



**BOSNIA AND HERZEGOVINA
FEDERATION OF BOSNIA AND HERZEGOVINA
BANKING AGENCY OF THE FEDERATION OF BOSNIA AND HERZEGOVINA**

I N F O R M A T I O N

**ON THE LEASING SECTOR IN THE FEDERATION OF BOSNIA AND
HERZEGOVINA**

31.03.2015

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I INTRODUCTION

The Banking Agency of the Federation of B&H (hereinafter: the Agency) as a regulatory institution for the supervision of leasing companies drafted this Information on the Leasing Sector in the Federation of B&H as of 31.03.2015 based on the analysis of reports on business operations submitted to the Agency by leasing companies (indirect off-site supervision), findings from on-site examinations (direct on-site supervision) and other information and data submitted to the Agency by leasing companies.

The business operations of leasing companies in the Federation of B&H are regulated by the Law on Leasing, which entered into force on 03.01.2009 („Official Gazette of the Federation of Bosnia and Herzegovina“, No.: 85/08, 39/09 and 65/13). The Law defines the conditions for establishing leasing companies, their business operations and the cessation of leasing companies' operations, the rights and responsibilities of entities in leasing operations, risk management, financial reporting, activities of leasing companies with respect to preventing money laundering and the financing of terrorism, and the supervision of leasing companies' business operations.

The supervision of leasing companies has been established following the Agency's issuance of operating licences to leasing companies for the purpose of continuous monitoring of the business operations and financial status of each individual leasing company and the leasing sector in the Federation of B&H as a whole, checking the compliance of leasing companies' business operations with valid regulations, and analysing and checking the financial statements of leasing companies.

For quite some time, the business operations of the leasing sector in the Federation of B&H have been taking place in the conditions of the financial and economic crisis that affected the slowdown and stagnation of business activities of leasing companies in previous business periods as well as during 2014.

Financial indicators and the number of newly concluded arrangements in the first quarter of 2015 point to signs of a stabilisation of business operations, especially if taking into account that, in the aforementioned period, four out of six leasing companies are active on the market, as opposed to the same period of the previous year, during which five active leasing companies existed on the market.

In the first quarter of 2015, the Agency received a request for the establishment of a new leasing company seated in the Federation of B&H. The aforementioned plans to commence business activities at the beginning of the third quarter of 2015. The aforementioned fact will inevitably affect the increase in the sector's balance sheet total in the long term, as well as the increase in the leasing sector's share in the financial sector of the FB&H.

According to the latest projections of macroeconomic indicators in B&H, issued by the International Monetary Fund (IMF) in April 2015, the projection of real GDP growth for 2015 is 2.3%, while a growth projection of 3.1% is reported for 2016. These projections suggest

that there should be a slight increase in economic activities in B&H during the current business year, which will certainly affect the increasing demand for financing via leasing companies.

The balance sheet total of leasing companies in the Federation of B&H as of 31.03.2015 amounted to KM 483 036 thousand, which is lower by KM 15 396 thousand or 3.09% compared to 31.12.2014. If one compares the individual balance sheet totals of six leasing companies with data as of 31.12.2014, one can conclude that an increase in the balance sheet total in the amount of KM 1 389 thousand is evident with one leasing company, while five leasing companies recorded a decrease of the balance sheet total in the amount of KM 16 785 thousand, 60.33% or KM 10 127 thousand of which account for one leasing company.

In the period from 01.01. to 31.03.2015, leasing activities in the Federation of B&H recorded a profit in the amount of KM 925 thousand as a result of business operations. Two leasing companies recorded a negative financial result in the amount of KM 822 thousand, while four leasing companies recorded a positive financial result in the amount of KM 1 747 thousand.

The total capital of leasing companies as of 31.03.2015 amounted to KM 35 681 thousand. Compared to 31.12.2014, this item went up by KM 925 thousand or 2.66%. One leasing companies recorded a capital amount lower than the legal minimum prescribed under the provisions of the Law on Leasing (KM 250 000) and the aforementioned has the Agency's special attention. We remind that the founders of that leasing company have initiated recapitalisation activities during the fourth quarter, and the aforementioned should be completed and recorded in regulatory reports as of 30.06.2015.

Authorised persons of the Agency conduct direct supervision of the operations of the leasing companies through comprehensive and targeted examinations – on-site controls of business operations. After the reports become final, the controlled leasing companies are instructed to eliminate identified instances of non-compliance with the law and irregularities in the interest of improvement, legal compliance, profitability, solvency and security in their business operations.

In the period from 01.01 to 31.03.2015, one on-site examination was carried out, namely an extensive examination, with an examination of the execution of orders issued by the Agency's Decision also having been initiated, enlarged to include a targeted examination in the area of leasing companies' conduct in accordance with the Law on Protection of Users of Financial Services ("Official Gazette of the Federation of B&H", No.: 31/14 from 23.04.2014) as well as to include an examination of the quality of implementing the outsourcing of leasing companies' business activities.

The data in the Information as of 31.03.2015 includes the data provided by six leasing companies licensed for leasing operations in the Federation of B&H, unless specifically stated otherwise.

II BUSINESS PERFORMANCE OF THE LEASING SECTOR IN THE FEDERATION OF B&H

1. LEASING SECTOR STRUCTURE

1.1. Status, Number and Network of Branches

As of 31.03.2015, leasing activities in the Federation of B&H were performed by 6 leasing companies in 17 branches, 13 of which are located in the Federation of B&H and 4 of which are located in Republika Srpska. Compared to the previous business year, it was concluded that one leasing company closed 3 branches on the territory of the FB&H for reasons of strategic changes in the manner of selling leasing products

The following leasing companies have operating licences for leasing operations:

1. ASA Aleasing d.o.o. Sarajevo,
2. NLB Leasing d.o.o. Sarajevo,
3. Raiffeisen Leasing d.o.o. Sarajevo,
4. S-Leasing d.o.o. Sarajevo,
5. UniCredit Leasing d.o.o. Sarajevo and
6. VB Leasing d.o.o. Sarajevo.

1.2. Ownership Structure

During the first quarter of 2015, the ownership structure of the leasing companies did not see any changes compared to the previous reporting period. Three leasing companies are still 100% owned by non-resident legal entities, two leasing companies are in majority ownership (over 51%) of non-resident legal entities, while one leasing company is in majority ownership of resident legal entities. Detailed information on the overview of the ownership structure of leasing companies is provided in Annex 2 to the Information.

1.3. Human Resources

As of 31.03.2015, the leasing sector had 170 employees, 139 of which were hired via an employment contract (full-time employees), while 31 employees were recruited via student services and organisations mediating in employment (temporary employees).

Of the total number of full-time employees, 8 employees were hired in a leasing company seated in Republika Srpska, who work in branches in the Federation of B&H.

Table 1 of the Record shows a parallel overview of the data on the number of employees in leasing companies as of 31.12.2014 and 31.03.2015.

Table 1. Parallel Overview of the Number of Employees in the Leasing Sector

	31.12.2014	31.3.2015
Number of employees in leasing companies seated in the FB&H		
Number of full-time employees	130	131
Number of temporary employees	36	31
Number of employees in leasing companies seated in RS on the territory of the FB&H		
Number of full-time employees	7	8
Number of temporary employees	0	0
TOTAL	173	170

There were no significant changes in the qualification structure of employees in the leasing sector as of 31.03.2015 compared to previous reporting periods. The largest share is still that of employees with a college degree (68.23%), followed by employees with secondary school qualifications (20%).

The efficiency of employees during the assessment of the performance of a leasing company is measured by the assets/headcount ratio (assets per employee). As of 31.03.2015, every employee accounts for KM 3 687 thousand of assets at the leasing sector level (as of 31.12.2014 – KM 3 834 thousand per employee). Analytical indicators for individual leasing companies range from KM 1 637 to KM 5 663 thousand of assets per employee.

2. FINANCIAL BUSINESS INDICATORS

2.1. Balance Sheet

As of 31.03.2015, the balance sheet total of leasing companies in the Federation of B&H amounted to KM 483 036 thousand, which is lower by KM 15 396 thousand or 3.09% compared to 31.12.2014. If observed individually, one leasing company saw an increase of the balance sheet total in the amount of KM 1 389 thousand, while five leasing companies saw a decrease of the balance sheet total in the amount of KM 16 785 thousand, 60.33% or KM 10 127 thousand of which account for two leasing companies.

The two largest leasing companies (by size of assets) account for 55.85% of total assets of leasing companies.

The highest share in the total assets structure of leasing companies accounts for net receivables for financial leasing in the amount of KM 326 194 thousand or 67.53% of total assets of the leasing sector. Compared to 31.12.2014, net receivables for financial leasing are up by KM 2 794 thousand or 0.86%, while gross receivables for financial leasing are up by KM 4 777 thousand or 1.27%. In the structure of receivables for financial leasing, arrangements approved on the basis of financing passenger vehicles and company vehicles account for 59.26%, arrangements approved on the basis of financing equipment account for 28.62%, while financial leasing arrangements for real estate account for 12.12%.

A slight increase in net and gross receivables for financial leasing was caused by the fact that, in the first quarter of 2015, one leasing company activated leasing arrangements in a materially significant amount of financing, which were concluded at the end of 2013 and

during 2014, but the activation of which was delayed until the moment of the equipment being delivered (a specific type of equipment with long periods of delivery).

As of 31.03.2015, net receivables for loans amounted to KM 56 080 thousand or 11.61% of the amount of total assets of the leasing sector. Compared to 31.12.2014, net receivables for loans fell by KM 867 thousand or 1.52%, while gross receivables fell by KM 619 thousand or 0.95%. Receivables for loans in the structure of total assets of leasing companies are continuously decreasing, since the Law on Leasing prohibited leasing companies from concluding loan agreements and the aforementioned will remain in the balance sheet until the contracted periods of time they were granted for expire. If observed by period, loan repayment showed signs of stagnation (slow repayment) due to the fact that, in previous business periods, a leasing company whose portfolio has a significant amount of loan receivables approved a moratorium in the payment of contractual obligations until the completion of the process of revitalising business operations of clients to whom the aforementioned had been approved.

Out of the total recorded amount of net receivables for loans, KM 54 236 thousand or 96.71% accounts for receivables of one leasing company with a significant amount of loan receivables in its portfolio. KM 42 726 thousand or 78.78% of that account for receivables from subsidiaries, which had been used for real estate construction projects before the Law on Leasing was passed.

In the loans receivables structure, 79.35% accounts for loans approved for real estate financing.

As of 31.03.2015, the recorded balance sheet item Cash and Cash Equivalents amounted to KM 16 220 thousand, which is lower by KM 9 422 thousand or 36.74% compared to 31.12.2014. The share of this balance sheet item in total assets dropped from 5.14%, to which it amounted at the end of 2014, to 3.36%, to which it amounted as of 31.03.2015. As of 31.03.2015, the recorded balance sheet item Facilities to Banks amounted to KM 17 442 thousand, down by KM 4 462 thousand or 20.37% compared to 31.12.2014. This item mostly relates to term deposits of leasing companies at commercial banks. The significant decrease in the aforementioned items was caused by the leasing companies' repayment of loan commitments due to the reduced volume of new financing.

The net value of fixed assets financed via operational leasing as of 31.03.2015 amounted to KM 26 816 thousand, down by KM 441 thousand or 1.62% compared to 31.12.2014. If observed individually, the net value of fixed assets financed via operational leasing rose for two leasing companies in the amount of KM 879 thousand, while it fell with 4 leasing companies in the amount of KM 1 320 thousand.

Table 2 of this Information provides an overview of net balance sheet positions of assets per reporting periods.

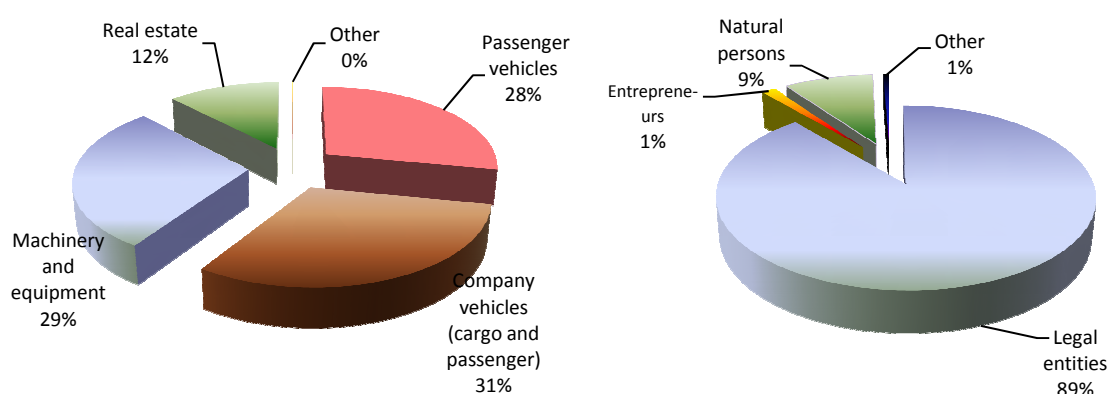
Table 2. Structure of Net Balance Sheet Positions of Assets

(KM 000)

Balance sheet positions	31.12.2014	% share in assets	31.03.2015	% share in assets	31.03.2015 / 31.12.2014
Financial leasing – net	323.400	64.88%	326 194	67.53%	0.86%
Operational leasing – net	27 257	5.47%	26 816	5.55%	-1.62%
Loan – net	56 947	11.43%	56 080	11.61%	-1.52%
Other assets	90 828	18.22%	73 946	15.31%	-18.59%
Total assets	498 432	100.00%	483 036	100.00%	-3.09%

There were no significant changes in the structure of receivables by lessee and leasing object compared to previous reporting periods and the aforementioned is shown in Graph 1.

Graph 1. Structure of Receivables for Financial Leasing Broken Down by Leasing Object and Lessee as of 31.03.2015



2.1.1. Asset Quality

According to data from the reports of leasing companies, loan loss reserves for financial leasing as of 31.03.2015 are recorded in the amount of KM 8 428 thousand and were the same as of 31.12.2014 (up by KM 38 thousand or 0.45%). In the structure of receivables for financial leasing as of 31.03.2015, a total of KM 11 674 thousand outstanding receivables has been recorded, while the amount of KM 9 679 thousand was recorded as of 31.12.2014, up by KM 1 995 thousand or 20.61%.

Table 3 of the Information shows a parallel overview of formed reserves by category of default.

Table 3. Parallel Overview of Formed Reserves for Financial Leasing by Category of Default (KM 000)

Days past due	Total reserves 31.12.2014	Total reserves 31.03.2015	% change
0-60	1 468	1 519	3.47%
60-90	181	373	106.08%
90-180	1 179	1 297	10.01%

More than 180	4 958	4 448	-10.29%
More than 360	604	791	30.96%
TOTAL	8 390	8 428	0.45%

If observed individually, the two largest leasing companies (by size of assets) account for 82.33% of total formed reserves for loan losses. Three leasing companies recorded an increase in formed reserves in the total amount of KM 380 thousand compared to 31.12.2014, while three leasing companies recorded a decrease in total formed reserves for loan losses in the total amount of KM 342 thousand compared to 31.12.2014.

As of 31.03.2015, loan loss reserves amounted to KM 8 677 thousand and rose by KM 248 thousand or 2.94% compared to 31.12.2014, when the loan reserves amounted to KM 8 429 thousand.

Out of the total amount of formed loan loss reserves as of 31.03.2015, KM 8 200 thousand or 94.50% account for reserves formed by one leasing company with the most significant amount of loan receivables from subsidiary companies and receivables from lessees with a significant concentration of the company's exposure.

The total amount of written-off receivables for financial leasing and loans as of 31.03.2015 was KM 123 665 thousand and is at the level of the amount recorded at the end of the previous business year (the total amount of written-off receivables is up by KM 122 thousand or 0.10% compared to 31.12.2014). Out of the total recorded amount of written-off receivables, KM 69 250 thousand or 56.00% account for write-offs by one leasing company. In the course of the first quarter, KM 1 184 thousand of new write-offs were recorded, 89.70% of which account for write-offs by two leasing companies, along with KM 1 035 thousand of written-off receivables being collected, 76.71% of which were collected by one leasing company.

As of 31.03.2015, the market value of repossessed leasing objects amounted to KM 23 704 thousand and fell by KM 1 768 thousand or 6.94% compared to 31.12.2014 due to the termination of leasing arrangements with lessees or the expiration of arrangements with no contracted purchase of leasing objects. The recorded value relates to 121 repossessed units, down by 5 repossessed units or 3.97% compared to 31.12.2014. Table 4 of the Information shows a parallel structure of repossessed leasing objects as of 31.03.2015 and 31.12.2014.

Table 4. Number and Value of Repossessed Leasing Objects

(KM 000)

No.	TYPE OF LEASING OBJECT	31.12.2014		31.03.2015	
		Number of units	Appraised market value	Number of units	Appraised market value
1.	Passenger vehicles	41	609	36	512
2.	Company vehicles (cargo and passenger)	24	927	16	356
3.	Machinery and equipment	34	840	42	1 061
4.	Real estate	27	23 096	27	21 775

5.	Rail vehicles, water and air vehicles	0	0	0	0
6.	Household appliances	0	0	0	0
7.	Other	0	0	0	0
Total		126	25 472	121	23 704

Out of the total appraised value of repossessed leasing objects as of 31.03.2015, KM 21 775 thousand or 91.86% relate to real estate (commercial real estate) repossessed by leasing companies due to the lessees' non-compliance with legal obligations. The total amount of this item relates to three leasing companies. The current market situation and inadequate financing approval criteria cause difficult sales or new financing of repossessed real estate via financial or operational leasing, especially if one takes into account the fact that repossessed real estate constitutes mostly production and commercial facilities.

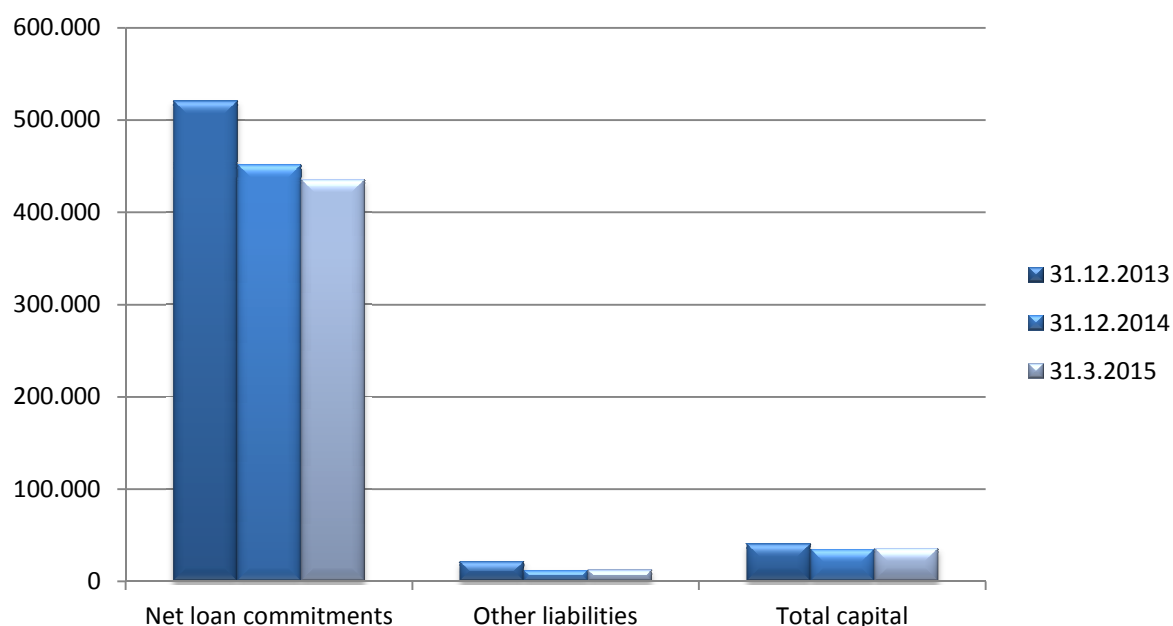
In leasing companies' reports on the basis of approved moratoriums and the rescheduling of receivables in areas affected by the natural disasters, submitted on 31.03.2015, 6 arrangements were recorded with receivables in the the total amount of KM 7 200 thousand, for which the leasing companies approved a moratorium on receivables, as well as 10 arrangements with receivables in the total amount of KM 494 thousand, for which the leasing companies approved a rescheduling of receivables.

U izvještajima lizing društava po osnovu odobrenih moratorijuma i reprograma potraživanja u područjima ugroženim elementarnim nepogodama dostavljenim na dan 31.03.2015. godine iskazano je 6 ugovora sa ukupnim iznosom potraživanja 7.200 hiljada po kojima su lizing društva odobrila moratorij potraživanja i 10 ugovora sa ukupnim iznosom potraživanja u iznosu 494 hiljade KM po kojima su lizing društva odobrila reprogram potraživanja.

2.2. Liabilities Structure

As of 31.03.2015, loan commitments are still a dominant item in the structure of total liabilities of leasing companies (90.11% of the balance sheet total). Graph 3 of the Information provides a parallel structure of sector liabilities as of 31.12.2013, 31.12.2014, and 31.03.2015.

Graph 2. Structure of Liabilities – Parallel Overview (KM 000)



As of 31.03.2015, due to the reduced business activities of leasing companies, total loan commitments are down by KM 16 388 thousand or 3.63% compared to 31.12.2014, when the aforementioned item amounted to KM 451 666 thousand. Out of the total amount of loan commitments, KM 397 479 thousand or 91.32% relate to long-term commitments.

In the period leading up to the financial crisis (late 2008), the leasing sector in B&H had significant sources of funding from abroad. In the circumstances of the effects of the debtors' crisis in Europe (2011), the access to the money market was made more difficult and there were new business strategies of parent groups, which, in addition to the reorganisation and restructuring of the groups, included measures of more restrictive financing of subsidiaries, which affected the leasing companies operating in the FB&H as well.

In the structure of sources of funding, there were no significant changes relative to previous reporting periods. The indebtedness with commercial foreign and local banks belonging to groups to which the leasing companies belong accounts for 63.84% of total loan commitments, while 17.18% account for direct indebtedness with founders and 18.98% relate to indebtedness with European banks (EIB, EBRD, CEDB and DEG). The funds of these banks are mostly purpose funds and relate to development of small and medium-sized enterprises and they have been provided by bank guarantees issued by parent banks or their holding companies.

The total weighted nominal interest rate paid by leasing companies on sources of funding in the period from 01.01. to 31.03.2015 is 2.56% per annum (the interest rate calculated on the basis of the average balance of taken loans and interest expenses in the reporting period) and is slightly down compared to 31.12.2014, when it amounted to 2.97%. Interest rates on sources of funding of leasing companies are mostly linked to the EURIBOR variable index, the value of which amounted to 0.141% during the first quarter of 2015 (value: 6

MEURIBOR) and is somewhat down compared to the average value in 2014, when it amounted to 0.32% per annum.

The total capital of leasing companies as of 31.03.2015 amounted to KM 35 681 thousand. Compared to 31.12.2014, this item is up by KM 925 thousand or 2.66%. The increase was caused by the fact that the sector recorded a profit in terms of business operations as of 31.03.2015.

The founders of the leasing company that recorded a total capital amount lower than the minimum amount prescribed by the provisions of the Law on Leasing have initiated recapitalisation activities during the fourth quarter, and the aforementioned should be completed and recorded in regulatory reports as of 30.06.2015.

The Agency continuously supervises and carries out activities to strengthen the capital of leasing companies whose capital is lower than the minimum amount defined by the Law on Leasing

2.3. Profitability

In the period 01.01. to 31.03.2015, a profit in the amount of KM 925 thousand was recorded at the level of the leasing sector. If observed individually, four leasing companies recorded a positive financial result in the amount of KM 1 747 thousand, while two leasing companies recorded a negative financial result in the amount of KM 822 thousand. Compared to the business result recorded as of 31.03.2014, when a loss in the amount of KM 5 555 was recorded, it can be concluded that the business operations of leasing companies in the FB&H indicate a stabilisation of business operations.

In the period from 01.01. to 31.03.2015, interest income amounted to KM 6 939 thousand. This item saw a decrease of KM 889 thousand or 11.36% compared the same period of the previous year. A look at individual items of interest income reveals that interest income for financial leasing amounted to KM 4 343 thousand, down by KM 1 712 thousand or 28.27% compared to the same period of the previous business year. A drop in the interest income may be explained by a stagnation in interest-bearing assets of leasing companies (stagnation of the active portfolio), reduced new business activities, and a lower value of the EURIBOR, to which output interest rates are linked. The item Other Interest Income is up by KM 281 thousand or 21.39% compared to the same period of the previous year. The item Interest on Facilities to Banks amounted to KM 691 thousand and increased significantly (by 659.34%) compared to the same period of the previous year due to the fact the leasing companies possessed significant amounts of free cash funds that they term deposited at commercial banks in the country.

Interest expenses amounted to KM 2 837 thousand, down by KM 954 thousand or 25.16% compared to the same period of the previous business year. Lower interest expenses are caused by the significantly lower amount of loans due to a decrease in lending activities of leasing companies.

Total net interest income in the period from 01.01. to 31.03.2015 amounted to KM 4 102 thousand, slightly up (by KM 65 thousand or 1.61%) compared to the same period of the previous year. The aforementioned indicates that a decrease in interest income is linearly followed by a decrease in interest expenses.

The item Operating Income is up by KM 1 377 thousand or 28.57% compared to the same period of the previous year due to an increase in income on the basis of collected written-off receivables by KM 448 thousand compared to the previous reporting period and an increase in the item Other income by KM 1 298 thousand.

As of 31.03.2015, the reporting item Costs of Loss Reserves recorded the amount of KM 1 234 thousand, down by KM 5 404 thousand or 81.41% compared to the same period of the previous year, when the reserve costs amounted to KM 6 638 thousand. The aforementioned drop in reserve costs indicates that leasing companies formed adequate loss reserves in the previous business year, which has largely influenced the positive financial result of the current business year.

3. STRUCTURE OF PLACEMENTS, MARKET SHARE, NOMINAL AND EFFECTIVE INTEREST RATES AND LESSEES' COMPLAINTS

3.1. Structure of Placements by Leasing Object and Type

In the first quarter of 2015, there was a slight upward trend in terms of business activities. The value of newly-concluded financial and operational leasing arrangements in the period from 01.01. to 31.03.2015 amounted to KM 39 459 thousand, up by KM 8 869 thousand or 28.99% compared to the same period of the previous year. The number of newly-concluded arrangements in the first quarter of 2015 is 743 and it is at the level of the number of concluded arrangements recorded in the same period of the previous year (down by 2.24% compared to the same period of the previous year).

The value of the newly-concluded arrangements in the first quarter is at the level of the value leasing companies recorded in the fourth quarter of 2014, when the value of newly-concluded arrangements amounted to KM 39 758 thousand.

The average value of arrangements concluded in the first quarter of 2015 amounted to KM 53 thousand and is up compared to the average value of arrangements in the same period of the previous year, when it amounted to KM 40 thousand.

Out of the total generated value of newly-concluded arrangements, KM 38 014 thousand or 93.34% accounts for financial leasing arrangements with an average (weighted) nominal interest rate of 6.18% and a weighted effective interest rate of 8.01%.

Table 5 of the Information shows parallel indicators of new financings by leasing object and type of arrangement.

Table 5. Structure of financing amounts by leasing object

(KM 000)

	Q1 2014			Q1 2015		
	Financial leasing	Operational leasing	TOTAL	Financial leasing	Operational leasing	TOTAL
Vehicles	19 282	4 071	23 353	22 267	1 445	23 712
Equipment	5 205	0	5 205	15 747	0	15 747
Real estate	2 032	0	2 032	0	0	0
Other	0	0	0	0	0	0
TOTAL	26 519	4 071	30 590	38 014	1 445	39 459

The total amount of new financings generated in the first quarter of 2014 and 2015 includes the amount of financing generated by the leasing company seated in Republika Srpska through its branches located in the Federation of B&H (this company generates the majority of its business activities in the Federation of B&H).

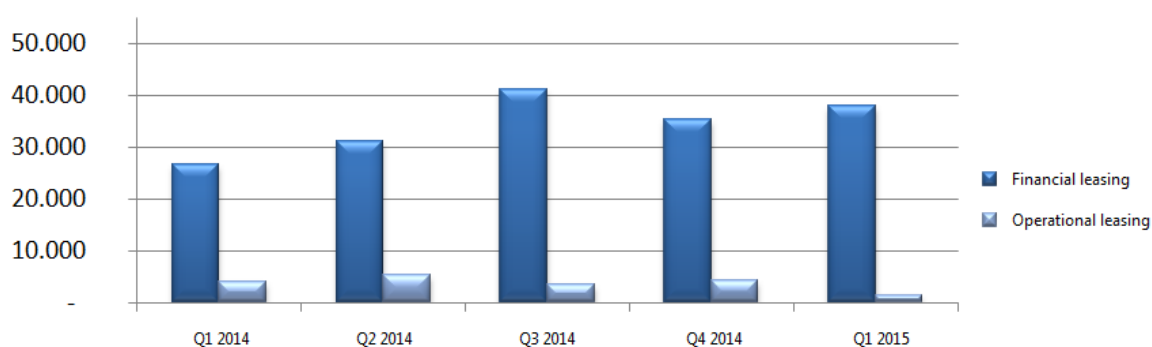
Of the total volume of newly-concluded arrangements, KM 20 778 thousand or 52.68% account for the value of arrangements concluded by one leasing company. It should be noted that, out of the aforementioned amount, KM 10 334 thousand or 51.02% account for arrangements concluded in 2013 and 2014, which were activated and recorded as newly-concluded arrangements in the first quarter of 2015 due to delivery and assembly of the financed equipment (successive delivery and activation of the arrangement).

Please note that, by the owner's decision from 2013, one leasing company terminated new financings to stabilise its business operations and recover existing non-performing facilities as well as that one leasing company recorded a significant drop in the volume of newly-concluded arrangements compared to the same period of the previous year as a result of changes initiated in the ownership structure during the first quarter of 2015, while one leasing company significantly reduced its volume of newly-concluded arrangements compared to previous reporting periods due to internal reorganisation and the outsourcing of individual business functions.

In the structure of new facilities by type of lessee, the facilities to legal entities are predominant (91.07% of the total amount of financing in the first quarter of 2015). One important reason is the fact that financing via leasing arrangements for natural persons is less favourable than loan facilities due to the payment of the VAT on interest rates, which poses additional costs for clients that are not VAT payers.

Graph 3 of the Information provides a parallel overview of the value of newly-concluded financial and operational leasing arrangements by quarter in 2014.

**Graph 3. Parallel Overview of the Value of Newly-Concluded Arrangements in 2014 and Q1 2015
(in KM 000)**

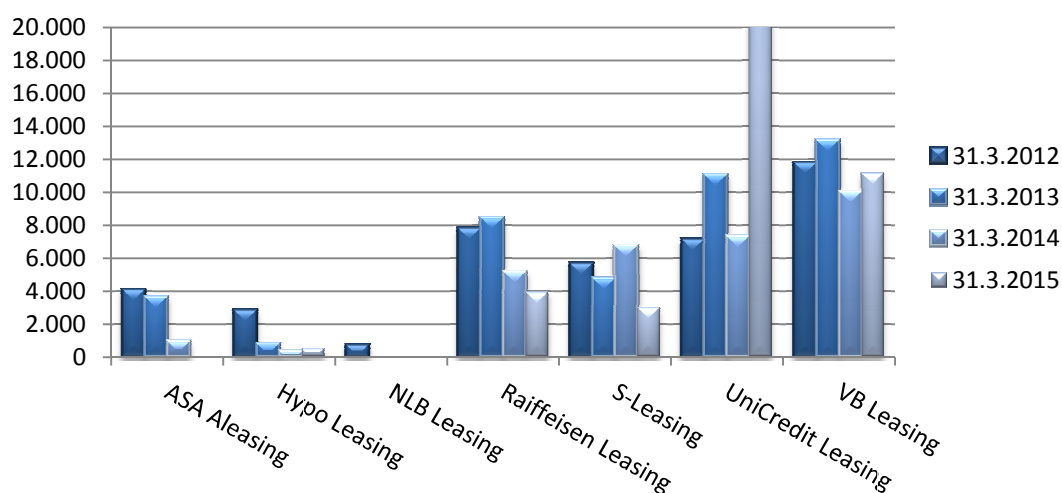


In the first quarter of 2015, the volume of financing via operational leasing arrangements was down by KM 2 626 thousand or 64.50% compared to the same period of the previous business year.

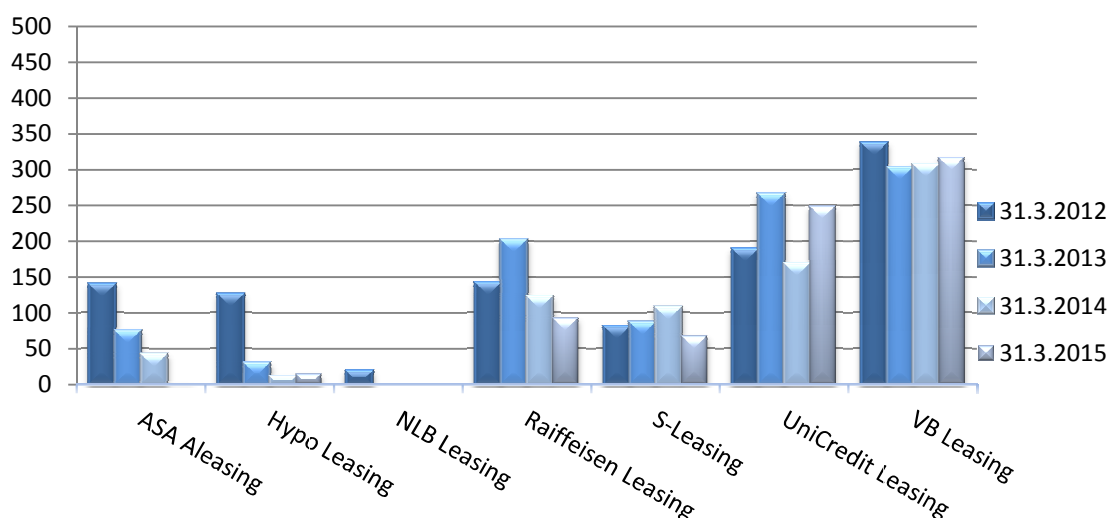
3.2. Market Share by Financial Volume and Number of Arrangements

A parallel overview of individual market shares of leasing companies by total volume and number of newly-concluded financial and operational leasing arrangements is provided in Graphs 4 and 5 of this Information.

Graph 4. Market Share by Volume (in KM 000)



Graph 5. Market Share by Number of Arrangements



The above graphs show that three leasing companies saw an increase in the volume of new financings in the first quarter of 2015 compared to the first quarter of 2014, while three leasing companies saw a decrease in the volume of financings, which ranged from 23.62% to 98.75%. One leasing company had no concluded leasing arrangements in both reporting periods.

3.3. Weighted Nominal and Effective Interest Rate

The effective interest rate is an actual relative price of leasing arrangements, expressed per annum and declared in accordance with the Decision on Uniform Manner and Method of Calculation and Disclosure of Effective Interest Rates for Financial Leasing Agreements.

The total average nominal interest rate for financial leasing arrangements concluded in the first quarter of 2015 amounted to 4.79% for short-term and 6.20% for long-term arrangements, while the effective interest rate for short-term and long-term arrangements amounted to, respectively, 7.27% and 8.02% per annum. The total weighted nominal interest rate for the aforementioned period amounted to 6.18%, while the effective interest rate amounted to 8.01% per annum. Compared to the same period of the previous business year, when the total weighted nominal interest rate was 6.76% and the effective interest rate 9.38% per annum, a significant decrease in interest rates on financial leasing arrangements is evident. A decrease is also evident with respect to weighted nominal and effective interest rates for the whole period of 2014, when they amounted to, respectively, 6.50% and 9.04% per annum.

Table 6 of the Information provides the data on the amount of financing, nominal and effective interest rates for financial leasing arrangements concluded in the first quarter of 2015.

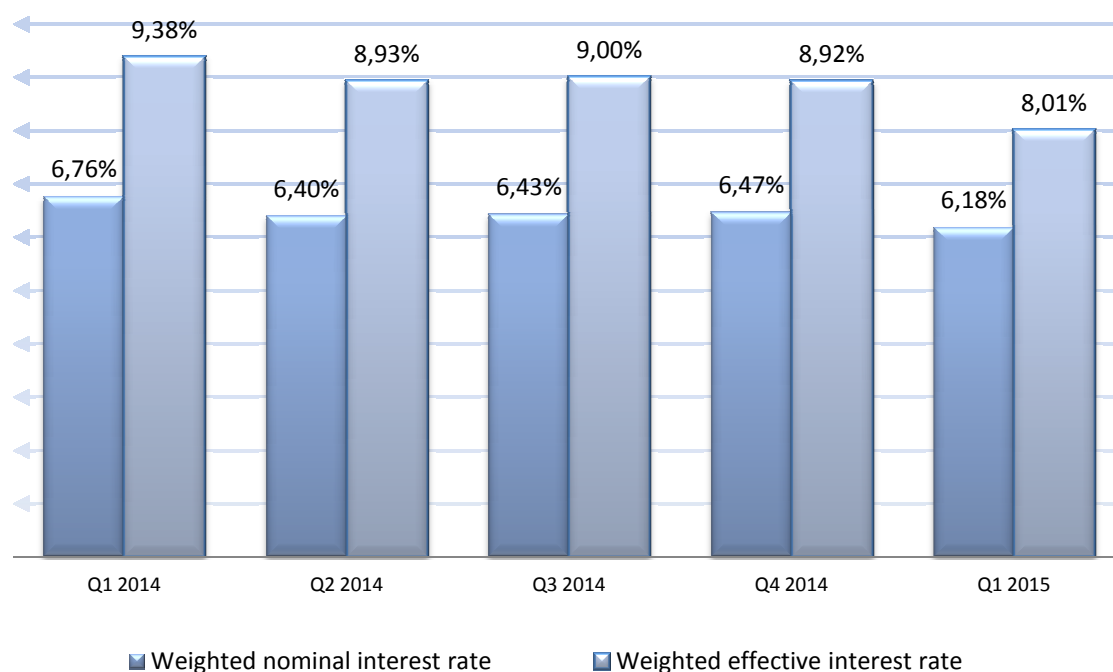
Table 6. Average nominal and effective interest rate for financial leasing arrangements concluded in Q1 2015

No.	DESCRIPTION	No. of contracts	Amount of financing in KM (000)	Weighted nominal interest rate	Weighted effective interest rate
1.	Short-term leasing arrangements by leasing object	22	533	4.79%	7.27%
a.	Passenger vehicles	15	391	4.48%	6.65%
b.	Company vehicles (cargo and passenger)	6	97	6.40%	10.43%
c.	Machinery and equipment	1	45	3.60%	4.66%
d..	Other	0	0	0	0
1.1.	Short-term leasing arrangement by type of lessee:	22	533	4.79%	7.27%
a.	Legal entities	19	501	4.65%	6.91%
b.	Entrepreneurs	0	0	0	0
c.	Natural persons	3	32	6.93%	12.89%
2.	Long-term leasing arrangements by leasing object:	679	37 481	6.20%	8.02%
a.	Passenger vehicles	394	11 360	6.13%	9.07%
b.	Company vehicles (cargo and passenger)	201	10 419	6.03%	8.20%
c.	Machinery and equipment	84	15 702	6.37%	7.14%
d.	Real estate	0	0	0	0
e.	Other	0	0	0	0
2.1.	Long-term leasing arrangements by type of lessee:	679	37 481	6.20%	8.02%
a.	Legal entities	547	34 494	6.27%	7.89%
b.	Entrepreneurs	17	339	6.88%	10.33%
c.	Natural persons	115	2 648	5.18%	9.42%
	TOTAL (1+2)	701	38 014	6.18%	8.01%

The trend of decrease in nominal and effective interest rates during the first quarter of 2015 compared to 2014 is caused by the low value of the variable index (EURIBOR), to which output interest rates are linked, as well as by the fact that, at the end of the previous and the beginning of the current business year, most leasing companies active on the market offered promotional products for which the interest on the financing amount (in whole or in part) was subsidised by the supplier of the leasing object, while the leasing object's casco insurance fee was also subsidised by insurance companies in the case of individual promotional products.

Graph 6 of this Information shows weighted nominal and effective interest rates by quarter.

Graph 6 . Overview of Average Nominal and Effective Interest Rates for Financial Leasing Arrangements by Quarter



The previously presented nominal interest rates are interest rates contracted between a leasing company and lessee when signing a leasing arrangement, while previously stated effective interest rates are discounted rates representing a present value of all future and existing obligations agreed upon between the leasing company and the lessee at an annual level, and they involve all cash flows anticipated under the leasing arrangement referring to the payments of lessees to the leasing company only.

A significant difference between the nominal and effective interest rate is the consequence of the VAT paid on the interest rate, which is a mandatory part of the financial leasing arrangement and is paid in advance by the lessee, the creation of the financial leasing arrangement with purchase value, as well as additional costs of leasing arrangements that are commonly an integral part of a monthly lease in the leasing arrangement. In addition to the aforementioned, the difference in the amount of the nominal and effective interest rate is also influenced by the application of the Law on Protection of Users of Financial Services, according to which the calculation of the EIR for financial leasing arrangements concluded with natural persons also includes the amount of the leasing object's casco insurance fee.

3.4. Lessees' Complaints – Natural Persons

In the period from 01.01. to 31.03.2015, 1 lessee's complaint (natural person) was submitted to the Agency by one leasing company in its reports, with it referring to the amount of the fee on the basis of a concluded financial leasing arrangement. The aforementioned complaint was positively resolved (the contracting parties amicably eliminated the cause of the complaint).

III CONCLUSIONS AND RECOMMENDATIONS

According to performance indicators of leasing companies in the Federation of B&H as of 31.03.2015, it can be concluded that the leasing companies' business operations during the first quarter of 2015 indicate a slight stabilisation of business operations, which is reflected in the more favourable financial indicators, as well as in the total volume of newly-concluded arrangements.

Some leasing companies still have difficulties in their business operations arising from the collection of outstanding receivables from past periods of business operations, while one leasing company recorded a significant drop in business activities due to the outsourcing of basic business functions for which the leasing company was issued a licence by the Agency (sales and control functions), to a commercial bank seated in the FB&H, which belongs to the same group and which is in the ownership structure of the same leasing company. The outsourcing of basic functions for which the leasing company obtained the Agency's licence for performing leasing operations is at odds with the applicable regulations.

Within its competences related to the supervision of leasing companies, the Agency is guided by the principles of transparency, building trust with leasing companies, as well as adequate protection of lessees financed through leasing arrangements in the interest of ensuring the financial stability of particular leasing companies and leasing activities at the level of the Federation of B&H.

In the period to come, the Agency will focus on the following aspects:

- Continuous supervision of the leasing companies through on-site and off-site controls,
- Insistence on the capital strengthening of leasing companies and the internal defining of capital protection and capital adequacy parameters,
- Amendment of legal regulations and by-laws for the leasing sector, which refer to actions and business operations of leasing companies,
- Protection of lessees in the interest of achieving the financial stability of the leasing sector as a whole,
- Monitoring of leasing companies' activities to prevent money laundering and the financing of terrorism and improving the cooperation with other supervision and control institutions,
- Improving the structure and data quality of the Central Loan Registry at the Central Bank of B&H,
- Continuing the permanent education and professional training of staff, and
- Improving the cooperation with the Association of Leasing Companies in B&H in terms of providing support in the implementation of laws and regulations referring to leasing companies and proposals for the amendments of legal regulations.

Activities of leasing companies should be focused on the following:

- Strengthening capital and defining parameters for capital protection and capital adequacy,
- Improving policies and procedures for managing risks to which the leasing companies are exposed in their business operations,
- Improving the scope of products offered on the market and finding new sales channels,
- Strengthening the system of internal controls and the functioning of the internal audit as an independent audit in the fulfilment of their tasks,
- Improving IT support in the interest of more adequate accounting records and better reporting quality,
- Improving methods of information and fair treatment of lessees before and during the contractual relationship,
- Implementing practices of responsible financing,
- Detailed informing of clients on products offered by leasing companies in the interest of a better understanding and more serious approach to financing through leasing arrangements,
- Regular, up-to-date and precise submission of data to the Central Loan Registry at the Central Bank, and
- Harmonising business operations with the Law on Guarantor Protection in the Federation of B&H and the Law on Protection of Users of Financial Services.

IV THE FBA'S REGULATIONS FOR BUSINESS OPERATIONS OF LEASING COMPANIES

Under the Leasing Law, the issuing of licences for establishing and for business operations of leasing companies is defined in detail under the regulations of the FBA, i.e. decisions adopted by the Management Board of the FBA (issued in the "Official Gazette of the Federation of Bosnia and Herzegovina", No.: 46/09, 46/11, 48/12, 110/12, 23/14 and 46/14), as well as instructions adopted by the Director of the FBA.

The FBA's Decisions that define the establishing of the leasing companies and issuing of licences for work and business operations of leasing companies are as follows:

1. Decision on Conditions and Issuance and Revocation Process of Licences for Performing Leasing Operations,
2. Decision on Conditions and Issuance and Revocation Process of Approvals to/from Leasing Companies,
3. Decision on Minimum Standards for Activities of Leasing Companies of Preventing Money Laundering and Financing of Terrorist Activities,
4. Decision on Uniform Manner and Method of Calculation and Disclosure of Effective Interest Rates for Financial Leasing Agreements,
5. Decision on Uniform Manner and Method of Calculation and Disclosure of Leasing Fees under the Operational Leasing Agreement,

6. Decision on Form and Contents of Reports Submitted to the Banking Agency of the Federation of B&H by Leasing Companies and Reporting Deadlines,
7. Decision on Minimum Level and Manner of Forming, Managing and Maintaining Loss Reserves and Risk Management in Leasing Companies,
8. Decision on Supervision of Leasing Companies,
9. Decision on Fees Leasing Companies Pay to the Banking Agency of the Federation of B&H,
10. Decision on Conditions and Manner of Customer Complaint Management in Banks, MCOs and Leasing Companies,
11. Decision on Conditions and Manner of Handling Guarantors' Requests for Release from the Guarantor's Obligation,
12. Decision on Minimum Standards for Documenting Financing under Leasing Agreements and Assessing Creditworthiness,
13. Decision on Minimum Requirements in Terms of Content, Comprehensibility and Availability of General and Special Business Conditions of Providers of Financial Services
14. Instructions for Implementing the Decision on Uniform Manner and Method of Calculation and Disclosure of Effective Interest Rates for Financial Leasing Arrangements,
15. Decision on Provisional Measures for Treatment of Obligations on the Basis of Leasing Agreements of Lessees Affected by Natural Disasters
16. Instructions for Drafting Reports of Leasing Companies, and
17. Code of Conduct of Ombudsmen for Banking System of the Federation of Bosnia and Herzegovina

No.: U.O.71-4/15
Sarajevo: 28.03.2015

ANNEXES

Annex 1. Main Data on Leasing Companies as of 31.03.2015

No.	Name of leasing company	Address and seat	Director	Phone	Issuance date of FBA licence	Headcount	Web address
1.	ASA ALEASING d.o.o. Sarajevo	Bulevar Meše Selimovića 16, Sarajevo	Samir Mustafić	+ 387 33 771 222	22.03.2010.	15	www.asa-aleasing.ba
2.	NLB LEASING d.o.o. Sarajevo	Trg Solidarnosti 2a, Sarajevo	Denis Silajdžić	+ 387 33 789 345	19.03.2010.	8	www.nlbleasing.ba
3.	RAIFFEISEN LEASING d.o.o. Sarajevo	Danijela Ozme 3, Sarajevo	Munir Čengić	+ 387 33 254 354	19.01.2010.	25	www.rlbh.ba
4.	S-LEASING d.o.o. Sarajevo	Zmaja od Bosne 7 Sarajevo	Elma Hošo	+ 387 33 565 850	11.02.2010.	17	www.s-leasing.ba
5.	UNICREDIT LEASING d.o.o. Sarajevo	Džemala Bijedića 2, Sarajevo	Izmira Aličić-Tuka	+ 387 33 721 750	16.03.2010.	32	www.unicreditleasing.ba
6.	VB LEASING d.o.o. Sarajevo	Fra Anđela Zvizdovića 1, Sarajevo	Slobodan Vujić	+ 387 33 276 280	12.01.2010.	34	www.vbleasing.ba
					TOTAL	131	

Annex 2. Overview of the Ownership Structure of Leasing Companies as of 31.03.2015

LEASING COMPANY	NAME OF THE OWNER	% share
ASA ALEASING d.o.o. Sarajevo	ASA FINANCE d.d. Sarajevo	17.19%
	ASA AUTO d.o.o. Sarajevo	33.81%
	ALEASING d.o.o. Ljubljana	49.00%
RAIFFEISEN LEASING d.o.o. Sarajevo	RAIFFEISEN LEASING INTERNATIONAL GmbH, Vienna	51.00%
	RAIFFEISEN BANK d.d. Sarajevo, BiH	49.00%
NLB LEASING d.o.o. Sarajevo	NLB d.d. Ljubljana	100.00%
S-LEASING d.o.o. Sarajevo	STEIERMAERKISCHE BANK UND SPARKASSEN AG, Graz	51.00%
	SPARKASSE BANK d.d. Sarajevo	49.00%
UNICREDIT LEASING d.o.o. Sarajevo	UNICREDIT LEASING S.p.A., Milan	100.00%
VB LEASING d.o.o. Sarajevo	VB LEASING INTERNATIONAL GmbH, Vienna	100.00%

Annex 3. Overview of Reserves for Leasing Loans as of 31.03.2015 (in KM 000)

Days past due	Provisioning rate	Amount of receivables	Reserves	Additional calculated allocated reserves	Total reserves
0-60	0.05%	23 339	12	1 160	1.172
60-90	5%	35 551	1 778	476	2.254
90-180	10%	0	0	0	0
180-270	30%	200	60	0	60
270-360	50%	952	476	0	476
More than 360	100%	4 715	4 715	0	4715
TOTAL		64.757	7 040	1 636	8 677

Annex 4. Overview of Reserves for Financial Leasing as of 31.03.2015 (in KM 000)

							Reserves			
Days past due	Provisioning rate for financial leasing (moveables)	Provisioning rate for financial leasing (immoveables)	Amount of receivables for moveables	Amount of receivables for immoveables	Principal amount for moveables	Principal amount for immoveables	For moveables	For immoveables	Additional calculated and allocated reserves	Total reserves
0-60	0.50%	0.50%	272 751	22 135	60 952	6 468	305	32	1 182	1 519
60-90	10%	10%	14 747	2 130	2 192	1 159	219	116	38	373
90-180	50%	50%	2 881	13 877	960	670	480	335	481	1 296
More than 180	100%	75%	4 243	1 065	4 125	393	4 125	294	27	4 448
More than 360	100%	100%	129	664	129	664	129	664	0	793
TOTAL			294 751	39 871	68 358	9 354	5 258	1 441	1 728	8 428

Annex 5. Consolidated Balance Sheet (in KM 000)

No.	DESCRIPTION	31.12.2014		31.03.2015		% growth
		Amount	% in total assets	Amount	% in total assets	31.03.2015/ 31.12.2014
	ASSETS					
1.	Cash and cash equivalents	25 642	5.14%	16 220	3.36%	-36.74%
2.	Placements with banks	21 904	4.39%	17 442	3.61%	-20.37%
3.	Receivables for financial leasing, net	323 400	64.88%	326 194	67.53%	0.86%
3a)	Receivables for financial leasing, gross	375 422	75.32%	380 199	78.71%	1.27%
3b)	Loan loss reserves	8 390	1.68%	8 428	1.74%	0.45%
3c)	Deferred interest income	43 210	8.67%	45 053	9.33%	4.27%
3d)	Deferred fee income	422	0.08%	524	0.11%	24.17%
4.	Receivables from subsidiaries	2	0.00%	2	0.00%	0.00%
5.	Tangible and intangible assets, net	36 093	7.24%	34 592	7.16%	-4.16%
5a)	Tangible and intangible assets – own assets	14 449	2.90%	13 399	2.77%	-7.27%
5b)	Tangible and intangible assets – operational leasing	43 520	8.73%	43 459	9.00%	-0.14%
5c)	Value adjustment – own assets	5 613	1.13%	5 623	1.16%	0.18%
5d)	Value adjustment – operational leasing	16 263	3.26%	16 643	3.45%	2.34%
6.	Long-term investments	52	0.01%	52	0.01%	0.00%
7.	Other assets	91 339	18.33%	88 534	18.33%	-3.07%
7a)	Loans, net	56 947	11.43%	56 080	11.61%	-1.52%
7a1)	Loans (due receivables + non-due principal)	65 376	13.12%	64 757	13.41%	-0.95%
7a2)	Loan loss reserves	8 429	1.69%	8 677	1.80%	2.94%
7b)	Inventories	25 307	5.08%	23 578	4.88%	-6.83%
7c)	Other assets	9 085	1.82%	8 876	1.84%	-2.30%
	TOTAL ASSETS	498 432	100.00%	483 036	100.00%	-3.09%
	LIABILITIES					
9.	Due for taken loans, net	451 666	90.62%	435 278	90.11%	-3.63%
9a)	Due for short-term loans	35 576	7.14%	38 110	7.89%	7.12%
9b)	Due for long-term loans	416 441	83.55%	397 479	82.29%	-4.55%
9c)	Prepaid costs and fees	351	0.07%	311	0.06%	-11.40%
10.	Other liabilities	12 010	2.41%	12 077	2.50%	0.56%
	TOTAL LIABILITIES	463 676	93.03%	447 355	92.61%	-3.52%
11.	Core capital	41 572	8.34%	38 414	7.95%	-7.60%
12.	Reserves	10 584	2.12%	10 584	2.19%	0.00%
13.	Accumulated profit/loss	-17 400	-3.49%	-13 317	-2.76%	-23.47%
	TOTAL CAPITAL	34 756	6.97%	35 681	7.39%	2.66%
	TOTAL LIABILITIES	498 432	100.00%	483 036	100.00%	-3.09%
	Written-off receivables (initial balance)	118 913	23.86%	123 543	25.58%	3.89%
	New write-off (+)	14 104	2.83%	1 184	0.25%	-91.82%
	Collection (-)	2 966	0.60%	1 035	0.21%	-65.10%
	Permanent write-off (-)	6 871	1.38%	27	0.01%	-99.61%
	Written-off receivables (final balance)	123 180	24.71%	123 665	25.60%	0.10%

Annex 6. Consolidated Income Statement (in KM 000)

No.	DESCRIPTION	31.03.2014		31.03.2015		% growth
		Amount (KM 000)	% in total income	Amount (KM 000)	% in total income	31.03.2015/ 31.03.2014
	FINANCIAL INCOME AND EXPENSES					
1.	Interest income	7 828	61.89%	6 939	52.82%	-11.36%
1a)	Interest for financial leasing	6 055	47.87%	4 343	33.06%	-28.27%
1b)	Interest on placements with banks	91	0.72%	691	5.26%	659.34%
1c)	Fees (for processing leasing arrangements, etc.)	368	2.91%	310	2.36%	-15.76%
1d)	Other interest income	1 314	10.39%	1 595	12.14%	21.39%
2.	Interest expenses	3 791	29.97%	2 837	21.60%	-25.16%
2a)	Interest on borrowed funds	3 701	29.26%	2 777	21.14%	-24.97%
2b)	Fees for loan processing	89	0.70%	60	0.46%	-32.58%
2c)	Other interest expenses	1	0.01%	0	0.00%	0.00%
3.	Net interest income	4 037	31.92%	4 102	31.23%	1.61%
	OPERATING INCOME AND EXPENSES					
4.	Operating income	4 820	38.11%	6 197	47.18%	28.57%
4a)	Fees for services	17	0.13%	7	0.05%	-58.82%
4b)	Fees from operational lease	2 961	23.41%	2 943	22.40%	-0.61%
4c)	Income from sale of leasing facilities, net	309	2.44%	0	0.00%	-100.00%
4d)	Other operating income	1 533	12.12%	3 247	24.72%	111.81%
4d)1	Income from collected written-off receivables	495	3.91%	943	7.18%	90.51%
4d)2	Income from notifications	158	1.25%	126	0.96%	-20.25%
4d)3	Other	880	6.96%	2 178	16.58%	147.50%
5.	Operating expenses	7 703	60.90%	8 069	61.43%	4.75%
5a)	Salaries and contributions	1 953	15.44%	1 536	11.69%	-21.35%
5b)	Costs of business premises	2 848	22.52%	4 145	31.55%	45.54%
5c)	Other operating expenses	2 902	22.94%	2 388	18.18%	-17.71%
6.	Costs of loan loss reserves	6 638	52.48%	1 234	9.39%	-81.41%
6a)	Costs of loan loss reserves financial leasing	4 958	39.20%	987	7.51%	-80.09%
6b)	Costs of loan loss reserves borrowings	1 680	13.28%	247	1.88%	-85.30%
7.	Profit before taxes	-5 484	-43.36%	996	7.58%	-118.16%
8.	Profit tax	71	0.56%	71	0.54%	0.00%
9.	Net profit	-5 555	-43.92%	925	7.04%	-116.65%

Annex 7. Balance Sheet Volume Ranking

31.12.2014					31.03.2015				
Leasing company	Balance sheet volume (KM 000)	Share 31.12. 2014	Cumul. share	Rank	Leasing company	Balance sheet volume (KM 000)	Share 31.03.2015	Cumul. share	Balance sheet volume index
Raiffeisen Leasing d.o.o. Sarajevo	151 699	30.44%	30.44%	1.	Raiffeisen Leasing d o o Sarajevo	141 572	29.31%	29.31%	93
UniCredit Leasing d.o.o. Sarajevo	129 491	25.98%	56.41%	2.	UniCredit Leasing d o o Sarajevo	128 190	26.54%	55.85%	99
VB Leasing d.o.o. Sarajevo	109 281	21.92%	78.34%	3.	VB Leasing d o o Sarajevo	110 670	22.91%	78.76%	101
S-Leasing d.o.o. Sarajevo	56 465	11.33%	89.67%	4.	S-Leasing d o o Sarajevo	53 213	11.02%	89.77%	94
NLB Leasing d.o.o. Sarajevo	25 429	5.10%	94.77%	5.	NLB Leasing d o o Sarajevo	24 837	5.14%	94.92%	98
Asa Aleasing d.o.o. Sarajevo	26 067	5.23%	100.00%	6.	Asa ALeasing d o o Sarajevo	24 554	5.08%	100.00%	94
TOTAL	498 432	100.00%			TOTAL	483 036	100.00%		97