



**BOSNIA AND HERZEGOVINA
FEDERATION OF BOSNIA AND HERZEGOVINA
BANKING AGENCY OF 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
AS OF 31.12.2012.

Sarajevo, March 2013.

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1. INTRODUCTION

The Banking Agency of Federation of BiH (in further reading; the Agency), as a regulatory institution which performs the supervision (examination) of the leasing companies, developed the Information on leasing sector in the Federation of BiH (as of 31.12.2012, based on the final unaudited data) based on the analyses of the regulatory reports on performance that the leasing companies submit to the Agency (indirect – off site examination of the performance) and data which it has at disposition from the on-site examinations (direct – on site examination).

Leasing companies' performance is regulated by the Law on leasing which came into effect on 03.01.2009. („Official Gazette of Federation of Bosnia and Herzegovina" number: 85/08 and 39/09). The law regulates establishment, performance and cease of operations of a leasing company, rights and obligations of the parties in the leasing operations, managing risks, financial reporting and supervision of the leasing company performance.

The supervision of the leasing companies was established after the issuing of the license for leasing operations to leasing companies with an aim to permanently monitor the performance and financial condition of each individual leasing company and leasing sector in the Federation of BiH as a whole, determining the compliance in the performance of the leasing companies with the regulations that are in effect, as well as analyzing and evaluating the financial reports of the leasing companies.

During 2011 and 2012 the economic trends in the surroundings had a negative effect on the local economy through the overflow of the debt crises from the euro zone and the region. The noted causes the trend of weakening of the local demand which has been present since 2010, which slowed the business activities of the leasing companies.

The impact of the crises on the real sector is evident, and the consequences will in the coming period inevitably be reflected on the economic environment in which the leasing companies operate, which did have the influence on the aggregate balance sheet of the leasing sector in the Federation of BiH, which as of 31.12.2012., was 694,364 thousand KM, which is by 8, 84% or by 67,355 thousand KM less than as of 31.12.2011.

If the individual leasing companies aggregate balance sheet amounts are compared with the data as of 31.12.2011., it can be concluded that balance sheet of two companies is higher by 5,849 thousand KM, while five companies recorded a decline in a total amount of 73,204 thousand KM.

In the period from 01.01. to 31.12.2012., on the leasing performance level in the Federation of BiH, as a result of performance realized is a loss in the amount of 23,017 thousand KM. Three leasing companies reported a negative financial result in the amount of 27,220 thousand KM, while the remaining four leasing companies reported a positive financial result in the amount of 4,203 thousand KM.

The total leasing companies capital as of 31.12.2012., was 48,584 thousand KM. In comparison to 31.12.2011., the noted position is lower by 4,437 thousand KM or 8, 37% caused by the fact that the sector realized a significant loss in the performance.

The on-site examination of the leasing companies is performed by authorized individuals from the Agency through enhanced and targeted examinations – through examination in the leasing companies. Orders for implementing and correcting noted weaknesses are issued to the examined leasing companies upon completion of the report in order to further improve the leasing company's performance quality, their profitability, soundness and safety in performance of the leasing company.

During 2012, performed were three full scope, three targeted and one joint examination of the leasing company registered in Republic Srpska, performed in cooperation with the examiners of the Banking Agency of Republic Srpska.

The irregularities determined during the on-site examination during 2012 referred mainly to lack of adherence to the provisions of the Law on leasing and pertaining regulations, inadequate accounting accrual of the balance sheet positions of the companies and unreal reporting of the income, inadequate policies and procedures which define the core risks in the leasing companies' performance (credit risk, liquidity risk, operating risk, market risk, concentration risk and other risks) and the manner in which the risks are managed, inadequate existence and operation of the internal control system, business activities which are not in compliance with the provisions of the Articles 5. and 7. of the Law on Leasing, unclear and one sided defining of the contracted provision in regard to the conditions for changing of the variable interest rate and lack of adhering to the contracted provisions by the leasing company in regard to the noted bases, as well as submitting of the incorrect data to the Central Registry of loans in the Central bank of BiH.

The evaluation of the leasing companies' performance compliance with the standards for prevention of money laundering and terrorism financing activities is based on the companies' ratings which are a result of performed examinations of the implemented orders and analyses of the reports which the leasing companies submit to the Agency.

Since the second quarter of 2012, the Sector performs control of the performance in accordance with the Decision on the conditions and manners for performance of leasing companies in regard to leasing services users' complaints with an aim to protect the rights and interests of the lessees („Official gazette of the Federation of Bosnia and Herzegovina” number 48/12).

The adverse movements in the real sector in 2012 in BiH had a negative impact on the leasing activities in the Federation of BiH, which already for the second year in the row reported a decreased volume of financing through the financial and operating leasing (reviewed in regard to the number and value of newly concluded contracts).

In accordance to the fact that the leasing companies in the Federation of BiH have orientation towards mostly the legal entities (86,37% of the receivables in regard to financial leasing refers to legal entities, 12,28% individuals and 1,35% to entrepreneurs and other), it can be concluded that the leasing sector during 2012 is a reflection of the macroeconomic indicators in BiH.

Table 1. Macroeconomic indicators in BiH

Indicators	2010.	2011.	2012.
BDP (MLRD KM)	24,58	25,95	26,80 projection
Real growth rate (%)	0,70%	1,60%	0,60%
Average inflation on the annual level (%)	2,10%	3,70%	2,1%
Unemployment rate in BiH	27,20%	27,60%	28%

* CBBiH data

In addition to the listed macroeconomic indicators, the level of the industrial production on the level of BiH in 2012 is lower by 5,2% in comparison to the same period last year (data from CBBiH).

2. MARKET PARTICIPANTS

2.1. Number of leasing companies

As of 31.12.2012, a total of 7 leasing companies registered in the Federation of BiH perform business activities, while in the period from 2010 to 2011 the leasing operations were performed by 8 leasing companies. The number of leasing companies declined by one company, since in June of 2011, by the Resolution of the Agency, the license for leasing operations performance was revoked from the leasing company which performed with losses higher than capital. The noted company reregistered its activity, and continued its performance, based on the court decision, under a different name.

Seven leasing companies registered in the Federation of BiH performs leasing operations in 21 organizational units – affiliates (of which 17 in FBiH and 4 in RS). Leasing companies licensed for performing leasing operations are:

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

The company Hypo-Alpe Adria Leasing d.o.o Banja Luka is registered in Republic Srpska and performs its business activities on the territory of the Federation of BiH through four registered branches (Sarajevo, Tuzla, Mostar and Vitez).

During 2012, the leasing companies on the territory of the Federation of BiH closed 7 subsidiaries due to a decreased volume of performance (ASA Aleasing d.o.o. Sarajevo closed subsidiaries in Bihać, Mostar and Banja Luka, while Euroleasing d.d. Mostar closed subsidiaries in Livno, Tuzla, Ljubuški and Sarajevo which in the previous periods existed just formally, without business activities and employees).

2.2. Ownership structure

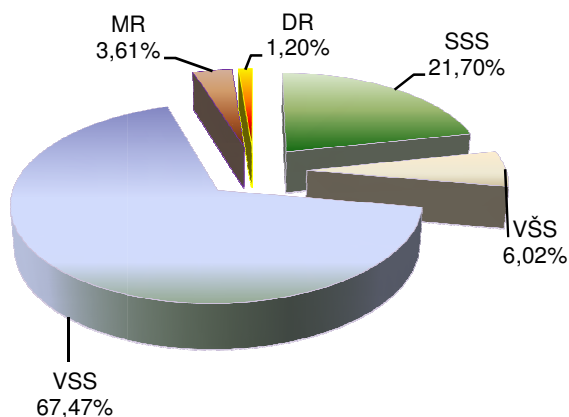
Of seven leasing companies, there are three companies that have a 100% nonresident ownership of parent companies, while three are in majority ownership of their non-resident parent companies and/or local banks established with foreign capital. One company has a majority resident ownership. Detailed data in regard to the ownership structure of the leasing companies are presented in the Attachment 2 of this Information.

2.3. Number of employees in the leasing companies

As of 30.06.2012., in the leasing companies there were a total of 174 employees, which is by 1 employee higher than as of 31.03.2012. Apart from the listed number of employees, the leasing companies engage additional 36 employees through the student services and through the employment agency, of which number 29 employees are engaged in one leasing company.

During 2012, the number of employees through quarters varied from 163 to 174, and at the end of the year it was 166, which presents a decrease in comparison to 2011. (180 employees). The most significant reduction in the number of employees refer to one leasing company (13 employees or 81,25%), due to the repositioning of the employees in the subsidiaries which perform business activities related to the core activity of the leasing company. It should be noted that in addition to the noted number of employees, as of 31.12.2012, in leasing companies there were engaged 39 more employees through the student service and through the employment agent organizations, of which 69,57% refer to employees of one leasing company.

Graph 1. Qualification structure in the leasing sector



The efficiency of the employees, in the evaluation of the leasing companies' performance, is measured through the ratio between the assets and the number of employees (assets per employee). As of 31.12.2012, at the level of the leasing sector there are 4,183 thousand KM in assets that relate to each employee (30.09.2012. – 4,340 thousand KM per employee). The analytical indicators for the individual companies range from 3,400 thousand KM to 5,800 KM in assets per employee. Simultaneously, as of 31.12.2012, in the banking sector this indicator

was 322 thousand KM per employee, and in the banking sector 2,103 thousand KM per employee.

3. BALANCE SHEET STRUCTURE

3.1. Structure of Assets

The total assets of all leasing companies in the Federation of BiH as of 31.12.2012., was 694,364 thousand KM, which in comparison to 31.12.2011., presents a decrease by 67,355 thousand KM or 8,84%. Individually reviewed, two leasing companies had an incline of the balance sheet in comparison to 31.12.2012., in the amount of 5,849 thousand KM. The two largest leasing companies (in regard to the size of assets) have 56,09% of total assets of the leasing companies.

In the structure of total assets, the most significant participation is of the net receivables from financial leasing which are 427,623 thousand KM, and that presents 61,58% of the total assets of leasing sector.

In comparison to 31.12.2011, the net receivables from the financial leasing decreased by 73,003 thousand KM or 14,58%, while the gross receivables from the financial leasing decreased by 84,749 thousand KM or 13,84%. The two largest leasing companies (in regard to the volume of assets) have 55,14% of the total amount of the net receivables from the financial leasing.

The net receivable from loans as of 31.12.2012 were 106,269 thousand KM or 15,30% of the amount of total assets of the leasing sector. In comparison to 31.12.2011, the net receivables from loans decreased by 9,016 thousand KM or 7,82%. Of the total amount of receivables from loans, as of 31.12.2012, 73,723 thousand KM or 69,37% refers to loans granted by two leasing companies to subsidiaries or related legal entities with a goal to finance significant investment projects. The loans were granted before the Law on leasing came into effect. In the structure of the total assets, the loans will remain in the balance sheet of the leasing companies until the contracted deadlines, for which they were granted, expire.

The participation of the cash and cash equivalent positions as of 31.12.2012., was 14,916 thousand KM, which is by 14,921 thousand KM or 50,01% less than as of 31.12.2011. The listed position, at the end of the previous year, had a significant value due to the additional capitalization of one leasing company immediately before the end of the previous business year. The participation of the noted position in the total assets decreased from 3,92%, at the end of 2011, to 2,15%, as of 31.12.2012.

The net value of funds financed through the operating leasing as of 31.12.2012 was 29,692 thousand KM and it decreased by 4,641 thousand KM or 13,52% in comparison to 31.12.2011.

The Table 2 of the Information gives a review of the data of the net balance positions for assets through the reporting periods.

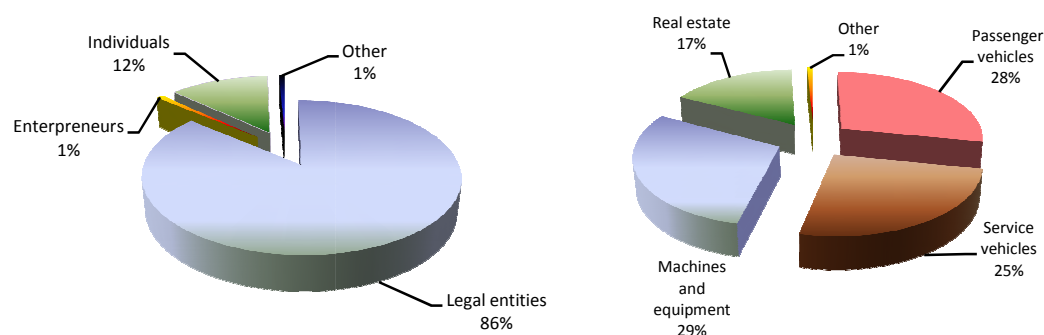
Table 2. Structure of the net balance positions of the assets

(000 KM)

Balance Sheet positions	31.12.2011	% participation in assets	31.12.2012	% participation in assets	31.12.2012/ 31.12.2011
Financial leasing	500.626	66%	427.623	62%	-15%
Operating leasing	34.333	5%	29.692	4%	-14%
Borrowings	115.285	15%	106.269	15%	-8%
Other assets	111.475	14%	130.780	19%	17%
Total Assets	761.719	100%	694.364	100%	-9%

In the assets structure according to the lessee and leasing subject there were no significant changes in relation to the previous reporting periods.

Graph 2. Financial leasing structure according to the leasing subject and lessee as of 31.12.2012.



In the structure of the balance sheet of the financial sector which is supervised by the Agency, 4,29% of the aggregate balance sheet amount belongs to the leasing sector, 92,62% to the banking sector 92,62% and 3,09% to the microcredit sector.

3.2. Asset quality

In accordance with the leasing companies reports, the reserves for losses from financial leasing as of 31.12.2012 have been reported in the amount of 24,603 thousand KM and present an increase by 12,35% or 2,705 thousand KM in comparison to 31.12.2011. Individually reviewed, the amount of 2,342 thousand KM or 86,58% of the total increase of the listed position refers to the increase of the reserves for losses by one leasing company.

In the structure of the provisions for financial leasing losses, 16,272 thousand KM or 66,14% refers to reserves for losses established based on the receivables which are over 180 days past due. Further, the receivables from which are 360 days past due are 2,747 KM and in comparison to 31.12.2011., noted is an increase by 2,312 thousand KM, which refers to the intangible leasing subjects. Of the noted amount of the established reserves for losses which are over 360 days past due, 2,589 thousand KM or 94,56% refers to reserves established by one leasing company.

Reserves for loans as of 31.12.2012 were 3,920 thousand KM and they decreased by 4,789 thousand KM or 54,99% in comparison to 31.12.2011 when the provisioning for loans was 8,709 thousand KM. The reason for the decrease in the reserves for loan losses as of 31.12.2012 in comparison to 31.12.2011 are the write offs of the uncollected receivables and the restructuring (reprogramming) of the receivables which in the previous period were significantly past due. Of the total amount of the established reserves for loans, 2,574 thousand KM or 65,66% refers to reserves established by one leasing company.

The total amount of written off receivables in the financial leasing and loans as of 31.12.2012 was 66,057 thousand KM and it increased by 32,135 thousand or 94,73% in comparison to 31.12.2011. Of the total reported amount of the written off receivables 34,103 thousand KM or 51,63% refers to the write off by one leasing company. The review of the structure of the written off receivables it can be concluded that during 2012 recorded were in the off balance sheet new receivables in the amount of 37,750 thousand KM, of which 25,725 thousand KM or 68,12% refers to the write off established by one leasing company. The review in the same period, based on the collection of the off-balance sheet receivables, recorded the amount of 5,449 thousand KM.

As of 31.12.2012, the market value of the leasing subject taken over, which were taken over due to the breach of the contract with the lessee or termination of the contract in which agreed were no purchases of the leasing subject upon the end of the leasing contract, was 33,424 thousand KM and it increased by 3,412 thousand or 11,37% in comparison to 30.09.2012. In comparison to the previous reporting period, the increase of the market value is reported on the position of the real estate in a total amount of 4,044 thousand KM, while on the other positions reported is a decline in the market value of the taken over leasing subjects. Individually reviewed, 29,204 thousand KM or 87,37% of the value of the leasing subjects which are owned by the leasing companies refer to two leasing companies.

Of the noted amount of the estimated value of the taken over leasing subjects as of 31.12.2012, 26,181 thousand KM or 78,33% refers to real estate (business premises) which the leasing companies came to own due to the lack of implementation of the contracted terms by the lessee. The total amount of the noted position refers to three leasing companies, of which 58,88% or 15,416 thousand KM refers to the value of the taken over real estate of one leasing company.

As of 31.12.2012, there was a total of 139 leasing cases in the category of the leasing subject which are taken over (returned before the deadline) or leasing subjects returned through the regular, of which 91 cases or 65,47% refer to passenger vehicles and service vehicles (terrain and passenger).

The balance of the reported values of the leasing subjects which were taken over indicates to the still present difficult collection of the receivables based on the leasing contracts.

Table 2. Number and value of the leasing subjects taken over

(000 KM)

No.	TYPE OF THE LEASING SUBJECT	Number of units	Estimated market value of the leasing subject (in 000 KM)
1.	Passenger vehicle	62	771
2.	Service vehicle (terrain and passenger)	29	507
3.	Machines and equipment	27	5.962
4.	Real Estate	20	26.181
5.	Tracks, floating and flying vehicles	1	3
Total		139	33.424

The leasing companies refinance to the new lessees the leasing subject which they took over or they sell them to the interested buyers in compliance with the internally defined procedure.

3.3. Placements based on leasing subject and type of leasing

The value of the newly concluded placements in the period from 01.01. to 31.12.2012, was 214,927 thousand KM, which presents a decrease of 48,312 thousand KM or 18,35% in relation to the same period last year.

The review in the same period shows that the number of newly concluded contracts was 5,400, which is by 13,64% less than in comparison to the same period last year. The average value of the contracts in the noted period in 2012 was 40 thousand KM and it is lower in comparison to the average value of the contracts in the same period last year when it was 42 thousand KM. Of the total realized value of the newly concluded contracts, 201,580 thousand KM refers to contracts of the financial leasing with an average (risk weighted) nominal interest rate of 7,40% and risk weighted effective interest rate of 10,07%.

The structure of the financing amount based on the leasing subject and the type of contract is illustrated in the Table 4 of this Information.

Table 4. The structure of the financing amounts according to the leasing subject for 2011 and 2012

(000 KM)

	2011.			2012.		
	Financial leasing	Operating leasing	TOTAL	Financial leasing	Operating leasing	TOTAL
Vehicles	157.380	17.821	175.201	135.375	12.556	147.931
Equipment	55.275	1.774	57.049	52.313	791	53.104
Real Estate	30.989	0	30.989	13.892	0	13.892
TOTAL	243.644	19.595	263.239	201.580	13.347	214.927

The total amount of financing in the period from 01.01. to 31.12.2012. includes the amount of financing realized by the leasing company with the head office in Republic Srpska through the subsidiary on the territory of the Federation of BiH. The noted company realizes the majority of the business activities in the Federation of BiH.

In the structure of the new placements, based on the type of the lessee, dominating are the placements to legal entities (82,56% of total financing amount in 2012.). As one of important reasons is the fact that the financing through leasing for individuals is less favorable in comparison to the loan placements due to the VAT payment on interest, which presents an additional expense to the clients which are not obliged to pay VAT.

New placements in financial and operating leasing in the fourth quarter of 2012. were 56.642 thousand KM and refer to 1.204 activated leasing contracts.

The total amount of financing realized in the fourth quarter of 2012 is by 2.543 thousand KM or 4,70% higher than in comparison to the total amount of financing realized in the third quarter of 2012.

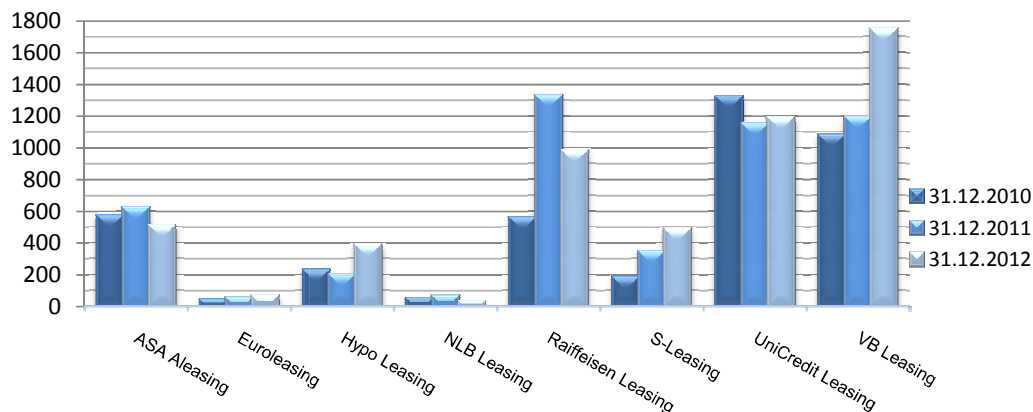
The analyses of the markets of the neighboring countries it was concluded that the majority of the countries with the change in the tax regulations freed the leasing companies from the obligation of the VAT accrual on interest in the financial leasing contracts, which caused positive effects on the financing of individuals through leasing, as well as an increase of the tax liabilities due to the increased turnover of new leasing subjects.

The leasing companies association in BiH also started the initiative for releasing the leasing companies from the obligation of the accrual of the VAT on interest in the financial leasing contracts.

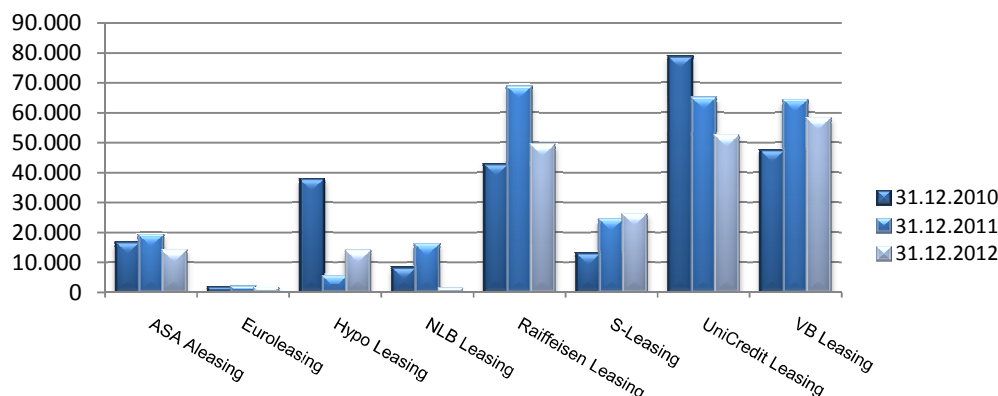
3.4. Market participation according to financial volume and number of contracts

The decrease of the economic activities during 2012 brought to the decline of the investments and spending in general, which influenced the decline of business activities of the leasing companies.

Graph 3. Market participation based on the number of contracts



Graph 4. Market participation based on the volume (in 000 KM)



The comparative study of the realized financing through leasing in BiH during 2012 with data realized in the neighboring countries (Serbia and Croatia), it can be concluded that in the noted markets there was a decline in the financing through leasing in comparison to the previous periods.

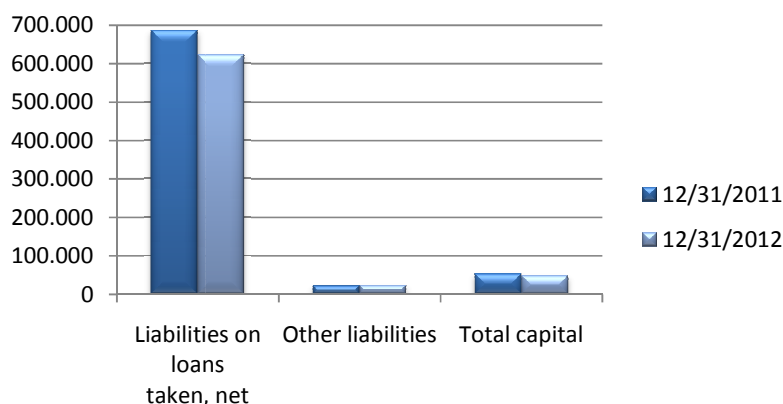
Based on the data published as of 30.09.2012, Europe is the largest leasing market in the world, the indication of which are the data about the new placements which in the USA were 154 billion EUR, in China 106 billion EUR, in Japan 41 billion EUR, while in Europe they are over the amount of 250 billion EUR.

The European leasing market also recorded a decline in the new placements in comparison to the previous year, the indication of which are the data published by the highest European association Leaseurope as of 30.09.2012.

3.5. Structure of Liabilities

As of 31.12.2012., there were no significant changes in the structure of liabilities in comparison to previous reporting periods. Liabilities on taken loans still present a dominant position in the structure of total liabilities (89,67% of the amount of total liabilities).

Graph 5. Structure of liabilities – parallel data (000 KM)



The total liabilities from loans as of 31.12.2012 were 622,603 thousand KM and they decreased by 64,063 thousand KM or 9,33% in comparison to 31.12.2011. Of the total amount of liabilities from loans taken, 553,134 thousand KM or 88,84% refers to long term liabilities.

As of 30.06.2012., the structure of the liabilities from loans is similar to the structure from the previous reporting periods. In the funding sources' structure still dominating is the lending from the parent company or related entities (66% of the total liabilities from loans), while 151,348 thousand KM or 23% refers to the lending from European and local development banks (EIB, EBRD, CEDB, DEG, Development bank of FBiH etc.). The funds from these banks are by nature intended for a specific purpose and mostly refer to development of middle and small enterprises, and are secured by banking guarantees issued by parent banks or their holding companies. Also, in the funding structure, 11% refers to commercial foreign and domestic banks debt.

The total risk weighted nominal interest rate which the leasing company pay for the sources of funds in the first half of 2012 is 4% on the annual level (interest rate calculated on the base of the average balance of the loans taken and interest expenses in the reviewed period).

In the funding sources structure, 57,73% refers to the debt of the commercial foreign and local banks which mostly belong to the groups to which the leasing companies belong to, while 17,67% refers to the direct lending from the founder, and 24,60% to the lending from European and local development banks (EIB, EBRD, CEDB, DEG, etc.). The funds from these banks are by nature intended for a specific purpose and mostly refer to development of middle and small enterprises, and are secured by banking guarantees issued by parent banks or their holding companies.

The total risk weighted nominal interest rate which the leasing company pay for the sources of funds in the period from 01.01. to 31.12.2012 is 3,63% on the annual level (interest rate

calculated on the base of the average balance of the loans taken and interest expenses in the reviewed period).

As of 31.12.2012., the total capital of leasing companies was 48,584 thousand KM and in comparison to 31.12.2011 it decreased by 4,437 thousand KM or 8,37% which is caused by the fact that the leasing sector realized a significant loss in performance. Viewed individually, as of 31.12.2012, one leasing company reported the amount of total capital smaller than the minimum amount of the capital prescribed by the Law on leasing.

The owners of the company, which total capital is lower than the amount prescribed by the Law on leasing, at the end of February of 2013, performed the additional capitalization of the company, with which the amount of the total capital is within the prescribed framework.

4. FINANCIAL RESULTS OF THE PERFORMANCE

At the level of leasing sector in the period from 01.01.2012., to 31.12.2012., reported was a loss in the performance in the amount of 23,017 thousand KM. In the same period last business year on the level of the sector realized was a loss in the amount of 11,703 thousand KM.

If reviewed individually, the profit was realized by four leasing companies in the amount of 4,203 thousand KM, while loss was reported by three leasing companies in the amount of 27,220 thousand KM, of which 23,161 thousand or 85,09% of the realized loss refers to two leasing companies.

Interest income as of 31.12.2012 was 46.017 thousand KM. The noted position is by 2,909 thousand KM or 5,95% lower than in comparison to the same period previous year. If the individual income positions are reviewed, the financial leasing interest income position was 33,805 thousand KM and by 3,408 or 9,16% is lower than in comparison to the same period previous business year. The decline of the interest income can be due to the decrease of the new placements volume (decline of the interest assets), as well as the decline of the reference interest rate (EURIBOR) with which tied are the financial leasing placements. The position of the other interest income increased in regard to the same period previous year by 499 thousand KM or 4,26%.

The expenses from interests were 24,580 thousand KM, which is by 1,581 thousand KM or 6,04% lower than in comparison to the same period last business year.

The total net income reported for the period from 01.01 to 31.12.2012, was 21,437 thousand KM, which presents a decline of 1,328 thousand KM or 5,83% in comparison to the same period previous year.

Within the category of expenses in the period from 01.01.to 31.12.2012, the most significant participation belongs to expenses for provisions for losses which were 52,321 thousand KM or 53,59% of the total realized expenses.

In comparison to the same period last year, the reserve expenses are higher by 1,287 thousand KM or 2,52%.

Of the total amount of the provisions for losses, provisioning expenses for financial leasing are 31,762 thousand KM or 60,71%, while 20,559 thousand or 39,29% refers to reserves for loan expenses.

For the needs of the analyses of the leasing market accrued are the performance indicators which are presented in the Table 5 of this Information. The realized negative result of performance of the leasing sector influenced the profitability of the leasing company (return on average assets and return on average capital) which in 2012 was negative.

Table 5. Basic performance indicators

PERFORMANCE INDICATOR	31.12.2010	31.12.2011	31.12.2012
ROA	-1,64%	-1,54%	-2,85%
ROE	-34,27%	-21,15%	-31,45%
Average active interest rate (financial leasing)	8,22%	7,18%	7,19%
Average passive interest rate	3,45%	3,76%	3,67%
Total liabilities towards capital	15,05	13,37	13,29

5. RISK WEIGHTED NOMINAL AND EFFECTIVE INTEREST RATES

An effective interest rate presents a real relative cost of the leasing contract, reported on the annual level in compliance with the Decision on unified manner and method for accrual and reporting of the effective interest rate for the financial leasing contract ("Official Gazette of the Federation of Bosnia and Herzegovina", number 46/09).

The total average nominal interest rate for the financial leasing contracts concluded during 2012, was 6,34% for the short term and 7,47% for long term, while the effective interest rate for the short term contracts was 9,83% and long term 10,07% on the annual level.

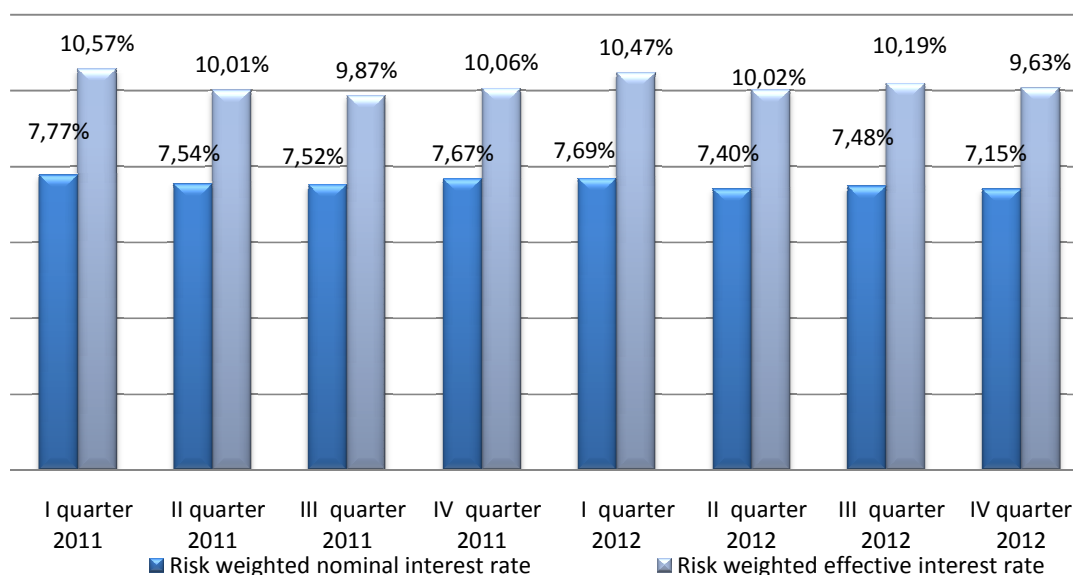
In Table 6 of this Information presented are data about the financing amount, nominal and effective interest rate for the financial leasing contracts concluded during the fourth quarter of 2012.

Table 6. Average nominal and effective interest rates for the financial leasing contracts concluded during the fourth quarter of 2012.

No.	DESCRIPTION	Contract No.	Financing amount in (000) KM	Risk weighted nominal interest rate	Risk weighted effective interest rate
1.	Short term leasing contracts based on the leasing subject:	52	4.135	6,90%	10,51%
a)	Passenger vehicles	38	864	6,94%	10,25%
b)	Performance vehicles (terrain and passengers)	8	187	6,32%	10,26%
c)	Machinery and equipment	5	244	6,85%	10,97%
d)	Real Estate	1	2.840	6,93%	10,57%
1.1.	Short term leasing contracts based on the lessee:	52	4.135	6,90%	10,51%
a)	Legal entities	43	4.050	6,90%	10,47%
b)	Entrepreneurs	0	0	0	0
c)	Individuals	9	85	7,06%	12,32%
2.	Long term leasing contracts based on the leasing subject:	1.063	49.778	7,17%	9,56%
a)	Passenger vehicles	579	15.406	7,62%	10,46%
b)	Performance vehicles (terrain and passengers)	301	13.214	7,47%	10,26%
c)	Machinery and equipment	160	15.238	6,76%	8,95%
d)	Real Estate	12	5.421	6,13%	6,72%
e)	Track, floating and flying vehicles	11	499	8,89%	12,55%
2.1	Long term leasing contracts based on the lessee:	1.063	49.778	7,17%	9,56%
a)	Legal entities	812	44.452	7,05%	9,36%
b)	Entrepreneurs	28	708	9,05%	12,80%
c)	Individuals	223	4.618	7,94%	10,96%
TOTAL		1.115	53.913	7,15%	9,63%

If the risk weighted nominal and effective interest rates are reviewed with the values of the same in the previous reporting periods, concluded is that there are no significant differences, which is illustrated in the Graph number 6 of this Information.

Graph 6. Review of the average risk weighted nominal and effective interest rates for the contracts about the financial leasing through quarters during 2011 and 2012.



The significant difference between the nominal and effective interest rate is a consequence of the VAT on interest, which is an obligatory part of leasing contract for financial leasing (paid in advance by the lessee), creation of the financial leasing contract with the purchase value, as well as the additional cost of the leasing arrangement that are often integral part of the monthly rental for the leasing contract (Casco insurance etc.).

The leasing companies are obliged to report to the Agency on the monthly basis about the risk weighted nominal and effective interest rates in compliance with the proscribed methodology for the contracts on financial leasing that were approved in the reporting month. In such manner realized is the transparency and comparability of the financing through leasing.

6. PERFORMANCE COMPLIANCE WITH THE STANDARDS FOR PREVENTION OF THE MONEY LAUNDERING AND TERRORISM FINANCING ACTIVITIES

The leasing companies adopted policies and procedures which define the liabilities and activities in regard to the prevention of money laundering and terrorism financing activities. Performed was the appointment of the authorized individuals for coordinating the activities which need to be initiated in order to prevent money laundering and terrorism financing activities. Based on this it can be concluded that the leasing companies took needed actions in order to eliminate the risk from money laundering and terrorism financing activities, which could appear in their performance.

6.1. Client acceptance

The leasing companies adopted the policy on clients' acceptance. However, this policy does not adequately define the classification of the clients in the risk groups and the client profile registries are mostly not established.

6.2. Client identification and monitoring of the activities

The policy on identification and monitoring of the leasing companies' clients activates defines the obligation for client identification, client identity verification and constant monitoring of clients activities. In its operations the companies performed the identification of the clients. However, they did not in all cases perform the verification of the client's identity, or they did not for their needs secure the documentation which is used to document the establishment of a business relation. Also, performed is not a continued monitoring of clients, and the policies do not define the volume and frequency for the monitoring.

6.3. Money laundering and terrorism financing activities risk management

The elements of the noted policy are defined in the leasing companies programs. However, certain problems still exist in defining the reporting lines, internal and external, and present are problems in appointing and functioning of individuals authorized for initiating actions on prevention of money laundering and terrorism financing activities. The problems exist in the organization of internal audit in the part for revision of the compliance of the leasing company with the standards for prevention of money laundering and terrorism financing activities.

Although, the quality of the money laundering and terrorism financing risk management is marginal satisfactory, there are no reasons for special supervisory concern in regard to managing this risk, since the quantity of money laundering and terrorism financing risk is moderate. In addition, based on the findings determined during the examination of the implementation of the order (16 orders implemented, 20 partially and 3 orders not implemented, in spite the fact that measures were taken in regard to their implementation) it can be concluded that the trend in the quality of the money laundering and terrorism financing activities risk management changed direction and is now improving.

7. CONCLUSIONS AND RECOMMENDATIONS

According to the indicators of the leasing companies' performance in FBiH, as of 31.12.2012, it can be concluded that the leasing sector in FBiH during 2012 showed a decreasing trend in comparison to the previous year.

Some of the leasing companies still have difficulties in performance that are coming from the collection of the existing receivables that were generated in the previous periods.

The impact of the crises on the real sector is evident, and the consequence will inevitably be reflected in the coming period on the economic environment in which the leasing companies operate.

Within its responsibilities related to the supervision of the leasing companies the Agency will be guided by the principles of transparency, building the trust in the leasing companies, as well as adequate protection of the users of the financial services financed through the leasing with an aim to realize financial stability of individual companies and leasing operations on the territory of the Federation of BiH.

In the third quarter of 2012, meetings were held with seven leasing companies which operate on the territory of the Federation of Bosnia and Herzegovina, with an aim to promote and preserve the stable leasing sector as well as the adequate supervision of the legality of the leasing companies operations. At the meetings presented were information about the current events in individual leasing companies, possible problems which impact the development of the financing through the leasing operations, possibilities for improvement of the legal framework which regulates this area, as well as the supervision implemented by the Agency as the regulator. It is agreed that the problems related to the development of the financing through leasing operations will be resolved institutionally, or that the Agency will within the framework of its authorities support the proposal for the changes and additions to the Law on leasing at the Ministry of finance of the Federation of BiH in regard to the approved activity of the leasing company.

In the coming period the Agency will focus on the following aspects:

- continue the ongoing supervision of the leasing companies through on site and off site supervision,
- insist on capital enhancements for the leasing sector and internal defining of the benchmarks for capital protection and capital adequacy,
- enhance the leasing sector regulations in the segment of actions and performance of the leasing companies,
- monitor the activities of the leasing companies related to prevention of money laundering and terrorism financing and improve the cooperation with other institutions for examination and control;
- further improvement of the information technology system, which based on the reports of the leasing companies will provide an early warning system and preventive actions in regard to correcting the weaknesses in the performance of the leasing companies;
- improving the structure and quality of the data in the Central Register of loans in the Central Bank of BiH;
- continue the permanent education and professional specialization of the employees and
- improve the cooperation with the Association of the leasing companies in BiH, in reference to the providing of the professional assistance in the implementation of the provisions of the laws and regulations for the leasing companies and the proposals for the changes in the regulations.

In addition to the noted, in 2013 expected is adoption of the Law on protection of the users of financial services. The Agency will, through regular examinations, monitor the performance of the leasing companies in accordance with the noted law.

In the coming period the leasing companies should put additional focus on the control of the past due receivables, that is the highest attention should be devoted to the non performing placements and initiating actions in regard to the improvement of the collection of the due receivables.

Leasing company activities should be directed towards:

- capital strengthening and defining parameters for protection of capital and capital adequacy;
- improvement of policies and procedure for managing the risks that the leasing companies are exposed to in their performance;
- establishment of the internal controls and the internal audit function as independent in performing their tasks;
- update of computer support with an aim to provide adequate accounting records and better quality reporting;
- improvement in regard to the protection of the users of the leasing services;
- implementation of the responsible financing practices;
- informing the clients in more details about the products offered by the leasing companies with an aim of accomplishing a better understanding and a more serious approach to financing through leasing and
- regular, timely and correct reporting of data to the Central Loan Registry at the Central Bank of BiH.

8. REGULATIONS OF THE AGENCY FOR THE PERFORMANCE OF THE LEASING COMPANIES

According to the Law on leasing, the issuing of the licenses for establishment and performance of leasing companies is regulated in details by the regulations of the Banking Agency of Federation of Bosnia and Herzegovina (in further reading Agency), that is by the decisions adopted by the Management Board of the Agency (published in the "Official Gazette of the Federation of Bosnia and Herzegovina " number: 46/09, 46/11, 48/12 and 110/12), as well as the instructions adopted by the Director of the Agency.

The decisions of the Agency that regulate the establishment and issuing of the license for performance and operations of leasing companies are:

1. Decision on conditions and procedure for issuing and revoking the license for performing leasing operations,
2. Decision on condition and procedure for issuing and revoking approvals to a leasing company,

3. Decision on minimal standards for the activities of the leasing company on prevention of money laundering and terrorism financing,
4. Decision on unified manner and method for accrual and reporting of effective interest rate for financial leasing contracts,
5. Decision on unified manner and method for accrual and reporting of leasing fees for operating leasing contracts,
6. Decision on form and content of reporting that the leasing companies submit to the Banking Agency of Federation of BiH and reporting deadlines,
7. Decision on minimal amount and manner for allocation, managing and maintaining the reserves for losses and managing the leasing company risks,
8. Decision on supervision of leasing companies,
9. Decision on the fees that the leasing companies pay to the Banking Agency of Federation of BiH,
10. Decision on conditions and manner of performance for the leasing companies in regard to the complaints of the users of the leasing companies' services.
11. Instructions for implementation of the Decision on the unified manner and method for accrual and reporting of the effective interest rate for contracts on financial leasing and
12. Instructions for development of leasing companies' reports.

9. ATTACHMENTS

Attachment 1. Leasing companies' basic data as of 31.12.2012.

No.	Leasing company name	Address and head office	Director	Telephone	Date of issuing of the FBA license	No. of employees	Web address
1.	ASA Aleasing d.o.o. Sarajevo	Bulevar Meše Selimovića 16, Sarajevo	Alma Kadrić	+ 387 33 771 222	22.03.2010	16	www.asa-aleasing.ba
2.	Euroleasing d.d. Mostar	Vukovarska 1, Mostar	Renata Perić	+ 387 36 394 500	03.02.2010	6	www.euroleasing.ba
3.	NLB Leasing d.o.o. Sarajevo	Trg Solidarnosti 2a, Sarajevo	Dalida Međedović	+ 387 33 789 345	19.03.2010	10	www.nlbleasing.ba
4.	Raiffeisen Leasing d.o.o. Sarajevo	Danijela Ozme 3, Sarajevo	Belma Sekavić - Bandić	+ 387 33 254 354	19.01.2010	55	www.rlhb.ba
5.	S-Leasing d.o.o. Sarajevo	Zmaja od Bosne 7 Sarajevo	Elma Hošo	+ 387 33 565 850	11.02.2010	11	www.s-leasing.ba
6.	UniCredit Leasing d.o.o. Sarajevo	Džemala Bijedića 2, Sarajevo	Denis Silajdžić	+ 387 33 721 750	16.03.2010	33	www.unicreditleasing.ba
7.	VB Leasing d.o.o. Sarajevo	Fra Anđela Zvizdovića 1, Sarajevo	Slobodan Vujić	+ 387 33 276 280	12.01.2010	35	www.vbleasing.ba
					TOTAL	166	

Attachment 2. Review of leasing companies' ownership structure as of 31.12.2012.

LEASING COMPANY	NAME OF THE OWNER	% participation
ASA ALEASING d.o.o. Sarajevo	ASA FINANCE d.d. Sarajevo	51,00%
	ALEASING d.o.o. Celje	49,00%
EUROLEASING d.d. Mostar	EUROLEASING d.o.o. Zagreb	27,24%
	EUROHERC osiguranje d.d. Sarajevo	17,66%
	EUROHERC osiguranje d.d. Zagreb	13,52%
	BSO d.d. Sarajevo	8,44%
	AGRAM životno osiguranje d.d. Zagreb	6,79%
	JADRANSKO osiguranje d.d. Zagreb	6,79%
	EUROAGRAM TIS d.o.o. Zagreb	6,50%
	EURO DAUS d.d. Split	6,50%
	EURODOM d.o.o. Osijek	6,50%
	AGRAM d.d. Ljubuški	0,06%
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	90,00%
	SPARKASSE BANK d.d. Sarajevo	10,00%
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%

Attachment 3. Review of provisioning for leasing loans as of 31.12.2012. (in 000 KM)

No.	Days of delinquency	Provisioning rate	Amount of receivable	Higher accrued allocated reserves	Total provisioning
1	0-60	0,05%	69.405	84	118
2	60-90	5%	6.273	0	314
3	90-180	10%	34.324	0	3.432
4	180-270	30%	187	0	56
5	270-360	50%	0	0	0
6	over 360	100%	0	0	0
TOTAL			110.189	84	3.920

Attachment 4. Review of provisioning for financial leasing (FL) of leasing companies as of 31.12.2012. (in 000 KM)

Days of delinquency	Provisioning rate for FL (movables)	Provisioning rate for FL (immovable)	Amount of receivables for movables	Amount of receivables for immovable	Amount of base for movables	Amount of base for immovable	Reserves			
							For movables	For immovable	Surplus of accrued and allocated reserve	Total reserves
0-60	0,50%	0,50%	305.027	45.525	49.120	5.364	246	27	280	552
60-90	10%	10%	21.160	5.998	4.723	1.374	472	137	40	649
90-180	50%	50%	30.500	12.678	5.291	3.175	2.646	1.588	150	4.383
over 180	100%	75%	18.890	9.735	16.036	292	16.036	219	17	16.272
over 360	100%	100%	124	2.589	158	2.589	158	2.589	0	2.747
TOTAL			375.701	76.525	75.328	12.794	19.557	4.560	487	24.603

Attachment 5. Consolidated Balance Sheet (in 000 KM)

No.	DESCRIPTION	31.12.2011		31.12.2012		% growth
	ASSETS	Amount	% in total assets	Amount	% in total assets	31.12.2012/ 31.12.2011
1.	Cash and cash equivalents	29.837	3,92%	14.916	2,15%	-50,01%
2.	Placements to banks	98	0,01%	12.667	1,82%	100%
3.	Receivables from financial leasing, net (3a-3b-3c-3d)	500.626	65,72%	427.623	61,58%	-14,58%
3a)	receivables from financial leasing, gross	612.257	80,38%	527.508	75,97%	-13,84%
3b)	reserves for losses	21.898	2,87%	24.603	3,54%	12,35%
3c)	deferred income from interest	89.572	11,76%	74.805	10,77%	-16,49%
3d)	deferred income from fees	161	0,02%	477	0,07%	196,27%
4.	Receivables from subsidiaries	0	0,00%	2	0,00%	0,00%
5.	Movable and immovable assets, net (5a+5b-5c-5d)	69.938	9,18%	72.368	10,42%	3,47%
5a)	movable and immovable property-personal funds	42.797	5,62%	52.089	7,50%	21,71%
5b)	movable and immovable property -operating leasing	52.039	6,83%	46.644	6,72%	-10,37%
5c)	correction of value -personal funds	7.192	0,94%	9.413	1,36%	30,88%
5d)	correction of value - operating leasing	17.706	2,32%	16.952	2,44%	-4,26%
6.	Long term investments	572	0,08%	93	0,01%	-83,74%
7.	Other assets	160.648	21,09%	166.695	24,01%	3,76%
7a)	Loans, net (7a1-7a2)	115.285	15,13%	106.269	15,30%	-7,82%
7a1)	loans (past due rec.+not due principal)	123.994	16,28%	110.189	15,87%	-11,13%
7a2)	Reserves for loans	8.709	1,14%	3.920	0,56%	-54,99%
7b)	Other assets	45.363	5,96%	60.426	8,70%	33,21%
	TOTAL ASSETS (1+2+3+4+5+6+7)	761.719	100,00%	694.364	100,00%	-8,84%
	LIABILITIES					
9.	Liabilities from taken loans, net (9a+9b-9c)	686.666	90,15%	622.603	89,67%	-9,33%
9a)	liabilities from short term loans	52.405	6,88%	70.325	10,13%	34,20%
9b)	liabilities from long term loans	635.386	83,41%	553.134	79,66%	-12,95%
9c)	cost and fees paid in advance	1.125	0,15%	856	0,12%	-23,91%
10.	Other liabilities	22.032	2,89%	23.177	3,34%	5,20%
	TOTAL LIABILITIES (9+10)	708.698	93,04%	645.780	93,00%	-8,88%
11.	Core capital	58.939	7,74%	78.869	11,36%	33,81%
12.	Reserves	5.528	0,73%	5.548	0,80%	0,36%
13.	Accumulated profit/loss	-11.446	-1,50%	-35.833	-5,16%	213,06%
	TOTAL CAPITAL (11+12+13)	53.021	6,96%	48.584	7,00%	-8,37%
	TOTAL LIABILITIES	761.719	100,00%	694.364	100,00%	-8,84%
	Written off receivables (opening balance)	26.453	3,47%	33.922	4,89%	28,23%
	New write off (+)	38.391	5,04%	37.750	5,44%	-1,67%
	Collection (-)	30.559	4,01%	5.449	0,78%	-82,17%
	Permanent write off (-)	363	0,05%	166	0,02%	-54,27%
	Written off receivables (final balance)	33.922	4,45%	66.057	9,51%	94,73%

Attachment 6. Consolidated income statement (in 000 KM)

No.	DESCRIPTION	31.12.2011		31.12.2012		% growth 31.12.2012/ 31.12.2011
		Amount (000 KM)	% in total income	Amount (000 KM)	% in total income	
	FINANCIAL INCOME AND EXPENSES					
1.	Interest income (1a+1b)	48.926	45,32%	46.017	47,13%	-5,95%
1a)	Interest on financial leasing	37.213	34,47%	33.805	34,62%	-9,16%
1b)	Other interest income	11.713	10,85%	12.212	13,51%	4,26%
2.	Interest expenses	26.161	24,23%	24.580	25,17%	-6,04%
3.	Net income from interest (1.-2.)	22.765	21,09%	21.437	21,96%	-5,83%
	OPERATING INCOME AND EXPENSES					
4.	Operating income	59.034	54,68%	51.621	52,87%	-12,56%
5.	Operating expenses (5a+5b+5c)	42.046	38,95%	43.286	44,33%	2,95%
5a)	Salary and contributions expenses	8.578	7,95%	8.518	8,72%	-0,70%
5b)	Business premises expenses	13.907	12,88%	14.336	14,68%	3,08%
5c)	Other operating expenses	19.561	18,12%	20.432	20,93%	4,45%
6.	Expenses for reserves for losses	51.034	47,27%	52.321	53,59%	2,52%
6a)	Expenses for financial leasing losses	41.121	38,09%	31.762	32,53%	-22,76%
6b)	Expenses for reserves for borrowing losses	9.913	9,18%	20.559	21,06%	107,39%
7.	Income before taxes	-11.281	-10,45%	-22.549	-23,09%	100%
8.	Income taxes	422	0,39%	468	0,48%	10,90%
9.	Net income	-11.703	-10,84%	-23.017	-23,57%	97%

Attachment 7. Rating the aggregate balance sheet amount

31.12.2011					31.12.2012					
Rating	Leasing company	Balance Sheet amount (000 KM)	Participation 2011.	Cumulative parti.	Rating	Leasing company	Balance Sheet amount (000 KM)	Participation 2012.	Cumulative participation	Balance sheet amount ratio
1.	Raiffeisen Leasing d.o.o. Sarajevo	238.575	31,32%	31,32%	1.	Raiffeisen Leasing d.o.o. Sarajevo	219.292	31,58%	31,58%	92
2.	UniCredit Leasing d.o.o. Sarajevo	185.956	24,41%	55,73%	2.	UniCredit Leasing d.o.o. Sarajevo	170.208	24,51%	56,09%	92
3.	VB Leasing d.o.o. Sarajevo	108.874	14,29%	70,03%	3.	VB Leasing d.o.o. Sarajevo	113.128	16,29%	72,39%	104
4.	NLB Leasing d.o.o. Sarajevo	83.515	10,96%	80,99%	4.	Asa Aleasing d.o.o. Sarajevo	58.405	8,41%	80,80%	84
5.	Asa Aleasing d.o.o. Sarajevo	69.663	9,15%	90,14%	5.	NLB Leasing d.o.o. Sarajevo	58.160	8,38%	89,17%	70
6.	S-Leasing d.o.o. Sarajevo	47.810	6,28%	96,41%	6.	S-Leasing d.o.o. Sarajevo	49.405	7,12%	96,29%	103
7.	Euroleasing d.d. Mostar	27.326	3,59%	100,00%	7.	Euroleasing d.d. Mostar	25.766	3,71%	100,00%	94
TOTAL		761.719	100%		TOTAL		694.364	100%		91