year. Thereof, 4,786 contracts or 92.5% of the total number of newly concluded contracts at the leasing system level refers to the leasing sector. The average value of contracts at the level of the leasing system concluded in 2019 amounted to BAM 38.1 ths and it is lower compared to the same period last year, when it amounted to BAM 44.1 ths.

Out of the total generated value of newly concluded contracts in 2019, the amount of BAM 165.1 million, i.e. 83.8% relate to financial leasing contracts and BAM 31.9 million or 16.2% to operational leasing contracts. Compared to the same period of the preceding financial year and preceding periods, there is an evident continuation of the trend of increase in the share of operational leasing contracts in the total volume of newly concluded contracts.

The following tables show a comparative overview of the realized volume of newly concluded contracts in the period from 01.01.2019 to 31.12.2019 and in the same period of the preceding financial year, as well as the comparative overview of the number of concluded contracts in the same period.

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Table 52: Structure of financing amount of the leasing system

No.	Description	31.12.2018			31.12.2019		
		Financial leasing	Operational leasing	Total	Financial leasing	Operational leasing	Total
1	2	3	4	5=3+4	6	7	8=6+7
1.	Vehicles	142,395	23,086	165,481	133,277	31,939	165,216
2.	Equipment	27,077	0	27,077	31,152	0	31,152
3.	Real estate	188	0	188	664	0	664
4.	Other	0	0	0	0	0	0
	Total	169,660	23,086	192,746	165,093	31,939	197,032

Table 53: Structure of concluded contracts

No.	Description	31.12.2018			31.12.2019		
		Financial leasing	Operational leasing	Total	Financial leasing	Operational leasing	Total
1	2	3	4	5=3+4	6	7	8=6+7
1.	Vehicles	3,473	686	4,159	4,028	815	4,843
2.	Equipment	208	0	208	330	0	330
3.	Real estate	1	0	1	1	0	1
4.	Other	0	0	0	0	0	0
	Total	3,682	686	4,368	4,359	815	5,174

The total amount of new financing in 2019 was achieved by four leasing companies and one bank, which performs a significant volume of financial leasing activities (the legal successor of a leasing company that merged with that bank), while one leasing company has suspended concluding new contracts.

The structure of new placements is, according to type of lessee, dominated by placements to legal persons, which represent 90.3% of the total amount of financing in 2019. One of key reasons for this rests with the fact that financing through leasing for natural persons is less favorable compared to loans because of liability to pay VAT on interest, which is an additional cost for clients that are not VAT taxpayers.

Weighted NIR and EIR

Total average NIR for financial leasing contracts concluded in 2019 was 6.12.% for short term contracts and 5.52% for long term contracts, while EIR for short term contracts was 12.36% and 8.86% for long term contracts during the same period. Total weighted NIR in 2019 was 5.52% and for EIR was it was 8.88% in the said period. Compared to the same period in 2018 when total weighted NIR was 4.31% and EIR 6.80%, there is an evident increase of NIR by 1.21 percentage points and EIR by 2.08 percentage points, due to major increase of financing to PI lessees of one leasing company which is oriented to this market segment and which approves financing at greater interest rate vs. the sector's average and the system in general.

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

Annex 17 provides an overview of average weighted NIR and EIR on financial leasing contracts concluded in 2019 (by maturity, leasing object and lessee).

Annex 17a provides a comparative overview of average weighted NIR and EIR for financial leasing contracts concluded over the past five years (by maturity and lessee). Major difference between NIR and EIR is a result of VAT on interest being a mandatory part of the financial leasing contract and being paid by a lessee in advance, as well as creation of a financial leasing contract with surrender value plus additional costs of leasing arrangement being included in the EIR calculation.

4.2.3. LEASING SECTOR RECOMMENDATIONS

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

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

Within its competence for supervision of business operations of leasing companies, the FBA expects of leasing entities in the FB&H to enhance activities and measures with the primary objective of lawful, stable, efficient and transparent provision of lease financing services, and which are focused on:

- compliance of business operations with the prescribed regulatory requirements;
- promoting safe, stable and sustainable leasing business;

- capital strengthening and defining the parameters of capital protection and capital adequacy, strengthening the internal control system and internal audit function;
- improving the risk management system arising from the leasing business and the environment, identifying risks in a timely manner and taking measures to control and mitigate those risks;
- ensuring reliability and integrity of data and information provided to the FBA, the CBB&H and other supervisory institutions and bodies, ensuring accuracy, validity and comprehensiveness of accounting and non-accounting records, compliance with business policies, activity programs and plans, laws and other regulations and documents, as well as protection of property of companies and preventive action and prevention of fraud and errors;
- transparent, comprehensible and complete notification of clients about financial and operational leasing services they provide, etc.

4.3. FACTORING BUSINESS

4.3.1. Participants in the FB&H Factoring Market

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

As of 31.12.2019, factoring deals were performed by four commercial banks, of which three banks are members of international banking groups seated in EU-member countries and one bank in majority domestic ownership. During 4th quarter of 2019, FBA revoked a factoring license from the only registered factoring company.

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

During 2019, entities providing factoring services in the FB&H have concluded 351 factoring contracts, thereof 344 contracts or 98% referring to factoring with a right of recourse and 7 contracts or 2% referring to factoring contracts without the recourse right. Compared to reporting data for the same period last year, the number of factoring contracts has risen by 61 contracts or 21%.

In the period from 01.01.2019 to 31.12.2019, the total redeemed monetary claims and settled payables of buyers towards suppliers was BAM 178.1 million, of which BAM 177.4 million or 99.6% refers to banks and BAM 0.7 million or 0.4% to one factoring company that had its license revoked in late 2019. Compared to the same period of the previous year, this represents an increase by BAM 46.3 million or 35.1%. The values of redeemed monetary claims and settled payables of buyers to towards suppliers in the FB&H (with comparative data and trends in reporting periods) are shown in the following table:

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

No.	Type of factoring/ domicile status	Volume of redeemed monetary claims and settled payables of buyers towards suppliers						Index
		Factoring companies		Banks		Total		
		01.01. - 31.12.2018	01.01. - 31.12.2019	01.01. - 31.12.2018	01.01. - 31.12.2019	01.01. - 31.12.2018	01.01. - 31.12.2019	

		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	15=13/11
1.	Factoring with right to recourse	672	100	0	0	55,849	42.6	81,503	45.9	56,521	42.9	81,503	45.7	144
2.	Factoring without right to recourse	0	0	659	100	74,641	56.9	93,688	52.8	74,641	56.6	94,347	53.0	126
3.	Reversed (supplier) factoring	0	0	0	0	666	0.5	2,277	1.3	666	0.5	2,277	1.3	342
Total		672	100	659	100	131,156	100	177,468	100	131,828	100	178,127	100	135
4.	Domestic factoring	672	100	659	100	131,156	100	177,468	100	131,828	100	178,127	100	135
5.	Foreign factoring	0	0	0	0	0	0	0	0	0	0	0	0	0
Total		672	100	659	100	131,156	100	177,468	100	131,828	100	178,127	100	135

Total value of redeemed monetary claims and settled payables of buyers towards suppliers refers entirely to domestic factoring. According to factoring types, BAM 94.3 million or 53% refers to the factoring without recourse right, BAM 81.5 million or 45.7% to the factoring with recourse right and BAM 2.3 million or 1.3% to reverse (supplier) factoring.

According to contractual maturity, the highest share in the total volume (amount) of redeemed monetary claims and settled payables to suppliers in 2019 of BAM 114.3 million or 64.2% corresponds to redeemed monetary claims with contractual maturity of 60 days, followed by the share of BAM 41.8 million or 23.5% with contractual maturity of up to 91-180 days. Looking into the sector structure of buyers in 2019, a total of BAM 93.6 million of monetary claims was redeemed from public companies, thus constituting 52.5% of total turnover of the factoring business, while BAM 78.5 million or 44.1% was redeemed from private companies and enterprises, while BAM 3.7 million or 2.1% of monetary claims was redeemed from government institutions. By the sector structure of suppliers regarding the reverse (supplier) factoring service being provided by one bank during 2019, the entire amount of BAM 2.3 million referred to private companies and enterprises, thus constituting 1.3% of the total value of effected factoring deals in the FB&H. According to domicile status, the said amount of settled payables of buyers to suppliers referred fully to domestic factoring with contractual maturity of up to 60 days.

In 2019, total advances paid to suppliers equaled BAM 171.5 million; thereof BAM 94.3 million or 55% refers to factoring without recourse right and BAM 77.2 million or 45% to factoring with recourse right. In the segment of private enterprises and companies (sellers of claims), the suppliers received an amount of BAM 113.5 million or 66.2% of total paid advances.

On the basis of redeemed monetary claims as of 31.12.2019, banks claimed the total of BAM 26.3 million, fully in domestic factoring, of which BAM 16.2 million or 61.6% relates to factoring with right to recourse, while BAM 10.1 million or 38.4% relate to factoring without right to recourse. There were no claims regarding reverse (supplier) recourse. The structure of the mentioned amount of redeemed claims by contractual maturities is the following: with contractual maturity of up to 60 days – 36.1%, of 61 to 90 days – 9.2%, of 91 to 180 days – 52.8%, and over 180 days – 1.9%.

Total income of the factoring service providers in the FB&H for January 1 – December 31, 2019 amounted to BAM 2.2 million (01.01.2019 to 31.12.2019), up by BAM 0.5 million or 29.9% compared to the same period the year before. In the structure of the reported total income (01.01.2019 to 31.12.2019), 53.8% relate to factoring without right to recourse, 45.4% relates to factoring with right to recourse and 0.8% relate to reversed (supplier) factoring.

According to reporting data as of 31.12.2019, the biggest interest rate on paid advances in the FB&H factoring market (i.e. the rate effective as of the last day of the reporting period of the 4th quarter of 2019) was 6.00%, while discount interest rate was 5% and both rates have been calculated in relation to domestic factoring. The highest interest rate on settled payables to suppliers in the last quarter of 2019 was 2.3%. Banks performing factoring deals have been calculating factoring charges, while only one bank also collected administrative fee for factoring services.

4.3.3. RECOMMENDATIONS FOR THE FACTORING BUSINESS

Factoring business in 2019 was conducted exclusively through the function of financing. There was neither any recorded provision of services of securing collection and receivables management service, nor performance of activities related to factoring, which confirms that this activity is still beginning to develop in the FB&H market within the legislative and institutional frameworks defined under the LoF and the FBA regulations governing factoring operations in more detail. Considering that the need for short term financing and management of cash receivables, as well as securing receivables, are all becoming increasingly significant in the real sector, it can be expected in the coming period that factoring, as one of the reliable tools for solving liquidity problems in the FB&H, will certainly be in use as an effective instrument for accelerating cash flows in much larger volume than insofar.

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

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

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

5.1. Banks' Compliance in the Payments Segment

In line with the FBA's internal organisation, examination of the payments segment has been organised via on-site and off-site supervision of compliance in the segment of domestic payments (DP) in banks and exchange offices, as well as in the segment of foreign exchange payments (FXP) in banks.

The total value of payments in banks seated in the FB&H in 2019, based on DP and FXP transactions, is BAM 240.1 billion (transactions performed in all currencies, BAM equivalent). The volume of DP and FXP is shown in the table below:

- BAM 000 -

Table 55 Volume of DP and FXP

Effected payment transactions	No. of transactions		Total value of transactions	
	Number	% share	Amount	% share
DP	2,662,106	3.2	40,067,154	16.7
FXP	80,313,234	96.8	200,017,109	83.3
Total	82,975,340	100	240,084,263	100

An analysis of banks' reports on effected FXP transactions (collection/inflows and payments/outflows to and from abroad) in the period from 01.01.2019 to 31.12.2019 has shown that the FB&H banks registered the following FXP volume by currencies (EUR, USD, other currencies):

- BAM 000 -

Table 56: Volume of FXP

FXP transactions				Currency
Inflow		Outflow		
Number	Value	Number	Value	
1,597,909	15,606,106	707,033	17,765,715	EUR
56,944	1,115,981	32,897	2,027,676	USD
160,652	953,377	106,671	2,598,298	Other currencies
1,815,505	17,675,464	846,601	22,391,689	

Within the structure of FXP transactions, the share of inflows from abroad in the total number of FXP transactions is 68.2%, while outflows to abroad hold a share of 31.8%. Observing the value of FXP transactions, the share of inflows from abroad is 44.1%, while outflows to abroad take on a share of 55.9%. Out of total value of effected FXP transactions, 83.3% was effected in EUR.

Based on analysis of relevant reports that banks seated in the FB&H deliver to the FBA regarding effected FXP transactions in the period from 01.01.2019 to 31.12.2019, we have determined that FB&H banks registered the following FXP volume by transaction types:

- BAM 000 -

Table 57: Volume of DP

Transaction type	Transactions			
	No. of transactions		Value of transactions	
	Number	% share	Amount	% share
Cash	11,056,279	13.8	24,664,522	12.3

Non-cash ²⁸	69,256,955	86.2	175,352,587	87.7
Total	80,313,234	100	200,017,109	100

An analysis of data as of 31.12.2019 in the Registry of Foreign Exchange Deals of Banks has shown that 68 authorised exchange offices with 403 locations hold foreign exchange contracts with banks seated in the FB&H.

The following table provides information on the volume of foreign exchange deals of banks in the FB&H in the period from 01.01.2019 to 31.12.2019 by currencies (EUR, USD, other currencies):

- BAM 000-

Table 58: Foreign exchange deals in banks

Transactions – value in BAM				Currency
Buy		Sell		
Number	Value	Number	Value	
1,529,302	896,585	185,342	195,189	EUR
136,675	72,895	8,531	7,762	USD
347,416	176,275	90,135	23,473	Other currencies
2,013,393	1,145,755	284,008	226,424	

Out of the total number of exchange office transactions, buy transactions hold a share of 87.6% and sell transactions a share of 12.4%, while 83.% of buy transactions is included in the total value of exchange office deals and 16.5% refers to sell transactions. Out of the total value of effected exchange office transactions in banks seated in the FB&H, 79.6% of buy and sell transactions was effected in EUR.

The table below provides information on the volume of deals effected by authorised exchange offices in the period from 01.01.2019 to 31.12.2019 by currencies (EUR, USD, other currencies):

- BAM 000 -

Table 59: Deals effected by authorised exchange offices

Transactions				Currency
Buy		Sell		
Number	Value	Number	Value	
1,967,299	783,456	115,850	34,657	EUR
93,841	23,751	2,206	1,044	USD
259,534	61,624	35,907	6,175	Other currencies
2,320,674	868,831	153,963	41,876	

Out of the total number of transactions effected with authorised exchange offices, buy transactions hold a share of 93.8%, while sell transactions have a share of 6.2%, while buy transactions represent 95.4% of the total value of deals effected in the authorised exchange offices and sell transactions have 4.6% share. Out of the total value of effected transactions by authorised exchange offices, 89.8% refers to buy and sell deals in EUR.

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

5.2. BSEs Compliance with AML&CTF Standards

5.2.1. Banks' Compliance with AML/CTF Standards

According to the Report on Cash Transactions of BAM 30 ths or above and on connected and suspicious transactions (SPNiFTA Form, Tables A to F), in 2019, banks have reported to FID a total of 302,407 transactions (4.3% more than the year before) in total value of BAM 14.8 billion (3.1% more than in the previous year).

In the same reporting period, banks have reported on a total of 191 suspicious transactions (198.4% more than the year before) in total value of BAM 64 million (283% more than in the previous year). The following tables show the number and value of total reported transactions and reported suspicious transactions.

- BAM 000 -

Table 60: Reported transactions by number and value - banks						
Description	01.01. - 31.12.2018		01.01. - 31.12.2019		Index	
	Number	Value	Number	Value		
1	2	3	4	5	6 (4/2)	7 (5/3)
Transactions reported before their realisation	8	5,724	13	4,155	163	73
Transactions reported within 3 days	289,790	14,388,885	302,289	14,830,253	104	103
Transactions reported after 3-day period	229	10,446	105	13,444	46	129
Total	290,027	14,405,055	302,407	14,847,852	104	103

- BAM 000 -

Table 61: Reported suspicious transactions by number and value - banks						
Description	01.01. - 31.12.2018		01.01. - 31.12.2019		Index	
	Number	Value	Number	Value		
1	2	3	4	5	6 (4/2)	7 (5/3)
Transactions reported before their realisation	8	5,724	13	4,155	163	73
Transactions reported within 3 days	50	10,667	99	50,180	198	470
Transactions reported after 3-day period	6	315	79	9,646	1,317	3,062
Total	64	16,706	191	63,981	298	383

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

According to the Report on Cash Transactions of BAM 30 ths or above and on connected and suspicious transactions (SPNiFTA Form, Tables A and B), in 2019, MCOs have reported to FID a total of 954 transactions (136.7% more than the year before) in total value of BAM 1.1 million (71.2% more than in the previous year). FID has asked for additional information regarding one transaction.

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

- BAM 000 -

Table 62: Reported suspicious transactions by number and value - MCOs						
Description	01.01. - 31.12.2018		01.01. - 31.12.2019		Index	
	Number	Value	Number	Value		
1	2	3	4	5	6 (4/2)	7 (5/3)
Transactions for which FID asked for information	0	0	1	29	0	0
Transactions for which FID did not ask for information	403	662	953	1,105	236	167
Total	403	662	954	1,134	237	171

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

According to the Report on Cash Transactions of BAM 30 ths or above and on connected and suspicious transactions (SPNiFTA Form, Tables A and B), in 2019, leasing companies have reported to the Agency 4 suspicious transactions (20% less than the year before) in total value of BAM 4 ths (87.5% less than in the previous year). FID did not ask for additional information regarding reported transactions.

The following table shows an overview of reported suspicious transactions by number and value:
- BAM 000-

Table 63: Reported suspicious transactions by number and value – leasing companies

Description	01.01. - 31.12.2018		01.01. - 31.12.2019		Index	
	Number	Value	Number	Value	6 (4/2)	7 (5/3)
1	2	3	4	5		
Transactions for which FID asked for information	0	0	0	0	0	0
Transactions for which FID did not ask for information	5	35	4	4	80	11
Total	5	35	4	4	80	11

CONCLUSION

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

During 2019, positive developments in the banking sector have continued, reflecting in the increase of assets, loans, cash and deposits, as well as improvements in profitability of the entire banking sector compared to the same period in 2018. Also present is continued increase in lending to private companies, public enterprises, households, banking and non-banking financial institutions, while lending has decreased to government institutions and other sectors. The share of NPLs, as a key indicator of the quality of loans, still retains a downward trend. The increase in total deposits and savings deposits has continued, and they are the most significant and largest segment of deposit and financial potential of banks. Profitability indicators are most significantly influenced by asset quality indicators and efficiency in managing operating income and expenses. Based on the reported key business indicators of the FB&H banking sector as of 31.12.2019, it could be inferred that it is stable, adequately capitalized, liquid and profitable. Crucially important is the quality of the overall management system in banks, adequate and efficient functioning of the risk management system, adequate capital coverage of risk in business operations through meeting the prescribed requirements for calculating regulatory capital, as well as the requirements within ICAAP and ILAAP, and recovery plans. Banks are expected to exercise cautious planning and management of risks they are exposed to or could be exposed to in business operations. Related to existing and anticipated changes in the financial market, special attention should be paid to risks associated with the level and trends of interest rates and the effects of possible changes in the future, business model risks, regulatory compliance risks, as well as to identification of emerging risks, all with the aim of preventive action.

Analyzing the MCO reporting data in the FB&H as of 31.12.2019 and the comparative trends of business indicators, it can be concluded that the FB&H microcredit sector business operations are characterized by increase in total assets, microloan portfolio, number of employees, and total capital. Business operations have continued with a positive financial performance, while maintaining the prescribed limitations in business operations.

As of 31.12.2019, at the level of the leasing system in the FB&H, an increase was reported in the volume of business compared to 31.12.2018, according to the number and value of newly concluded contracts and the increase in portfolio of net financial leasing receivables. Asset quality, capitalisation and profitability indicators show a need for improvement of the risk management system in order to ensure stable and sustainable business operations of the FB&H leasing sector.

Factoring business as possible instrument of short term financing and cash flow management was performed in 2019 solely via its financing function, whereas no collection service and receivables management service was posted or any deals related to factoring. This area is still beginning to develop in the FB&H.

LEGAL FRAMEWORK

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

I. REGULATIONS REGARDING FBA ORGANISATION

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

II. REGULATIONS RELATED TO FBA COMPETENCIES

Laws

1. Law on Banks (FB&H Official Gazette No. 27/17),
2. Law on Microcredit Organisations (FB&H Official Gazette No. 59/06),
3. Law on Associations and Foundations (F&H Official Gazette No. 45/02),
4. Law on Leasing (FB&H Official Gazette Nos. 85/08, 39/09, 65/13 and 104/16),
5. Law on the Development Bank of the Federation of B&H (FB&H Official Gazette No. 37/08),
6. Law on Deposit Insurance in B&H (B&H Official Gazette Nos. 20/02, 18/05, 100/08, 75/09 and 58/13),
7. Law on Foreign Exchange Operations (FB&H Official Gazette No. 47/10),
8. Law on Anti-Money Laundering and Counter-Terrorism Financing (B&H Official Gazette Nos. 47/14 and 46/16),
9. Law on Protection of Guarantors in the FB&H (FB&H Official Gazette No. 100/13),
10. Law on Protection of Financial Service Users (FB&H Official Gazette No. 31/14),
11. Law on Domestic Payments (FB&H Official Gazette Nos. 48/15 and 79/15-corr.),
12. Law on Factoring in the Federation of B&H (FB&H Official Gazette No. 14/16).

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

1. Decision on Capital Calculation in Banks (FB&H Official Gazette Nos. 81/17 and 50/19),
2. Decision on Large Exposures in Banks (FB&H Official Gazette No. 81/17),
3. Decision on Interest Rate Risk Management in the Banking Book (FB&H Official Gazette Nos. 18/17),
4. Decision on Risk Management in Banks (FB&H Official Gazette No. 81/17),
5. Decision on Liquidity Risk Management in Banks (FB&H Official Gazette No. 81/17),
6. Decision on Disclosure of Information and Data of the Bank (FB&H Official Gazette No. 81/17),
7. Decision on Control Functions in Banks (FB&H Official Gazette No. 81/17),

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

34. Decision on Reports Banks Deliver to the Banking Agency of the Federation of Bosnia and Herzegovina (FB&H Official Gazette Nos. 103/17, 31/18, 103/18 and 44/19),
35. Decision on Fee Tariff for Banks (FB&H Official Gazette Nos. 46/18 and 69/19),
36. Decision on Criteria for Inclusion of Loan Loss Reserves into Common Equity Tier 1 (FB&H Official Gazette No. 91/18),
37. Decision on Internal Capital Adequacy Assessment Process and the Internal Liquidity Adequacy Process in Banks (FB&H Official Gazette No. 16/19),
38. Decision on Credit Risk Management and Determination of Expected Credit Losses (FB&H Official Gazette No. 44/19),
39. Decision on Minimum Standards for Documenting Lending Activities of Banks (FB&H Official Gazette Nos. 3/03 and 23/14),
40. Internal Bank Rating Criteria by the Banking Agency of the Federation of Bosnia and Herzegovina (FB&H Official Gazette Nos. 3/03 and 6/03-corr.),
41. Decision on Minimum Standards for Banks' Activities on Anti-Money Laundering and Counter-Terrorism Financing (FB&H Official Gazette No. 48/12),
42. Decision on Minimum Standards for Currency Exchange Operations (FB&H Official Gazette Nos. 95/13, 99/13 and 103/18),
43. Decision on Examination of Currency Exchange Operations (FB&H Official Gazette No. 95/13),
44. Decision on Examination of Foreign Currency Operations in Banks – Payment Transactions (FB&H Official Gazette No. 95/13),
45. Decision on Conditions for Assessing and Documenting a Credit Standing (FB&H Official Gazette No. 23/14),
46. Instruction for Completing Bank Report on Regulatory Capital, Credit, Operational and Market Risk and Financial Leverage Ratio (No. 01-4914/17 of 22.12.2017),
47. Instruction for Completing Reporting Forms for Large Exposures (No. 01-4915/17 of 22.12.2017),
48. Instruction for Completing Reporting Forms for Interest Risk in the Banking Book (No. 01-4916/17 of 22.12.2017),
49. Guidelines on reporting on ICAAP and ILAAP application to the Banking Agency of the Federation of Bosnia and Herzegovina and Appendices 1 and 2 (No. 01-1338/19 of 16.04.2019),
50. Instruction on Implementation of Provisions of Decision on Liquidity Risk Management of a Bank related to the LCR Component (No. 01-4918/17 of 22.12.2017),
51. Guidelines to Assess Recovery Plans (No. 01-4919/17 of 22.12.2017),
52. Instruction for Reporting on Outsourcing Management (No. 01-4920/17 of 22.12.2017),
53. Instruction for Calculation of Weighted Nominal and Effective Interest Rate (No. 01-4921/17 of 22.12.2017),
54. Instruction to Apply and Create Creditor's Report in accordance with the Decision on Conditions and Manner of Handling Client Complaints in Banks, Microcredit Organisations and Leasing Companies (No. 01-4922/17 of 22.12.2017),
55. Instruction for reporting on information system management (No. 01-4923/17 of 22.12.2017),
56. Instruction to Apply the Decision on Foreign Currency Risk Management in Banks (No. 01-4924/17 of 22.12.2017),
57. Instructions for Completing Reporting Forms on Liquidity Coverage (No. 01-75/18 of 15.01.2018),
58. Guidelines for External Auditors of Information Systems (No. 01-262/18 of 30.01.2018),
59. Instructions for Completing Reports on Volume of Currency Exchange Deals, Domestic and Foreign Exchange Payments (No. 01-5343/18 of 28.12.2018),

60. Instructions for Classification and Valuation of Financial Assets (No. 01-2583/19 of 05.07.2019),
61. Instructions for Method of Reporting to Provisional Administrator about Bank Operations under Provisional Administration (dd 19.07.2013),
62. Instructions for Form and Method of Additional Reporting by Banks under Provisional Administration (dd 19.07.2013),
63. Instructions for Method of Reporting to Liquidation Administrator about Implementation of Liquidation in Bank (dd 19.07.2013),
64. Instructions for Preparation of the Banks' Balance Sheet (No. 01-574/00 of 12.07.2000 and No. 01-2-1669/07 of 10.10.2007),
65. Instructions for Preparation of the Banks' Income Statement (No. 01-575/00 of 12.07.2000)

FBA decisions and instructions related to bank resolutions

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

FBA decisions and instructions related to operations and supervision of MCOs

1. Decision on Conditions and Procedure for Issuing and Revoking an Operating License and Other Approvals to Microcredit Organisations (FB&H Official Gazette No. 103/18),
2. Decision on Requirements and the Procedure for Issuing the Operating Permit to a Microcredit Foundation Formed upon the Microcredit Organisation's Change of Form (FB&H Official Gazette Nos. 27/07 and 31/18),
3. Decision on Conditions and Other Operational Standards and Limitations in Microcredit Organisations (FB&H Official Gazette No. 103/18),
4. Decision on Supervision of Microcredit Organisations and Procedures of the Banking Agency of the Federation of Bosnia and Herzegovina (FB&H Official Gazette No. 103/18),
5. Decision on Uniform Manner of Calculating and Reporting of Effective Interest Rate on Loans and Deposits (FB&H Official Gazette No. 81/17),

6. Decision on Reports Microcredit Organisations Deliver to the Banking Agency of the Federation of B&H and Reporting Deadlines (FB&H Official Gazette No. 87/19),
7. Decision on Percentage and Manner for Forming and Maintaining Reserves for the Coverage of Loan Losses of Microcredit Organisations (FB&H Official Gazette No. 27/07),
8. Decision on Minimum Standards of for Microcredit Organisations' Activities in Prevention of Money Laundering and Terrorism Financing (FB&H Official Gazette No. 48/12),
9. Decision on Minimum Standards for Documenting Lending Activities of Microcredit Organisations and Assessment of Credit Standing (FB&H Official Gazette No. 23/14),
10. Decision on Fee Tariff of Microcredit Organisations (FB&H Official Gazette Nos. 46/18 and 69/19),
11. Instructions for Calculation of Weighted Nominal Interest Rate and Effective Interest Rate (No. 01-4921/17 of 22.12.2017),
12. Decision on the Conditions and Manner of Handling Client's Complaint by Bank, Microcredit Organisation and Leasing Company (FB&H Official Gazette No. 81/17),
13. Instructions for Calculation of Adjusted Return on Assets (No. 01-646/19 of 04.03.2019),
14. Instructions for Contents and Manner of Keeping the Register of Related Entities in Microcredit Organisations (No. 01-647/19 of 04.03.2019)
15. Instructions for Preparation of Reports of Microcredit Organisations (No. 01-56/20 of 15.01.2020).

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

1. Decision on the Conditions and Manner of Handling Client's Complaint by Bank, Microcredit Organisation and Leasing Company (FB&H Official Gazette No. 81/17),
2. Decision on Outsourcing of Business Processes of Leasing Companies (FB&H Official Gazette No. 58/17),
3. Decision on Form and Content of the Reports that the Leasing Companies Deliver to the Banking Agency of the Federation of B&H and Reporting Deadlines (FB&H Official Gazette Nos. 46/09, 48/12 and 110/12),
4. Decision on Conditions and Procedure for Issuing and Revoking the License to Perform Leasing Operations (FB&H Official Gazette Nos. 46/09, 58/17 and 31/18),
5. Decision on Conditions and Procedure for Issuing and Revoking an Approval to a Leasing Company (FB&H Official Gazette Nos. 46/09, 46/11 and 58/17),
6. Decision on Uniform Manner for Posting Effective Interest Rate on Financial Leasing Contracts (FB&H Official Gazette No. 46/18),
7. Decision on Fee Tariff of Leasing Companies (FB&H Official Gazette Nos. 46/18 and 69/19),
8. Decision on Uniform Manner and Method for Calculating and Reporting the Leasing Fee for Operational Leasing Arrangements (FB&H Official Gazette Nos. 46/09 and 48/12),
9. Decision on Minimum Amount and Manner for Allocating, Managing and Maintaining the Reserves for Loan Losses and Risk Management of Leasing Companies (FB&H Official Gazette No. 46/09),
10. Decision on Supervision of Leasing Companies (FB&H Official Gazette Nos. 46/09, 58/17 and 31/18),
11. Decision on Minimum Standards for Leasing Companies' Activities in Prevention of Money Laundering and Terrorism Financing (FB&H Official Gazette No. 48/12),
12. Decision on Minimum Standards for Documenting Financing Under Leasing Agreements and Assessment of Credit Standing (FB&H Official Gazette No. 46/14),

13. Instructions for Implementation of the Decision on Uniform Manner and Method for Calculating and Posting Effective Interest Rate on Financial Leasing (No. 01-2445/10 of 11.06.2010), and
14. Instructions for Preparation of Reports of Leasing Companies (No. 08-340/13 of 31.01.2013).

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

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

Decisions regarding activities of the Banking System Ombudsmen

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

Other regulations:

FB&H Development Bank

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

Foreign Exchange Operations

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

AML&CTF

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

III. OTHER LAWS IN THE FB&H OF RELEVANCE FOR OPERATIONS AND SUPERVISION OF BSEe

1. Law on Obligations (RB&H Official Gazette Nos. 2/92, 13/93 and 13/94, FB&H Official Gazette Nos. 29/03 and 42/11),
2. Law on Payment Transactions (FB&H Official Gazette Nos. 32/00 and 28/03),
3. Law on Cheques (FB&H Official Gazette No. 32/00),
4. Law on Promissory Notes (FB&H Official Gazette Nos. 32/00 and 28/03),
5. Law on Default Interest Rate Level (FB&H Official Gazette Nos. 27/98, 51/01 and 101/16),
6. Law on Default Interest Rate Level for Unsettled Debts (FB&H Official Gazette Nos. 56/04, 68/04, 29/05, 48/11 and 28/13),
7. Law on Default Interest Rate Level on Public Revenues (FB&H Official Gazette Nos. 48/01, 52/01, 42/06, 28/13, 66/14, 86/15, 34/18 and 99/19),

8. Law on Companies (FB&H Official Gazette No. 81/15)
9. Law on Financial Consolidation of Companies in the FB&H (FB&H Official Gazette Nos. 52/14, 36/18 and 54/19),
10. Law on Takeover of Joint Stock Companies (FB&H Official Gazette No. 77/15),
11. Law on Registration of Commercial Entities in the FB&H (FB&H Official Gazette Nos. 27/05, 68/05, 43/09 and 63/14),
12. Law on Public Companies (FB&H Official Gazette Nos. 8/05, 81/08, 22/09 and 109/12),
13. Law on Liquidation Proceedings (FB&H Official Gazette No. 29/03),
14. Law on Bankruptcy Proceedings (FB&H Official Gazette Nos. 29/03, 32/04, 42/06 and 52/18),
15. Law on Debt, Borrowing and Guarantees of the Federation of Bosnia and Herzegovina (FB&H Official Gazette Nos. 86/07, 24/09 and 44/10),
16. Law on Accounting and Audit in the FB&H (FB&H Official Gazette No. 83/09),
17. Law on Classification of Activities in the Federation of Bosnia and Herzegovina (FB&H Official Gazette Nos. 64/07 and 80/11),
18. Law on Classification of Occupations in the FB&H (FB&H Official Gazette No. 111/12),
19. Law on Securities Market (FB&H Official Gazette Nos. 85/08, 109/12, 86/15 and 25/17),
20. Law on Securities Register (FB&H Official Gazette Nos. 39/98, 36/99 and 33/04),
21. Law on Securities Commission (FB&H Official Gazette Nos. 39/98, 36/99, 33/04 and 6/17),
22. FB&H Labour Law (FB&H Official Gazette Nos. 26/16 and 89/18),
23. Law on Council of Employees (FB&H Official Gazette No. 38/04),
24. Law on Employing Foreigners (FB&H Official Gazette No. 111/12),
25. Law on Investment Funds (FB&H Official Gazette Nos. 85/08 and 25/17),
26. Law on Mediation in Private Insurance (FB&H Official Gazette Nos. 22/05, 8/10 and 30/16),
27. Law on Tax Authorities of the Federation of B&H (FB&H Official Gazette Nos. 33/02, 28/04, 57/09, 40/10, 29/11 i 27/12, 7/13, 71/14 and 91/15),
28. Law on Profit Tax (FB&H Official Gazette No. 15/16),
29. Law on Personal Income Tax (FB&H Official Gazette Nos. 10/08, 9/10, 44/11, 7/13 and 65/13),
30. Law on Contributions (FB&H Official Gazette Nos. 35/98, 54/00, 16/01, 37/01, 1/02, 17/06, 14/08, 91/15, 106/16, 34/18 and 99/19),
31. Law on Collection and Partial Write-Off of Past Due Social Insurance Contributions (FB&H Official Gazette Nos. 25/06 and 57/09),
32. Law on Single System of Registration of Control and Collection of Contributions (FB&H Official Gazette Nos. 42/09, 109/12 and 30/16),
33. Law on Opening Balance Sheet of Companies and Banks (FB&H Official Gazette Nos. 12/98, 40/99, 47/06, 38/08 and 65/09),
34. Law on Audit of Privatisation of State-owned Capital in Companies and Banks (FB&H Official Gazette No. 55/12),
35. Law on Identifying and Realising Claims of Citizens in the Privatisation Process (FB&H Official Gazette Nos. 27/97, 8/99, 45/00, 54/00, 7/01, 32/01, 27/02, 57/03, 44/04, 79/07, 65/09, 48/11, 111/12, 86/15 and 13/18),
36. Law on Identification and Manner of Settlement of Domestic Debt of the FB&H (FB&H Official Gazette Nos. 66/04, 49/05, 5/06, 35/06, 31/08, 32/09, 65/09 i 42/11 and 35/14),
37. Law on Settlement of Liabilities Based on Pre-War FC Savings in the FB&H (FB&H Official Gazette Nos. 62/09 i 42/11, 91/13 and 101/16),
38. Law on Associations and Foundations (FB&H Official Gazette No. 45/02),
39. Law on Crafts and Similar Services (FB&H Official Gazette Nos. 35/09 and 42/11),
40. Law on Expropriation (FB&H Official Gazette Nos. 70/07, 36/10, 25/12 and 34/16),

41. Law Rendering Ineffective the Law on Construction (FB&H Official Gazette Nos. 55/02 and 34/07),
42. Law on Construction Land in the FB&H (FB&H Official Gazette No. 67/05),
43. Law on Temporary Restriction over Disposing with State Property in the FB&H (FB&H Official Gazette Nos. 20/05, 17/06, 62/06, 40/07, 70/07, 94/07 and 41/08),
44. Law on Free Access to Information in the FB&H (FB&H Official Gazette Nos. 32/01 and 48/11),
45. Regulatory Offence Law of the FB&H (FB&H Official Gazette No. 63/14),
46. Law on Public Notaries (FB&H Official Gazette No. 45/02),
47. Law on Court Appraisers (FB&H Official Gazette Nos. 49/05 and 38/08),
48. Law on Agencies and Internal Departments for Personal and Property Protection (FB&H Official Gazette Nos. 78/08 and 67/13),
49. Law on Land Books in the FB&H (FB&H Official Gazette Nos. 58/02, 19/03 and 54/04),
50. Law on Foreign Investments (FB&H Official Gazette Nos. 61/01, 50/03 and 77/15)
51. Law on Mediation Procedure (FB&H Official Gazette No. 49/07),
52. Law on Treasury of the FB&H (FB&H Official Gazette No. 26/16),
53. Law on the FB&H Government (FB&H Official Gazette Nos. 1/94, 8/95, 58/02, 19/03, 2/06 and 8/06),
54. Law on FB&H Prosecutor's Office (FB&H Official Gazette Nos. 42/02 and 19/03),
55. Law on FB&H Courts (FB&H Official Gazette Nos. 38/05, 22/06, 63/10,72/10-corr., 7/13 and 52/14),
56. Law on Enforcement Proceedings (FB&H Official Gazette Nos. 32/03, 52/03, 33/06, 39/06 - corr., 39/09, 74/11, 35/12 and 46/16),
57. Law on Temporary Postponement of Fulfillment of Receivables Based on Executive Decisions Issued in Relation to the FB&H Budget (FB&H Official Gazette Nos. 9/04 and 30/04),
58. Law on Administrative Procedure (FB&H Official Gazette Nos. 2/98 and 48/99),
59. Law on Administrative Disputes (FB&H Official Gazette No. 9/05),
60. Civil Procedure Code (FB&H Official Gazette Nos. 53/03, 73/05,19/06 and 98/15),
61. Law on Non-Civil Proceedings (FB&H Official Gazette Nos. 2/98, 39/04, 73/05 and 80/14),
62. FB&H Criminal Code (FB&H Official Gazette Nos. 36/03, 37/03, 21/04, 69/04, 18/05, 42/10 i 42/11, 59/14, 76/14, 46/16 and 75/17),
63. FB&H Law on Criminal Proceedings (FB&H Official Gazette Nos. 35/03, 37/03, 56/03, 78/04, 28/05, 55/06, 27/07, 53/07, 9/09 and 12/10, 8/13, 59/14),
64. Law on Enforcement of Criminal Sanctions in the FB&H (FB&H Official Gazette Nos. 44/98, 42/99, 12/09 and 42/11),
65. Law on Conflict of Interest in Government Bodies in the FB&H (FB&H Official Gazette No. 70/08),
66. Law on Financial-Intelligence Agency (FB&H Official Gazette No. 80/11),
67. Law on Fiscal Systems (FB&H Official Gazette No. 81/09),
68. Law on Privatisation of Banks (FB&H Official Gazette Nos. 12/98, 29/00, 37/01 and 33/02),
69. Law on Archive Materials of the FB&H (FB&H Official Gazette No. 45/02),
70. Law on Recognition of Public Identification Documents on Territory of the FB&H (FB&H Official Gazette No. 4/98),
71. Law on Strike (FB&H Official Gazette No. 14/00),
72. Law on Federal Administrative Taxes and Tariffs of Federal Administrative Taxes (FB&H Official Gazette Nos. 6/98, 8/00, 45/10, 43/13 and 98/17),
73. Law on Domestic Trade (FB&H Official Gazette Nos. 40/10 and 79/17),
74. Property Law (FB&H Official Gazette Nos. 66/13 and 100/13),

75. Law on FB&H Budgets (FB&H Official Gazette Nos. 102/13, 9/14-corr. 13/14, 8/15, 91/15, 102/15, 104/16, 5/18, 11/19 and 99/19),
76. Law on Citizenship of the Federation B&H (FB&H Official Gazette No. 34/16),
77. Law on Voluntary Pension Funds (FB&H Official Gazette No. 104/16),
78. Law on Financial Operations (FB&H Official Gazette No. 48/16),
79. Law on Salaries and Remunerations in Government Bodies of the Federation of Bosnia and Herzegovina (FB&H Official Gazette Nos. 45/10, 111/12 and 20/17),
80. Law on Single Registry of Users of Cash Benefits with no Fee Payment (FB&H Official Gazette No. 25/17),
81. Law on Insurance (FB&H Official Gazette No. 23/17),
82. Law on Development Planning and Management in the Federation of Bosnia and Herzegovina (FB&H Official Gazette No. 32/17),
83. Law on Pension and Disability Insurance (FB&H Official Gazette No. 13/18).

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

1. Law on the Central Bank of B&H (B&H Official Gazette Nos. 1/97, 29/02, 8/03, 13/03, 14/03, 9/05, 76/06 and 32/07),
2. Law on Protection of Consumers in B&H (B&H Official Gazette No. 25/06),
3. Law on Market Surveillance in B&H (B&H Official Gazette Nos. 45/04, 44/07 and 102/09),
4. Law on Competition (B&H Official Gazette Nos. 48/05, 76/07 and 80/09),
5. Law on Policy of Direct Foreign Investments in B&H (B&H Official Gazette Nos. 4/98, 17/98, 13/03 and 48/10),
6. Law on Personal Data Protection (B&H Official Gazette Nos. 49/06, 76/11 and 89/11-corr.),
7. Law on Protection of Classified Data of B&H (B&H Official Gazette Nos. 54/05 and 12/09),
8. Law on Electronic Signature (B&H Official Gazette No. 91/06),
9. Decision on Use of Electronic Signature and Documents Certification Services (B&H Official Gazette No. 21/09),
10. Law on classification of activities in Bosnia and Herzegovina (B&H Official Gazette Nos. 76/06, 100/08 and 32/10),
11. Law on Civil Service in the Institutions of Bosnia and Herzegovina (B&H Official Gazette Nos. 12/02, 19/02, 8/03, 35/03, 4/04, 17/04, 26/04, 37/04, 48/05, 2/06, 32/07, 43/09, 8/10, 40/12 and 93/17),
12. Law on Work in Institutions of B&H (B&H Official Gazette Nos. 26/04, 7/05, 48/05, 60/10, 32/13 and 93/17),
13. Law on Borrowing, Debt and Guarantees of Bosnia and Herzegovina (B&H Official Gazette Nos. 52/05, 103/09 and 90/16),
14. Law on Settlement of Obligations arising from Old Foreign Currency Savings of B&H (B&H Official Gazette Nos. 28/06, 76/06, 72/07, 97/11 and 100/13),
15. Law on Accounting and Audit in B&H (B&H Official Gazette No. 42/04),
16. Law on Determination and Manner of Settlement of the Internal Debt of B&H (B&H Official Gazette No. 44/04),
17. Framework Law on Pledges (B&H Official Gazette Nos. 28/04 and 54/04),
18. Law on Value Added Tax (B&H Official Gazette Nos. 9/05, 35/05, 100/08 and 33/17),
19. B&H Law on Public Procurements (B&H Official Gazette No. 39/14),
20. Law on Customs Tariff (B&H Official Gazette No. 58/12),
21. . Law on Customs Violations in B&H (B&H Official Gazette No. 88/05),

22. Law on Patents (B&H Official Gazette No. 53/10),
23. Law on Free Access to Information in B&H (B&H Official Gazette Nos. 28/00, 45/06, 102/09, 62/11 and 100/13),
24. . Law on Personal Identification Number (B&H Official Gazette Nos. 32/01, 63/08 and 103/11),
25. B&H Law on Associations and Foundations (B&H Official Gazette Nos. 32/01, 42/03, 63/08, 76/11 and 94/16),
26. Law of Ministries and Other Government Authorities of Bosnia and Herzegovina (B&H Official Gazette Nos. 5/03, 42/03, 26/04, 42/04, 45/06, 88/07, 35/09, 59/09, 103/09, 87/12, 6/13, 19/16 and 83/17),
27. Law on the Temporary Prohibition of Disposal of State Property of Bosnia and Herzegovina (B&H Official Gazette Nos. 18/05, 29/06, 85/06, 32/07, 41/07, 74/07, 99/07 and 58/08),
28. Law on Use and Protection of the Name of B&H (B&H Official Gazette Nos. 30/03, 42/04, 50/08 and 76/11),
29. Law on Fiscal Council in B&H (B&H Official Gazette No. 63/08),
30. Law on the Treasury of Institutions of B&H (B&H Official Gazette Nos. 27/00 and 50/08),
31. Law on Payments into the Single Account and Distribution of Revenues (B&H Official Gazette Nos. 55/04, 34/07, 49/09 and 91/17),
32. Law on the Indirect Taxation System in Bosnia and Herzegovina (B&H Official Gazette Nos. 44/03, 52/04, 34/07, 4/08, 49/09, 32/13 and 91/17),
33. Law on Mediation Procedure (B&H Official Gazette No. 37/04),
34. . Law on Transfer of Mediation Business to Association of Mediators (B&H Official Gazette No. 52/05),
35. Law on excises in Bosnia and Herzegovina (B&H Official Gazette Nos. 49/09, 49/14, 60/14 and 91/17)
36. Law on Enforced Collection of Indirect Taxes (B&H Official Gazette Nos. 89/05 and 62/11),
37. Regulatory Offence Law (B&H Official Gazette Nos. 41/07, 18/12 and 36/14),
38. Law on the B&H Court (B&H Official Gazette Nos. 49/09-consolidated text, 74/09-corr. and 97/09),
39. Law on High Judicial and Prosecutorial Council of Bosnia and Herzegovina (B&H Official Gazette Nos. 35/02, 39/03, 42/03, 10/04, 25/04, 93/05, 32/07 and 48/07),
40. Law on Prosecutor's Office of B&H (B&H Official Gazette Nos. 49/09-consolidated text and 97/09),
41. Law on Administrative Procedure (B&H Official Gazette Nos. 29/02, 12/04, 88/07 and 93/09, 41/13 and 53/16),
42. Law on Administrative Disputes of Bosnia and Herzegovina (B&H Official Gazette Nos. 19/02, 88/07, 83/08 and 74/10),
43. Law on Civil Procedure before the Court of B&H (B&H Official Gazette Nos. 36/04, 84/07, 58/13 and 94/16),
44. Law on Enforcement Proceedings before the B&H Court (B&H Official Gazette No. 18/03),
45. Law on Administration (B&H Official Gazette Nos. 32/02, 102/09 and 72/17),
46. Law on Temporary Postponement of Fulfillment of Claims Based on Executive Decisions Issued in Relation to the Budget of B&H Institutions and International Obligations of B&H (B&H Official Gazette Nos. 43/03 and 43/04),
47. Criminal Code of B&H (B&H Official Gazette Nos. 3/03, 32/03, 37/03, 54/04, 61/04, 30/05, 53/06, 55/06, 32/07, 8/10, 47/14 and 35/18),

48. B&H Law on Criminal Proceedings (B&H Official Gazette Nos. 3/03, 32/03, 36/03, 26/04, 63/04, 13/05, 48/05, 46/06, 76/06, 29/07, 32/07, 53/07, 76/07, 15/08, 58/08, 12/09, 16/09, 93/09, 72/13 and 65/18),
49. Law on Conflict of Interests in Governmental Institutions of Bosnia and Herzegovina (B&H Official Gazette Nos. 13/02, 16/02, 14/03, 12/04, 63/08 i 18/12, 87/13 and 41/16),
50. Law on Archive Materials and Archives of B&H (B&H Official Gazette No. 16/01),
51. Law on Free Legal Aid (B&H Official Gazette No. 83/16),
52. Law on Prohibition of Discrimination (B&H Official Gazette Nos. 59/09 and 66/16),
53. Law on Employee Strike in Institutions of B&H (B&H Official Gazette No. 41/16),
54. . Law on Execution of Criminal Sanctions, Detention and other Measures (B&H Official Gazette No. 22/16 – consolidated text),
55. Law on Citizenship of Bosnia and Herzegovina (B&H Official Gazette No. 22/16 – consolidated text),
56. Law on Salaries and Allowances in the institutions of B&H (B&H Official Gazette Nos. 50/08, 35/09, 75/09, 32/12, 42/12, 50/12, 32/13, 87/13, 75/15, 88/15, 16/16, 94/16, 72/17 and 25/18),
57. Law on Asylum (B&H Official Gazette No. 11/16).

ANNEXES – BANKING SECTOR

Annex 2 - Basic information on FB&H banks as at 31.12.2019

No.	Bank	Web address	Number of employees	Management Chairperson
1.	ADDIKO BANK DD SARAJEVO	www.addiko.ba	371	Sanela Pašić
2.	ASA BANKA DD SARAJEVO	www.asabanka.ba	215	Samir Mustafić
3.	BOSNA BANK INTERNATIONAL DD SARAJEVO	www.bbi.ba	460	Amer Bukvić
4.	INTESA SANPAOLO BANKA DD BOSNA I HERCEGOVINA SARAJEVO	www.intesasanpaolobanka.ba	556	Almir Krkalić
5.	KOMERCIJALNO-INVESTICIONA BANKA DD V. KLADUŠA	www.kib-banka.com.ba	82	Hasan Porčić
6.	NLB BANKA DD SARAJEVO	www.nlb.ba	450	Lidija Žigić
7.	PRIVREDNA BANKA SARAJEVO DD SARAJEVO	www.pbs.ba	166	Hamid Pršeš
8.	PROCREDIT BANK DD SARAJEVO	www.procreditbank.ba	139	Almir Salkanović
9.	RAIFFEISEN BANK DD BiH SARAJEVO	www.raiffeisenbank.ba	1,341	Karlheinz Dobnigg
10.	SBERBANK BH DD SARAJEVO	www.sberbank.ba	435	Jasmin Spahić
11.	SPARKASSE BANK DD BOSNA I HERCEGOVINA SARAJEVO	www.sparkasse.ba	516	Sanel Kusturica
12.	UNICREDIT BANK DD MOSTAR	www.unicreditbank.ba	1,254	Amina Mahmutović
13.	UNION BANKA DD SARAJEVO	www.unionbank.ba	199	Vedran Hadžiahmetović
14.	VAKUFСКА BANKA DD SARAJEVO	www.vakuba.ba	164	v.d. Edina Vuk
15.	ZIRAATBANK BH DD SARAJEVO	www.ziraatbosnia.com	311	Yusuf Dilaver
TOTAL			6,659	

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

- BAM 000 -

No.	Description		31.12.2018		31.12.2019		Index
			3	4	5	6	
1	2		3	4	5	6	7=5/3
	ASSETS		Amount	% of total assets	Amount	% of total assets	
1.	Cash and deposit accounts with deposit institutions		6,591,117	29.8	7,641,570	31.6	116
	1.a.	Cash and non-interest bearing deposit accounts	2,975,624	13.4	3,321,750	13.7	112
	1.b.	Interest bearing deposit accounts	3,615,493	16.4	4,319,820	17.9	119
2.	Securities at fair value through profit or loss and at fair value in other comprehensive income		1,150,050	5.2	1,297,075	5.4	113
3.	Placements to other banks		270,604	1.2	149,197	0.6	55
4.	Loans, leasing type receivables and past-due receivables		14,325,634	64.8	15,220,759	62.8	106
	4.a.	Loans	13,211,045	59.8	14,198,216	58.6	107
	4.b.	Leasing type receivables	92,282	0.4	68,407	0.3	74
	4.c.	Due receivables on loans and leasing type receivables	1,022,307	4.6	954,136	3.9	93
5.	Securities at amortized cost		154,576	0.7	159,246	0.7	103
6.	Business premises and other fixed assets		477,533	2.2	550,887	2.3	115
7.	Other real-estate		54,234	0.2	49,797	0.2	92
8.	Investments in subsidiaries and affiliates		12,065	0.1	15,944	0.1	132
9.	Other assets		328,491	1.5	321,220	1.3	98
10.	MINUS: Impairments		1,270,169	5.7	1,195,128	4.9	94
	10.a.	Impairments of items in position 4 of Assets	1,190,760	5.4	1,120,940	4.6	94
	10.b.	Impairments of assets items, except for position 4 of Assets	79,409	0.3	74,188	0.3	93
11.	TOTAL ASSETS		22,094,135	100	24,210,567	100	110
	LIABILITIES						
12.	Deposits		17,604,487	79.7	19,414,294	80.2	110
	12.a.	Interest-bearing deposits	12,429,484	56.3	14,181,299	58.6	114
	12.b.	Non interest-bearing deposits	5,175,003	23.4	5,232,995	21.6	101
13.	Borrowings –due liabilities		150	0.0	150	0.0	100
	13.a.	Balance of overdue liabilities	0	0.0	0	0.0	-
	13.b.	Balance of not settled, called for payment off-balance sheet liabilities	150	0.0	150	0.0	100
14.	Borrowings from other banks		0	0.0	0	0.0	-
15.	Liabilities to government		0	0.0	0	0.0	-
16.	Liabilities on loans and other borrowings		862,931	3.9	856,626	3.5	99
	16.a.	with residual maturity up to one year	178,386	0.8	199,989	0.8	112
	16.b.	with residual maturity over one year	684,545	3.1	656,637	2.7	96
17.	Subordinated debts and subordinated bonds		124,181	0.6	189,055	0.8	152
18.	Other liabilities		531,300	2.4	619,088	2.6	117
19.	TOTAL LIABILITIES		19,123,049	86.6	21,079,213	87.1	110
	CAPITAL						
20.	Permanent priority shares		8,828	0.0	365	0.0	4
21.	Common shares		1,290,872	5.8	1,299,335	5.4	101
22.	Issue premiums		137,290	0.6	137,290	0.6	100
	22.a.	on permanent priority shares	88	0.0	88	0.0	100
	22.b.	on common shares	137,202	0.6	137,202	0.6	100
23.	Undistributed profit and capital reserves		1,096,380	5.0	1,393,271	5.8	127
24.	Exchange rate differences		0	0.0	0	0.0	-
25.	Other capital		256,236	1.2	262,125	1.1	102
26.	Loan loss reserves created from profits		181,480	0.8	38,968	0.2	21
27.	TOTAL CAPITAL: (20 to 25)		2,971,086	13.4	3,131,354	12.9	105
28.	TOTAL LIABILITIES AND CAPITAL: (19 + 27)		22,094,135	100	24,210,567	100	110
PASSIVE AND NEUTRAL SUB-BALANCE SHEET			707,503		712,764		101
TOTAL			22,801,638		24,923,331		109

Annex 4 - Overview of assets, loans, deposits and financial performance of FB&H banks - 31.12.2019

- BAM 000 -

No.	Bank	Assets		Loans		Deposits		Finan. perf.
		Amount	%	Amount	%	Amount	%	Amount
1.	ADDIKO BANK DD SARAJEVO	989,035	4.1	616,197	4.0	739,691	3.8	7,290
2.	ASA BANKA DD SARAJEVO	559,543	2.3	373,427	2.5	477,210	2.5	5,750
3.	BOSNA BANK INTERNATIONAL DD SARAJEVO	1,260,709	5.2	820,533	5.4	976,283	5.0	11,764
4.	INTESA SANPAOLO BANKA DD BOSNA I HERCEGOVINA SARAJEVO	2,342,324	9.7	1,657,686	10.9	1,800,237	9.3	33,923
5.	KOMERCIJALNO-INVESTICIJNA BANKA DD V. KLADUŠA	104,977	0.4	55,894	0.4	72,761	0.4	1,451
6.	NLB BANKA DD SARAJEVO	1,245,826	5.1	845,538	5.6	1,019,716	5.3	18,554
7.	PRIVREDNA BANKA SARAJEVO DD SARAJEVO	547,200	2.3	298,546	2.0	444,176	2.3	3,456
8.	PROCREDIT BANK DD SARAJEVO	554,005	2.3	410,938	2.7	280,461	1.4	-1,559
9.	RAIFFEISEN BANK DD BiH SARAJEVO	4,748,193	19.6	2,692,151	17.7	3,855,395	19.9	56,901
10.	SBERBANK BH DD SARAJEVO	1,489,539	6.2	1,025,275	6.7	1,259,974	6.5	10,268
11.	SPARKASSE BANK DD BOSNA I HERCEGOVINA SARAJEVO	1,584,335	6.5	1,106,614	7.3	1,283,606	6.6	23,486
12.	UNICREDIT BANK DD MOSTAR	6,596,010	27.2	4,036,342	26.5	5,509,280	28.4	101,071
13.	UNION BANKA DD SARAJEVO	801,261	3.3	273,687	1.8	701,687	3.6	234
14.	VAKUFСКА BANKA DD SARAJEVO	322,094	1.3	202,197	1.3	279,975	1.4	84
15.	ZIRAATBANK BH DD SARAJEVO	1,065,516	4.4	805,734	5.3	713,842	3.7	1,216
	TOTAL	24,210,567	100	15,220,759	100	19,414,294	100	273,889

Annex 5 - FBiH banks' balance sheet asset classification - 31.12.2019

– BALANCE SHEET ASSET ITEMS CLASSIFICATION –

- BAM 000 -

No	Balance sheet asset items	Classification					Total
		A	B	C	D	E	
1.	Short-term loans	2,746,743	210,209	5,173	422	506	2,963,053
2.	Long-term loans	10,279,072	478,004	132,631	94,016	12,543	10,996,266
3.	Other facilities	402,235	511	22	173	2,241	405,182
4.	Accrued interest and fees	41,292	2,785	2,210	3,445	40,101	89,833
5.	Past-due receivables	24,127	19,091	19,403	238,914	621,689	923,224
6.	Receivables on paid guarantees			1,086	451	29,228	30,765
7.	Other balance sheet assets classified	907,094	2,343	595	734	43,434	954,200
8.	TOTAL BALANCE SHEET ASSETS THAT ARE CLASSIFIED (sum of positions 1 through 7 – calculation basis for regulatory loan loss reserves)	14,400,563	712,943	161,120	338,155	749,742	16,362,523
9.	ACCRUED REGULATORY LOAN LOSS RESERVES ON BALANCE SHEET ASSETS	283,978	56,267	45,874	193,545	749,742	1,329,406
10.	IMPAIRMENT OF BALANCE SHEET ASSETS	226,714	60,470	76,735	177,178	648,761	1,189,858
11.	REQUIRED REGULATORY RESERVES FROM PROFIT FOR ESTIMATED LOSSES ON BALANCE SHEET ASSETS	167,710	32,419	6,664	46,208	100,581	353,582
12.	CREATED REGULATORY RESERVES FROM PROFIT FOR ESTIMATED LOSSES ON BALANCE SHEET ASSETS	25,991	409	47	539	2,333	29,319
13.	SHORTFALL IN REGULATORY RESERVES FROM PROFIT FOR ESTIMATED LOSSES ON BALANCE SHEET ASSETS						324,263
14.	BALANCE SHEET ASSETS THAT ARE NOT CLASSIFIED (gross carrying amount)						9,043,967
15.	TOTAL BALANCE SHEET ASSETS (gross carrying amount)						25,406,490

OVERVIEW OF NON-CLASSIFIED BALANCE SHEET ASSETS AND AMOUNT OF FACILITIES SECURED WITH CASH DEPOSITS

14.a	Cash in hand and treasury and cash in account with B&H Central Bank, gold and other precious metals	5,334,141
14.b	Sight deposits and term deposits of up to one month in accounts with banks with established investment-grade ratings	2,239,233
14.c	Tangible and intangible assets	573,719
14.d	Foreclosed financial and tangible assets within one year of foreclosure	4,868
14.e	Own (treasury) shares	0
14.f	Receivables on overpaid tax liabilities	24,389
14.g	Held-for-trading securities	15,287
14.h	Receivables from B&H Government, B&H FEDERATION Government, and RS Government, securities issued by B&H Government, B&H Federation Government, and RS Government, and receivables secured with their unconditional guarantees payable on first demand	852,330
	TOTAL position 14	9,043,967
8a.	Amount of facilities secured with cash deposits	201,777

Annex 5a - Classification of off-balance sheet risk assets items of FB&H banks - 31.12.2019

– CLASSIFICATION OF OFF-BALANCE SHEET ITEMS –

- BAM 000 -

No.	Off-balance sheet items	Classification					Total
		A	B	C	D	E	
1.	Payable guarantees	381,054	45,195	751	92		427,092
2.	Performance guarantees	829,337	74,589	1,574	2,254	251	908,005
3.	Uncovered letters of credit	47,410	845	0	0	0	48,255
4.	Irrevocably approved, but undrawn loans	1,975,957	81,658	379	52	154	2,058,200
5.	Banks' other contingent liabilities	52,994	419	419	214	76	54,122
6.	TOTAL OFF-BALANCE SHEET ASSETS THAT ARE CLASSIFIED (sum of positions 1 through 5 – calculation basis for regulatory loan loss reserves)	3,286,752	202,706	3,123	2,612	481	3,495,674
7.	ACCRUED REGULATORY LOAN LOSS RESERVES ON OFF-BALANCE SHEET ASSETS	64,539	13,135	745	1,448	482	80,349
8.	LOSS PROVISIONS FOR OFF-BALANCE SHEET ITEMS	34,760	2,883	1,915	2,141	339	42,038
9.	REQUIRED REGULATORY RESERVES FROM PROFIT FOR ESTIMATED LOSSES ON OFF-BALANCE SHEET ASSETS	42,655	10,801	50	111	125	53,742
10.	CREATED REGULATORY RESERVES FROM PROFIT FOR ESTIMATED LOSSES ON OFF-BALANCE SHEET ASSETS	9,265	384	0	0	0	9,649
11.	SHORTFALL IN REGULATORY RESERVES FROM PROFIT FOR ESTIMATED LOSSES ON OFF-BALANCE SHEET ASSETS						44,093
12.	OFF-BALANCE SHEET ASSETS THAT ARE NOT CLASSIFIED						959,286
13.	TOTAL OFF-BALANCE SHEET ASSETS						4,454,960
6a.	Amount of contingent liabilities secured with cash deposits						59,759
6b.	Amount of approved, but undrawn loans with clause on unconditional cancellation						724,258

Annex 6 – FB&H banks' income statement according to FBA's scheme - 31.12.2019

- BAM 000 -

No.	Description	31.12.2018	%	31.12.2019	%	Index
1	2	3	4	5	6	7=5/3
1.	INTEREST INCOME AND EXPENSES	Amount	%	Amount	%	
a)	Interest income and similar income					
1)	Interest-bearing deposit accounts with deposit institutions	4,525	0.4	5,478	0.5	121
2)	Placements to other banks	2,461	0.2	4,025	0.4	164
3)	Loans and leasing operations	657,927	62.6	649,995	60.7	99
4)	Securities held to maturity	3,515	0.3	4,203	0.4	120
5)	Equity securities	0	0.0	0	0.0	0
6)	Receivables on paid off-balance sheet liabilities	1	0.0	2	0.0	200
7)	Other interest income and similar income	72,937	6.9	70,029	6.5	96
8)	TOTAL INTEREST INCOME AND SIMILAR INCOME	741,366	70.5	733,732	68.5	99
b)	Interest expenses and similar expenses					
1)	Deposits	104,053	9.9	95,143	8.9	91
2)	Borrowings from other banks	0	0.0	0	0.0	0
3)	Borrowings taken – past-due liabilities	0	0.0	0	0.0	0
4)	Liabilities on loans and other borrowings taken	9,089	0.9	9,229	0.9	102
5)	Subordinated debts and subordinated bonds	7,790	0.7	7,499	0.7	96
6)	Other interest expenses and similar expenses	9,121	0.9	18,797	1.8	206
7)	TOTAL INTEREST EXPENSES AND SIMILAR EXPENSES	130,053	12.4	130,668	12.2	100
c)	NET INTEREST AND SIMILAR INCOME	611,313	58.2	603,064	56.3	99
2.	OPERATING INCOME					
a)	Income from foreign exchange operations	60,374	5.7	63,284	5.9	105
b)	Loan fees	10,707	1.0	10,791	1.0	101
c)	Off-balance sheet operation fees	22,530	2.1	22,850	2.1	101
d)	Service fees	294,707	28.0	319,265	29.8	108
e)	Income from trading operations	308	0.0	1,305	0.1	424
f)	Other operating income	51,169	4.9	50,320	4.7	98
g)	TOTAL OPERATING INCOME a) through f)	439,795	41.8	467,815	43.7	106
	TOTAL INCOME (1c + 2g)	1,051,108	100	1,070,879	100	102
3.	NON-INTEREST EXPENSES					
a)	Operating and direct expenses					
1)	Risk asset impairment costs, provisions for contingent liabilities and other value adjustments	108,662	10.3	77,315	7.2	71
2)	Other operating and direct costs	126,140	12.0	139,986	13.1	111
3)	TOTAL OPERATING AND DIRECT EXPENSES 1) + 2)	234,802	22.3	217,301	20.3	93
b)	Operating expenses					
1)	Salary and contribution costs	256,407	24.4	260,389	24.3	102
2)	Business premises costs, other fixed assets and overheads	153,348	14.6	160,432	15.0	105
3)	Other operating costs	116,783	11.1	113,943	10.6	98
4)	TOTAL OPERATING EXPENSES 1) through 3)	526,538	50.1	534,764	49.9	102
c)	TOTAL NON-INTEREST EXPENSES	761,340	72.4	752,065	70.2	99
	TOTAL EXPENSES (1b7+3c)	891,393		882,733		99
4.	PROFIT BEFORE TAXATION	324,470	30.9	320,299	29.9	99
5.	LOSS	34,702	3.3	1,485	0.1	4
6.	TAXES	33,413	3.2	43,795	4.1	131
7.	PROFIT ON INCREASE IN DEFERRED TAX ASSETS AND DECREASE IN DEFERRED TAX LIABILITIES	407	0.0	12	0.0	3
8.	LOSS ON DECREASE IN DEFERRED TAX ASSETS AND INCREASE IN DEFERRED TAX LIABILITES	526	0.1	1,142	0.1	217
9.	NET PROFIT (4-6+7-8 or 7-5-6-8)	290,979	27.7	275,448	25.7	95
10.	NET LOSS (4-6-7+8 or 6+8-4-7)	34,743	3.3	1,559	0.1	4
11.	FINANCIAL PERFORMANCE (9-10)	256,236	-	273,889	-	107

Annex 7 - Weighted average NIR and EIR on loans and deposits as of 31.12.2019

Weighted average NIR and EIR on loans

- % -

No.	Description	31.12.2018		31.12.2019	
		NIR	EIR	NIR	EIR
1	2	3	4	5	6
1.	Weighted interest rates on short-term loans	2.67	2.97	2.32	2.67
1.1.	Corporate	2.61	2.84	2.27	2.55
1.2.	Retail	7.53	14.66	7.48	14.02
2.	Weighted interest rates on long-term loans	4.66	5.62	4.58	5.49
2.1.	Corporate	3.61	3.91	3.41	3.67
2.2.	Retail	5.55	7.06	5.38	6.74
3.	Total weighted interest rates	3.56	4.15	3.27	3.86
3.1.	Corporate	2.88	3.13	2.53	2.81
3.2.	Retail	5.59	7.22	5.42	6.89

Average Weighted NIR and EIR on deposits

- % -

No.	Description	31.12.2018		31.12.2019	
		NIR	EIR	NIR	EIR
1	2	3	4	5	6
1.	Weighted interest rates on short-term deposits	0.38	0.36	0.34	0.33
1.1.	Up to three months	0.41	0.39	0.36	0.35
1.2.	Up to one year	0.31	0.31	0.32	0.32
2.	Weighted interest rates on long-term deposits	1.15	1.16	1.24	1.19
2.1.	Up to three years	0.99	1.01	1.12	1.05
2.2.	Over three years	1.44	1.45	1.54	1.55
3.	Total weighted interest rates on deposits	0.66	0.65	0.78	0.75

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

Weighted average NIR and EIR on loans by periods

- % -

No.	Description	31.12.2015		31.12.2016		31.12.2017		31.12.2018		31.12.2019	
		NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	2	3	4	5	6	7	8	9	10	11	12
1.	Weighted interest rates on short-term loans	5.10	5.50	4.01	4.41	3.20	3.46	2.67	2.97	2.32	2.67
1.1.	Corporate	5.07	5.42	3.96	4.28	3.13	3.33	2.61	2.84	2.27	2.55
1.2.	Retail	7.84	11.37	8.07	13.91	8.32	15.36	7.53	14.66	7.48	14.02
2.	Weighted interest rates on long-term loans	6.60	7.57	6.08	7.14	5.30	6.33	4.66	5.62	4.58	5.49
2.1.	Corporate	5.63	6.20	4.91	5.23	4.02	4.33	3.61	3.91	3.41	3.67
2.2.	Retail	7.36	8.65	7.10	8.79	6.31	7.89	5.55	7.06	5.38	6.74
3.	Total weighted interest rates	5.81	6.48	4.94	5.64	4.12	4.72	3.56	4.15	3.27	3.86
3.1.	Corporate	5.23	5.64	4.22	4.54	3.36	3.59	2.88	3.13	2.53	2.81
3.2.	Retail	7.37	8.74	7.13	8.95	6.35	8.04	5.59	7.22	5.42	6.89

Weighted average NIR and EIR on deposits by periods

- % -

No.	Description	31.12.2015		31.12.2016		31.12.2017		31.12.2018		31.12.2019	
		NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	2	3	4	5	6	7	8	9	10	11	12
1.	Weighted interest rates on short-term deposits	0.60	0.61	0.35	0.35	0.40	0.41	0.38	0.36	0.34	0.33
1.1.	Up to three months	0.27	0.28	0.27	0.27	0.35	0.36	0.41	0.39	0.36	0.35
1.2.	Up to one year	1.25	1.28	0.68	0.69	0.61	0.62	0.31	0.31	0.32	0.32
2.	Weighted interest rates on long-term deposits	2.20	2.23	1.78	1.80	1.37	1.39	1.15	1.16	1.24	1.19
2.1.	Up to three years	2.08	2.10	1.59	1.62	1.22	1.24	0.99	1.01	1.12	1.05
2.2.	Over three years	2.48	2.52	2.33	2.34	1.82	1.85	1.44	1.45	1.54	1.55
3.	Total weighted interest rates on deposits	1.41	1.43	0.88	0.89	0.75	0.76	0.66	0.65	0.78	0.75

ANNEXES - MICROCREDIT SECTOR

Annex 8 - Basic information on FB&H MCOs with an overview of key indicators - 31.12.2019

No.	MCO name	Director	License issuance date	Web address	Number of employees	- BAM 000 -				
						Assets amount	Gross portfolio amount	Capital amount	Surplus (shortage) of income over expenses/net profit (loss) in the period 1.1.-31.12.2019	Placements in the period 1.1.-31.12. 2019
1.	MCC „CREDO CENTAR“ d.o.o. Mostar*	Mirko Ljubić	12.09.2019	-	5	495	199	487	-13	201
2.	MCC "EKI" d.o.o. Sarajevo	Almir Sultanović	04.02.2008	www.eki.ba	293	155,467	138,212	44,301	5,197	106,117
3.	MCF "EKI" Sarajevo	Esad Uzunić	20.08.2007	www.eki.ba	205	88,639	39,367	69,029	1,949	44,476
4.	MCC „IUTEC REDIT BH“ d.o.o. Sarajevo	Vilma Tunjić Juzbašić	28.02.2019	www.iutecredit.ba	28	5,218	2,459	527	-1,973	3,351
5.	MCF "LIDER" Sarajevo	Džavid Sejfović	04.02.2008	www.lider.ba	80	24,115	23,237	11,632	311	24,081
6.	"LOK MCF" Sarajevo	Elma Čardaklija - Bašić	04.02.2008	www.lok.ba	76	9,766	6,511	3,290	548	6,717
7.	MCF "MELAHA" Sarajevo	Jakob Finci	09.10.2007	www.melaha.ba	6	1,225	807	524	3	801
8.	MCF "MI-BOSPO" Tuzla	Safet Husić	09.07.2007	www.mi-bospo.org	186	73,719	66,823	26,026	2,368	69,562
9.	MCF "MIKRA" Sarajevo	Sanin Čampara	19.03.2008	www.mikra.ba	135	42,603	35,579	10,097	1,447	37,631
10.	MCF "MIKRO ALDI" Goražde	Ferida Softić	20.08.2007	www.mikroaldi.org	34	8,286	7,735	5,140	186	8,128
11.	"PARTNER MCF" Tuzla	Senad Sinanović	20.08.2007	www.partner.ba	288	159,121	139,944	92,251	7,425	120,278
12.	"PRVA ISLAMSKA MCF" Sarajevo	Edina Hadžimurtezić	10.12.2007	www.mfi.ba	8	2,376	1,711	2,108	-46	2,398
13.	MCF "SANI" Zenica	Sulejman Haračić	09.10.2007	-	4	421	368	172	-53	482
14.	MCF "SUNRISE" Sarajevo	Samir Bajrović	20.08.2007	www.microsunrise.ba	174	59,847	45,349	28,732	2,140	58,455
Total					1,522	632,298	508,301	294,316	19,489	482,678

* MCC CREDO CENTAR d.o.o. Mostar has initiated its microcredit activities in the 4th quarter of 2019.

Annex 9 - MCFs' aggregate balance sheet - 31.12.2019

- BAM 000 -

No.	Description	Amount as of 31.12.2018	%	Amount as of 31.12.2019	%	Index
1	2	3	4	5	6	7=5/3
ASSETS						
1.	Cash (1a+1b)	48,291	11.1	35,596	7.5	74
1a)	Cash and non-interest bearing deposit accounts	33,993	7.8	22,844	4.8	67
1b)	Interest-bearing deposit accounts	14,298	3.3	12,752	2.7	89
2.	Placements to banks	210	0.0	2,150	0.5	1024
3.	Loans	322,369		367,431		114
3a)	Loan loss reserves	2,232		2,600		116
3b)	Net loans (3-3a)	320,137	74.0	364,831	77.6	114
4.	Business premises and other fixed assets	24,918	5.7	27,505	5.9	110
5.	Long-term investments	33,061	7.6	33,061	7.0	100
6.	Other assets	6,900	1.6	7,134	1.5	103
7.	Minus: reserves on other asset items, except for loans	135		159		118
8.	Total assets	433,382	100	470,118	100	108
LIABILITIES						
9.	Liabilities on short-term loans taken out	69,189	16.0	82,452	17.5	119
10.	Liabilities on long-term loans taken out	108,781	25.1	113,408	24.0	104
11.	Other liabilities	21,647	5.0	25,257	5.4	117
12.	Total liabilities	199,617	46.1	221,117	47.0	111
13.	Donated capital	48,076		48,076		100
14.	Tier 1 capital	3,820		3,868		101
15.	Surplus of income over expenses	243,189		258,507		106
15a)	for previous years	230,646		243,717		106
15b)	for current year	12,543		14,790		118
16.	Shortfall of income over expenses	62,021		61,568		99
16a)	for previous years	61,278		61,469		100
16b)	for current year	743		99		13
17.	Other reserves	701		118		17
18.	Total capital	233,765	53.9	249,001	53.0	107
19.	Total liabilities	433,382	100	470,118	100	108
Off-balance sheet records						
	- written-off loans	105,151		99,324		94
	- commission operations	421		357		85

Annex 10 - MCCs' aggregate balance sheet - 31.12.2019

- BAM 000 -

No.	Description	Amount as of 31.12.2018	%	Amount as of 31.12.2019	%	Index
1	2	3	4	5	6	7=5/3
ASSETS						
1.	Cash (1a+1b)	9,107	6.2	13,281	8.2	146
1a)	Cash and non-interest bearing deposit accounts	9,107	6.2	12,781	7.9	140
1b)	Interest-bearing deposit accounts	0	0.0	500	0.3	-
2.	Placements to banks	0	0.0	0	0.0	-
3.	Loans	134,551		140,870		105
3a)	Loan loss reserves	-672		1,312		195
3b)	Net loans (3-3a)	133,879	91.1	139,558	86.6	104
4.	Business premises and other fixed assets	1,751	1.2	5,748	3.5	328
5.	Long-term investments	0	0.0	0	0.0	-
6.	Other assets	2,270	1.5	2,692	1.7	119
7.	Minus: reserves on other asset items, except for loans	-36		99		275
8.	Total assets	146,971	100	161,180	100	110
LIABILITIES						
9.	Liabilities on short-term loans taken out	33,197	22.6	56,995	35.4	172
10.	Liabilities on long-term loans taken out	68,515	46.6	48,888	30.3	71
11.	Other liabilities	6,155	4.2	9,982	6.2	162
12.	Total liabilities	107,867	73.4	115,865	71.9	107
13.	Donated capital	0	0.0	0		-
14.	Core Capital	30,600	20.8	31,600		103
15.	Issue premium	0	0.0	0		-
16.	Unallocated profit (16a+16b)	6,504	4.4	9,187		141
16a)	Previous year	1,225	0.8	5,976		488
16b)	Current year	5,279	3.6	3,211		61
17.	Legal reserves	2,000	1.4	2,528		126
18.	Other reserves	0	0.0	2,000		-
19.	Total capital	39,104	26.6	45,315	28.1	116
20.	Total liabilities	146,971	100	161,180	100	110
Off-balance sheet records						
	- written-off loans	1,506	-	2,555		170
	- commission operations	0	-	0		-

Annex 11 - Overview of average weighted NIR and EIR for MCOs seated in the FB&H and for MCOs seated in the RS, but doing business in the FB&H, related to microloans disbursed in the period from 01.01.2019 to 31.12.2019

No.	Description	MCOs from the FB&H			MCOs from the RS operating in the FB&H		
		Microloans disbursement (in BAM 000)	Weighted NIR (average)	Weighted EIR (average)	Microloans disbursement (in BAM 000)	Weighted NIR (average)	Weighted EIR (average)
1.	Short term microloans for:	71,062	20.80%	31.85%	26,948	14.62%	129.57%
1.1.	service activities	10,010	20.03%	26.80%	2,217	17.46%	21.09%
1.2.	trade	2,862	20.01%	27.46%	1,657	16.41%	18.91%
1.3.	agriculture	14,495	19.52%	26.17%	2,428	17.35%	20.45%
1.4.	manufacturing	1,287	19.29%	25.95%	601	15.79%	18.49%
1.5.	housing needs	10,998	19.28%	24.44%	519	17.43%	23.50%
1.6.	general-basic needs	9,423	16.47%	48.87%	14,244	17.23%	23.83%
1.7.	other	21,987	24.81%	35.21%	5,282	4.16%	568.19%
2.	Long term microloans for:	411,616	19.29%	23.09%	66,936	17.50%	20.66%
2.1.	service activities	83,268	18.81%	22.07%	9,592	16.56%	18.50%
2.2.	trade	13,647	19.41%	23.25%	3,305	16.42%	18.38%
2.3.	agriculture	127,742	18.12%	21.30%	15,820	16.25%	18.15%
2.4.	manufacturing	9,575	18.77%	22.17%	1,883	16.15%	18.07%
2.5.	housing needs	90,121	18.87%	22.21%	15,186	18.25%	21.31%
2.6.	general-basic needs	18,893	20.05%	24.22%	20,787	18.54%	23.48%
2.7.	other	68,370	22.40%	28.58%	363	22.49%	32.16%
3.	Total microloans	482,678	19.51%	24.38%	93,884	16.67%	51.92%

Annex 11a - Comparative overview of average weighted EIR for MCOs seated in the FB&H for disbursed microloans

- % -

Average weighted NIR on:	01.01.-31.12. 2015	01.01.-31.12. 2016	01.01.-31.12. 2017	01.01.-31.12. 2018	01.01.-31.12. 2019
Short-term microloans	17.73	17.46	20.11	21.40	20.80
Long-term microloans	20.81	20.81	20.38	19.63	19.29
Total microloans	20.14	20.18	20.34	19.89	19.51
Average weighted EIR on:	01.01.-31.12. 2015	01.01.-31.12. 2016	01.01.-31.12. 2017	01.01.-31.12. 2018	01.01.-31.12. 2019
Short-term microloans	26.11	26.71	28.29	29.11	31.85
Long-term microloans	24.61	24.75	24.22	23.27	23.09
Total microloans	24.94	25.12	24.86	24.13	24.38

Annex 12 - MCFs aggregate income statement - 31.12.2019

- BAM 000 -

No.	Description	Amount for the period 01.01.- 31.12.2018	%	Amount for the period 01.01.- 31.12.2019	%	Index
1	2	3	4	5	6	7=5/3
I	FINANCIAL INCOME AND EXPENSES					
1.	Interest income and similar income					
1.1.	Interest on interest-bearing deposit accounts with deposit institutions	12	0.0	11	0.0	92
1.2.	Interest on placements to banks	13	0.0	13	0.0	100
1.3.	Interest on loans	62,360	98.0	66,173	98.3	106
1.4.	Other financial income	1,225	2.0	1,140	1.7	93
1.5.	Total interest income and similar income (1.1. through 1.4.)	63,610	100	67,337	100	106
2.	Interest expenses and similar expenses					
2.1.	Interest on borrowed funds	7,727	91.8	7,424	90.8	96
2.2.	Other financial expenses	692	8.2	754	9.2	109
2.3.	Total interest expenses and similar expenses (2.1. through 2.2.)	8,419	100	8,179	100	97
3.	Net financial income (1.5. - 2.3.)	55,191		59,158		107
II	OPERATING INCOME AND EXPENSES					
4.	Operating income					
4.1.	Service fees	5,771	82.7	6,457	94.7	112
4.2.	Other operating income	1,205	17.3	363	5.3	30
4.3.	Total operating income (4.1. through 4.2.)	6,976	100	6,820	100	98
5.	Operating expenses					
5.1.	Salary and contribution costs	36,698	64.7	37,667	67.1	103
5.2.	Business premises costs, other fixed assets and overheads	10,178	18.0	10,237	18.2	101
5.3.	Other operating costs	9,837	17.3	8,230	14.7	84
5.4.	Total operating expenses (5.1. through 5.3.)	56,713	100	56,135	100	99
6.	Costs of provisions for loan and other losses	2,760		3,739		135
7.	Surplus/shortfall of income over expenses from ordinary business operations (3.+4.3.-5.4.-6.)	2,694		6,104		227
8.	Extraordinary income	13,737		10,833		79
9.	Extraordinary expenses	792		659		83
10.	Surplus/shortfall of income over expenses (7.+8.-9.)	15,639		16,278		104

Annex 13 - MCCs' Aggregate income statement - 31.12.2019

- BAM 000 -

No.	Description	Amount for the period 01.01.-31.12.2018	%	Amount for the period 01.01.-31.12.2019	%	Index
1	2	3	4	5	6	7=5/3
I	FINANCIAL INCOME AND EXPENSES					
1.	Interest income and similar income					
1.1.	Interest on interest-bearing deposit accounts with deposit institutions	0	0.0	2	0.0	-
1.2.	Interest on placements to banks	0	0.0	0	0.0	-
1.3.	Interest on loans	19,701	99.9	24,085	99.8	122
1.4.	Other financial income	13	0.1	46	0.2	354
1.5.	Total interest income and similar income (1.1. through 1.4.)	19,714	100	24,133	100	122
2.	Interest expenses and similar expenses					
2.1.	Interest on borrowed funds	3,514	93.5	4,100	88.1	117
2.2.	Other financial expenses	246	6.5	555	11.9	226
2.3.	Total interest expenses and similar expenses (2.1. through 2.2.)	3,760	100	4,655	100	124
3.	Net financial income (1.5. - 2.3.)	15,954		19,478		122
II	OPERATING INCOME AND EXPENSES					
4.	Operating income					
4.1.	Service fees	1,578	90.7	1,785	89.6	113
4.2.	Other operating income	162	9.3	208	10.4	128
4.3.	Total operating income (4.1. through 4.2.)	1,740	100	1,993	100	115
5.	Operating expenses					
5.1.	Salary and contribution costs	7,095	68.1	10,323	64.8	145
5.2.	Business premises costs, other fixed assets and overheads	1,606	15.4	2,708	17.0	169
5.3.	Other operating costs	1,719	16.5	2,909	18.2	169
5.4.	Total operating expenses (5.1. through 5.3.)	10,420	100	15,940	100	153
6.	Costs of provisions for loan and other losses	1,271		1,883		148
7.	PROFIT/LOSS FROM ORDINARY BUSINESS OPERATIONS (3.+4.3.-5.4.-6.)	6,003		3,648		61
8.	Extraordinary income	65		265		408
9.	Extraordinary expenses	169		73		43
10.	PROFIT/LOSS BEFORE TAXATION	5,899		3,841		65
11.	TAX	620		630		102
12.	Net profit/loss	5,279		3,211		61

ANNEXES - LEASING SECTOR

Annex 14 - Basic information on leasing companies in the FB&H with an overview of key indicators - 31.12.2019

No	Leasing company name	Web address	Director	License issuance date	No. of full-time employees	- BAM 000 -					
						Balance sheet total	Finan. leasing receiv.	Net balance of funds granted undr operat. leasing	Total capital	Financial performan. in the period 1.1.-31.12.2019	Placements in the period 1.1.-31.12.2019
1.	MOGO d.o.o. Sarajevo	www.mogo.ba	Sanja Štefatić Jovorić	01.06.2018	20	6,209	3,731	0	1,053	-3,130	6,969
2.	PORSCHE LEASING d.o.o.	www.porscheleasing.ba	Dejan Stupar	28.05.2015	20	117,618	78,690	34,255	3,634	286	72,052
3.	RAIFFEISEN LEASING d.o.o. Sarajevo	www.rlbh.ba	Maja Jurčević	19.01.2010	38	122,561	90,670	11,794	13,983	2,062	55,007
4.	SPARKASSE LEASING d.o.o. Sarajevo	www.s-leasing.ba	Elma Hošo	11.02.2010	23	72,747	66,908	3,117	7,393	1,063	39,544
5.	VANTAGE LEASING d.o.o Sarajevo	www.vbleasing.ba	Slobodan Vujić	12.01.2010	11	4,559	1,079	0	3,414	-1,235	0
Total					112	323,694	241,078	49,166	29,477	-954	173,572

Annex 15 - Leasing companies' aggregate balance sheet - 31.12.2019.

- BAM 000 -

No.	Description	31.12.2018	% share	31.12.2019	% share	Index
1.	2.	3.	4.	5.	6.	7=5/3
ASSETS						
1.	Cash and cash equivalents	13,969	4.7	5,530	1.7	40
2.	Placements to banks	17,235	5.8	13,572	4.2	79
3.	Financial leasing type receivables, net (3a-3b-3c-3d)	214,674	72.2	241,078	74.5	112
3a)	Financial leasing type receivables, gross	233,535	78.6	269,053	83.1	115
3b)	Loss reserves	897	0.3	2,665	0.8	297
3c)	Deferred interest income	17,794	6.0	25,095	7.8	141
3d)	Deferred fee income	170	0.1	215	0.1	126
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	50,371	15.6	138
5a)	Tangible and intangible assets –own funds	4,848	1.6	4,810	1.5	99
5b)	Tangible and intangible assets –of operational leasing	48,482	16.3	65,083	20.1	134
5c)	Impairment -own resources	3,748	1.3	3,605	1.1	96
5d)	Impairment-operating leasing	13,097	4.4	15,917	4.9	122
6.	Long-term investments	203	0.1	248	0.1	122
7.	Other assets (7a+7b)	14,586	4.9	12,893	4.0	88
7a)	Loans, net (7a1-7a2)	6,253	2.1	5,331	1.6	85
7a1)	Loans (past-due receivables+outstanding principal)	12,130	4.1	5,334	1.6	44
7a2)	Loan reserves	5,877	2.0	3	0.0	0
7b)	Inventory	1,339	0.5	1,474	0.5	110
7c)	Other assets	6,994	2.4	6,088	1.9	87
	TOTAL ASSETS	297,154	100	323,694	100	109
LIABILITIES						
9.	Liabilities on loans, net	252,389	84.9	286,281	88.4	113
9a)	Liabilities on short-term loans	0	0.0	0	0.0	100
9b)	Liabilities on long-term loans	252,729	85.0	286,526	88.5	113
9c)	Advanced costs and fees	340	0.1	245	0.1	72
10.	Other liabilities	7,997	2.7	7,936	2.5	99
	TOTAL LIABILITIES	260,386	87.6	294,217	90.9	113
11.	Tier 1 capital	33,925	11.4	23,472	7.3	69
12.	Reserves	4,547	1.5	7,950	2.5	175
13.	Accumulated profit/loss	-1,704	-0.6	-1,945	-0.6	-
	TOTAL CAPITAL	36,768	12.4	29,477	9.1	80
	TOTAL LIABILITIES	297,154	100	323,694	100	109
	Written off receivables (opening balance)	84,175		21,749		26
	New write off (+)	896		6,471		722
	Recovery (-)	4,101		1,039		25
	Permanent write off (-)	8,033		3,713		46
	Written off receivables (closing balance)	72,937		23,468		32

Annex 16 - Leasing companies' aggregate income statement for the period 01.01.-31.12.2019

- BAM 000 -

No.	Description	01.01.- 31.12.2018	% share	01.01.- 31.12.2019	% share	Index
1	2	3	4	5	6	7=5/3
	Financial income and expenses					
1.	Interest income	11,189	34.2	13,787	42.2	123
1a)	Interest on financial leasing	9,223	28.4	11,794	36.1	128
1b)	Interest on placements to banks	318	1.0	392	1.2	123
1c)	Fees (for leasing application processing, etc.)	625	1.9	852	2.6	136
1d)	Other interest income	1,023	3.1	749	2.3	73
2.	Interest expenses	3,234	11.4	4,406	13.5	136
2a)	Interest on borrowed funds	3,135	11.0	4,307	13.2	137
2b)	Loan processing fees	99	0.3	97	0.3	98
2c)	Other interest expenses	0	0.0	2	0.0	-
3.	Net interest income	7,955	24.5	9,381	28.7	118
4.	Operating income and expenses	21,250	65.5	18,891	57.8	89
4a)	Operating income	5	0.0	2	0.0	40
4b)	Service fees	12,614	38.9	14,943	45.7	118
4c)	Operating lease fee	128	0.4	109	0.3	85
4d)	Income from sale of leasing object	8,503	26.2	3,837	11.7	45
4d)1	Other operating income	3,901	12.0	879	2.7	23
4d)2	Income from recovered written off receivables	179	0.6	27	0.1	15
4d)3	Income from collection letters	4,423	13.6	2,931	9.0	66
5.	Other	25,240	88.9	25,978	79.9	103
5a)	Operating expenses	6,311	22.2	5,702	17.5	90
5b)	Salary and contribution costs	9,682	34.1	9,741	29.9	101
5c)	Business premises costs	9,247	32.6	10,535	32.4	114
6.	Other costs	-98	-	2,142	6.5	-
7.	Costs of loss reserves	4,063	14.3	152	0.5	4
8.	Profit before tax	766	2.4	1,106	3.4	144
9.	Corporate income tax	3,297	10.2	-954	-	-

Annex 17 - Overview of weighted NIR and EIR for financial leasing contracts for the period 01.01.2019 - 31.12.2019 by leasing object and lessee

Average NIR and EIR for financial leasing contracts concluded in the period 01.01.2019-31.12.2019					
No.	Description	Number of contracts	Financing amount (BAM 000)	Weighted NIR %	Weighted EIR %
1	2	3	4	5	6
1.	Short-term leasing contract by leasing objects:	45	1.063	6,12	12,36
a.	Passenger vehicles	34	554	8,94	18,14
b.	Vehicles for performing business activity (cargo and passenger vehicles)	10	242	3,12	5,99
c.	Machines and equipment	1	267	2,99	6,15
d.	Real estate	0	0	0,00	0,00
e.	Other	0	0	0,00	0,00
1.1.	Short-term leasing contract by lessees:	45	1.063	6,12	12,36
a.	Corporate	27	961	3,26	6,27
b.	Entrepreneurs	0	0	0,00	0,00
c.	Retail	18	102	33,04	69,75
2.	Long-term leasing contract by leasing objects:	4.314	164.030	5,52	8,86
a.	Passenger vehicles	2.922	83.999	7,08	11,61
b.	Vehicles for performing business activity (cargo and passenger vehicles)	1.062	48.482	4,05	6,52
c.	Machines and equipment	329	30.885	3,63	5,18
d.	Real estate	1	664	3,50	3,70
e.	Other	0	0	0,00	0,00
2.1.	Long-term leasing contract by lessees:	4.314	164.030	5,52	8,86
a.	Corporate	3.129	145.254	4,04	6,08
b.	Entrepreneurs	112	3.458	5,04	7,57
c.	Retail	1.073	15.318	19,69	35,50
	Total (1+2)	4.359	165.093	5,52	8,88

Annex 17a - Overview of weighted NIR and EIR for financial leasing contracts by periods – by lessees

%

No.	Description	31.12.2015		31.12.2016		31.12.2017		31.12.2018		31.12.2019	
		NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	2	3	4	5	6	7	8	9	10	11	12
1.	Short-term leasing contracts:	4.72	7.58	3.84	6.76	3.69	6.43	5.96	12.29	6.12	12.36
1.1.	Corporate	4.62	7.31	3.73	5.71	3.63	6.02	4.12	7.34	3.26	6.27
1.2.	Entrepreneurs	6.35	12.80	5.95	11.70	5.50	12.75	0.00	0.00	0.00	0.00
1.3.	Retail	6.43	12.35	5.85	37.44	6.52	30.21	17.56	43.62	33.04	69.75
2.	Long-term leasing contracts:	5.81	8.09	5.08	7.97	4.67	7.18	4.30	6.83	5.52	8.86
2.1.	Corporate	5.81	7.81	5.07	7.19	4.61	6.63	4.06	5.94	4.04	6.08
2.2.	Entrepreneurs	6.87	10.08	6.29	8.66	5.79	8.95	5.07	7.16	5.04	7.57
2.3.	Retail	5.54	11.83	4.98	20.26	5.33	17.94	8.12	21.80	19.69	35.50
	Total	5.79	8.08	5.06	7.95	4.66	7.17	4.31	6.80	5.52	8.88



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