



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

INFORMATION

**ON THE FEDERATION OF BOSNIA AND HERZEGOVINA
BANKING SYSTEM ENTITIES WITH BALANCE AS OF 30/09/2020**

Sarajevo, December 2020

Abbreviations and terms:

DIA	Deposit Insurance Agency of Bosnia and Herzegovina
BD	Brčko District
B&H	Bosnia and Herzegovina
CBB&H	Central Bank of Bosnia and Herzegovina
CLR	Central Loan Register in B&H (for legal entities and private individuals)
EBA	European Banking Authority
ECB	European Central Bank
ECL	Expected credit loss
EFSE	European Fund for Southeast Europe
EIR	Effective Interest Rate
EU	European Union
FBA	Federation of Bosnia and Herzegovina Banking Agency
FB&H	Federation of Bosnia and Herzegovina
FMF	FB&H Ministry of Finance
FSAP	Financial Sector Assessment Program
FX risk	Foreign Exchange Risk
ICAAP	Internal Capital Adequacy Assessment Process
ILAAP	Internal Liquidity Adequacy Assessment Process
LCR	Liquidity Coverage Ratio
MCC	Micro credit company
MCF	Micro credit foundation
MCO	Micro credit organisation
IMF	International Monetary Fund
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
NIR	Nominal Interest Rate
NPL	Non-performing loans
LLP	Loan Loss Provisions
RS	Republic of Srpska
WB	World Bank
BSE	FB&H Banking System Entities: banks, banking groups, development banks, MCOs, leasing companies, factoring companies, exchange offices, and other financial organizations whose operations are supervised by the FBA
SREP	Supervisory Review and Evaluation Process
BAB&H	Banks Association of Bosnia and Herzegovina
B&HALC	B&H Association of Leasing Companies
USAID FINRA Project	United States Agency for International Development - Financial Reform Agenda Activity Project
FBA MB	Management Board of the FB&H Banking Agency
LoA	Law on the Banking Agency of the Federation of Bosnia and Herzegovina
LoB	Law on Banks
LoF	Law on Factoring
LoL	Law on Leasing
LoMCO	Law on Micro Credit Organisations

TABLE OF CONTENTS:

<i>Abbreviations and terms:</i>	2
<i>List of tables:</i>	5
<i>List of charts:</i>	6
EXECUTIVE SUMMARY	7
INTRODUCTION	12
1. BANKING SECTOR	13
1.1. FB&H BANKING SECTOR'S STRUCTURE	13
1.1.1. Status, Number and Business Network.....	13
1.1.2. Ownership Structure and Market Share	14
1.1.3. Staff Structure	16
1.2. FINANCIAL PERFORMANCE INDICATORS	16
1.2.1. Balance Sheet	16
1.2.2. Liabilities	21
1.2.3. Capital and Capital Adequacy.....	25
1.2.4. Credit Risk	28
1.2.5. Profitability.....	34
1.2.6. Weighted NIR and EIR	38
1.2.7. Liquidity.....	39
1.2.8. Foreign Exchange (FX) Risk.....	42
1.3. BANKING SECTOR RECOMMENDATIONS	44
2. NON-DEPOSIT FINANCIAL INSTITUTIONS SECTOR	46
2.1. MICROCREDIT SECTOR	46
2.1.1. MICROCREDIT SECTOR STRUCTURE IN THE FB&H	46
2.1.1.1. Status, Number and Business Network	46
2.1.1.2. Ownership Structure.....	46
2.1.1.3. Staff Structure	46
2.1.2. FINANCIAL INDICATORS OF PERFORMANCE	47
2.1.2.1. Balance Sheet	47
2.1.2.2. Capital and Liabilities	48
2.1.2.3. Assets and Asset Quality	50
2.1.2.4. Financial Performance of the FB&H Microcredit Sector	53
2.1.3. MICROCREDIT SECTOR RECOMMENDATIONS	54
2.2. LEASING SECTOR	55
2.2.1. FB&H LEASING SECTOR STRUCTURE	55
2.2.1.1. Number of Leasing Companies	55
2.2.1.2. Ownership Structure.....	55
2.2.1.3. Staff Structure	55
2.2.2. FINANCIAL INDICATORS OF PERFORMANCE	56
2.2.2.1. Balance Sheet	56
2.2.2.2. Capital and Liabilities	58
2.2.2.3. Assets and Asset Quality	58
2.2.2.4. Profitability	59
2.2.2.5. Structure of Placements According to Subject and Type of Leasing.....	61
2.2.3. LEASING SECTOR RECOMMENDATIONS.....	62
2.3. FACTORING BUSINESS	63
2.3.1. Participants in the FB&H Factoring Market	63
2.3.2. Scope, Structure and Trend of Factoring Business in the FB&H	63

2.3.3. RECOMMENDATIONS FOR THE FACTORING BUSINESS	65
CONCLUSION	66
ANNEXES – BANKING SECTOR – data as of 30/09/2020	68
Annex 1 - Basic information on FB&H banks	68
Annex 2 - FB&H banks’ balance sheet according to FBA scheme (active sub-balance sheet)	69
Annex 3 - Overview of assets, loans and deposits of FB&H banks	70
Annex 4 - Sector Structure of Loans in the FB&H and ECL	71
Annex 5 - FB&H banks’ income statement according to FBA’s scheme	72
Annex 6 - Weighted average NIR and EIR on loans and deposits by periods	73
ANNEXES - MICROCREDIT SECTOR – data as of 30/09/2020	74
Annex 7 - Basic information on FB&H MCOs	74
Annex 8 - MCFs' aggregate balance sheet	75
Annex 9 - MCCs' aggregate balance sheet	76
Annex 10 - Overview of key indicators of MCOs in the FB&H	77
Annex 11 - Overview of average weighted NIR and EIR for MCOs	78
Annex 11a - Comparative overview of average weighted NIR and EIR for MCOs	78
Annex 12 - MCFs aggregate income statement	79
Annex 13 - MCCs aggregate income statement	80
ANNEXES – LEASING SECTOR (data as of 30/09/2020)	81
Annex 14 - Basic information on leasing companies in the FB&H	81
Annex 15 - Leasing companies’ aggregate balance sheet	82
Annex 16 - Basic indicators of leasing companies in the FB&H	83
Annex 17 - Leasing companies’ aggregate income statement	84
Annex 18 - Overview of weighted NIR and EIR for financial leasing contracts	85
Annex 18a - Comparative overview of average weighted NIR and EIR for financial leasing contracts	- % - 85

List of tables:

Table 1:	Banks in the FB&H, organisational parts of RS banks doing business in the FB&H and network of ATMs and POS devices.....	13
Table 2:	Ownership structure according to total capital.....	15
Table 3:	Ownership structure according to state-owned, private and foreign capital.....	15
Table 4:	Qualification structure of employees in FB&H banks.....	16
Table 5:	Total assets per employee	16
Table 6:	Balance sheet.....	17
Table 7:	Banks' assets according to ownership structure.....	18
Table 8:	Share of groups of banks in total assets through periods.....	19
Table 9:	Banks' cash.....	20
Table 10:	Investments in securities according to type of instrument.....	20
Table 11:	Securities of B&H entity governments.....	20
Table 12:	Sector structure of deposits	22
Table 13:	Retail savings.....	23
Table 14:	Maturity structure of retail savings deposits by periods.....	24
Table 15:	Retail loans, savings and deposits.....	24
Table 16:	Report on the balance of own funds.....	25
Table 17:	Risk exposure structure.....	26
Table 18:	Capital adequacy indicators.....	27
Table 19:	Financial leverage ratio.....	28
Table 20:	Financial assets, off-balance sheet items and ECL.....	29
Table 21:	Exposures by credit risk grades.....	29
Table 22:	Loan structure by sectors.....	31
Table 23:	Maturity structure of loans.....	31
Table 24:	Loans by credit risk grades.....	32
Table 25:	Actual financial performance: profit/loss.....	35
Table 26:	Structure of total income.....	35
Table 27:	Structure of total expenses.....	36
Table 28:	Profitability, productivity, and efficiency ratios by periods.....	37
Table 29:	LCR.....	39
Table 30:	Maturity structure of deposits by residual maturity.....	39
Table 31:	Liquidity ratios	40
Table 32:	Maturity matching of financial assets and financial liabilities of up to 180 days.....	41
Table 33:	Foreign exchange matching of financial assets and financial liabilities (EUR and total).....	43
Table 34:	Qualification structure of employees in MCOs in the FB&H.....	47
Table 35:	Microcredit sector's balance sheet	47
Table 36:	Maturity structure of loans taken.....	48
Table 37:	Microcredit sector's capital structure.....	49
Table 38:	Net microloans	50
Table 39:	Sector and maturity structure of microloans.....	50
Table 40:	LLP.....	51
Table 41:	Aggregate income statement of the microcredit sector.....	53
Table 42:	Qualification structure of employees in leasing companies in the FB&H.....	55
Table 43:	Structure of financial leasing receivables.....	56
Table 44:	Structure of financial leasing receivables – comparative overview.....	57
Table 45:	Structure of net balance sheet assets positions.....	58
Table 46:	Overview of financial leasing reserves.....	58
Table 47:	Structure of total income	60
Table 48:	Structure of total expenses.....	60
Table 49:	Structure of financing amount of the leasing system.....	60
Table 50:	Redeemed monetary claims and settled payables of buyers to suppliers in the FB&H - by type of factoring and domicile status	64

List of charts:

Chart 1:	Structure of foreign capital by countries (share in %)	14
Chart 2:	Structure of foreign capital by countries – residence of the group, share in %	15
Chart 3:	Herfindahl index of concentration in assets, loans, and deposits	18
Chart 4:	Concentration ratios for five biggest banks - CR5: assets, loans, and deposits	19
Chart 5:	Structure of investments in securities according to the criterion of country issuer	21
Chart 6:	Total deposits (BAM 000)	22
Chart 7:	Loan-to-deposit ratio	22
Chart 8:	Retail savings by periods	24
Chart 9:	Loans (BAM 000)	31
Chart 10:	Share of NPLs in loans	33
Chart 11:	Maturity matching of financial assets and financial liabilities of up to 180 days	42

EXECUTIVE SUMMARY

FB&H Banking Sector's Key Performance Indicators

15 commercial banks, with 538 organisational units employing a total of 6,534 persons, operated in the FB&H as at 30/09/2020. This number is lower by 125 employees compared to the end of 2019.

The total net assets across the FB&H banking sector as of 30/09/2020 were BAM 23.8 billion and were lower by BAM 403.8 million or 1.7% compared to 31/12/2019.

The FB&H banks' total capital amounted to BAM 3 billion, which was lower by BAM 98.9 million or 3.2% compared to the end of 2019, of which shareholders' capital was BAM 1.3 billion. The share of total capital in the funding sources across the FB&H banking sector was 12.7%.

The own funds amounted to BAM 2.7 billion and increased by BAM 5.4 million or 0.2% compared to the end of 2019. Tier 1 capital decreased by BAM 81.4 million or 3.1%, while Tier 2 capital increased by BAM 86.8 million or 257.2%. This significant increase of Tier 2 capital came as a result of implementation of the Decision on Credit Risk Management and Determination of Expected Credit Losses and cancellation of LLP shortfall as an offset item to Tier 2 capital¹ and cancellation of LLP shortfall as an offset item to Tier 2 capital.

The FB&H banking sector's own funds ratio was 18.2% as at 30/09/2020 and was higher by 0.3 percentage points compared to the end of 2019. It is higher by 6.2 percentage points than the statutory minimum of 12%. Other capital ratios (Common Equity Tier 1 capital ratio and Tier 1 capital ratio) at the FB&H banking sector level were also higher compared to the regulatory minimums.

The financial leverage ratio (i.e. the ratio of Tier 1 capital and total exposure of banks) across the FB&H banking sector was 10.3%, thus being lower by 0.2 percentage points compared to the end of 2019. It is higher by 4.3 percentage points compared to the regulatory minimum of 6%.

Total exposure of banks stood at BAM 28.2 billion, of which BAM 24.4 billion refers to on-balance exposures and BAM 3.8 billion to off-balance items.

Over the first nine months of 2020, balance sheet total decreased against YE2019 by an amount of BAM 317 million or 1.3%. This came as a net effect of a cash decrease and an accounting write-off performed in line with the new regulatory framework, as well as an increase of financial assets measured at fair value. Over the same period, off-balance sheet items rose by BAM 241 million or 6.9%, as largely attributable to an increase of irrevocably approved, but undrawn loans with one bank.

For purpose of standardisation of credit risk management and ECL valuation, as well as for purpose of ensuring alignment with IFRS 9, in 2019, FBA has adopted the Decision on Credit Risk Management and Determination of Expected Credit Losses (effective as of 01/01/2020). The decision introduces a concept of exposure allocation to one of three credit risk grades and ECL determination. This includes credit risk grade 1 (exposures with low risk level and no material defaults of over 30 days), credit risk grade 2 (increased credit risk level, defaults over 30 days) and credit risk grade 3 (exposures are in default status, over 90 dpd). As of 30/09/2020, balance sheet

¹ FB&H Official Gazette Nos. 44/19 and 37/20

exposures within the credit risk grade 1 amounted to BAM 21.6 billion, thus constituting 88.2% of total balance sheet exposures. Balance sheet exposures within the credit risk grade 2 stood at BAM 1.8 billion as of 30/09/2020 and represented 7.3% of the total amount of such exposures, while balance sheet exposures in the credit risk grade 3 amount to BAM 1.1 billion and make up for 4.5% of the said total amount.

As of 30/09/2020, off-balance sheet exposures in the credit risk grade 1 amounted to BAM 3.4 billion and constituted 89.6% of total off-balance sheet exposures. As for credit risk grade 2 exposures, they amount to BAM 384.9 million and hold a share of 10.2% of total off-balance sheet exposures, while credit risk grade 3 includes BAM 6.4 million or 0.2% of total off-balance sheet exposures.

As a result of implementation of the Decision on Credit Risk Management and Determination of Expected Credit Losses, the ECL coverage rates rose against YE2019. The balance sheet exposure coverage in the credit risk grade 1 rose from 0.6% to 0.8%, in credit risk grade 2 from 6.9% to 9.6% and in credit risk grade 3 from 72.7% to 80.4%.

The total ECL coverage for off-balance sheet exposures rose from 1.2% to 1.4%. The coverage increase was noted with the credit risk grades 1 and 2, while the credit risk grade 3 saw a coverage rate reduction, mostly caused by the accounting write off performed in two banks.

As of 30/09/2020, loans amounted to BAM 15.1 billion, down by BAM 107.6 million or 0.7% vs. YE2019. Retail loans hold a share of 48.6% in total loans, went down by 0.8% to BAM 7.3 billion. Corporate loans participate in total loans with 51.4% share, which is a decrease by 0.6% to BAM 7.8 billion.

As of 30/09/2020, the loan portfolio within the credit risk grade 3 (NPL) stood at BAM 1.1 billion, thus constituting 7% of the total loan portfolio (down by BAM 184.9 million or 13% compared to the end of the previous year, as mostly caused by the accounting write off, thus also causing a reduction of total loans). ECL coverage rate for the credit risk grade 3 is 80% (corporate 78% and retail 82.7%), which is higher by 8.1 percentage points vs. 31/12/2019. Over the following period, we can expect an increase of the loan portfolio within the credit risk grade 3 following the expiry of measures prescribed by the FBA aimed at recovery from negative economic consequences caused by COVID-19 (hereinafter: the pandemic) as related to consequences of the pandemic effects on the operations of bank customers.

Out of total corporate loans, BAM 609.7 million or 7.8% refers to NPLs, which is by 2 percentage points lower than at YE2019. As for the retail segment, NPLs amount to BAM 452.9 million or 6.2%, down by 0.3 percentage points vs. YE2019.

Until 30/09/2020, BAM 1.2 billion or 8.2% of total loans was captured by some of the active special measures. Total amount of the corporate loan portfolio subjected to active special measures equaled BAM 998.3 million or 12.8% of the corporate loan portfolio. In the retail segment, active special measures were introduced in relation to the portfolio amount of BAM 237.7 million or 3.2% of the retail loan portfolio.

Cash funds equal BAM 7.2 billion and hold a share of 30.2% in total assets, thus being by BAM 446.7 million or 5.8% lower than at the end of 2019.

As of 30/09/2020, investments in securities equaled BAM 1.8 billion holding a share in assets of 7.5%, thus increasing against the YE2019 by BAM 325.4 million or 22.3%.

Deposits, being the key source of funding for banks, reached an amount of BAM 19.2 billion with a share of 80.6% in total liabilities. Compared to the end of 2019, they went down by BAM 236.8 million or 1.2%. Savings deposits as the most significant and the biggest segment of deposit and financial potential of banks, increased by BAM 30.6 million or 0.3% to BAM 9.6 billion. This is an important indicator of the citizens' trust in the banking system.

The loans taken amounted to BAM 802.7 million with a share of 3.4% in total liabilities, thus going down by BAM 53.9 million or 6.3% vs. YE2019.

By observing the key liquidity indicators, qualitative and quantitative requirements, as well as other factors affecting banks' liquidity position, it could be inferred that the FB&H banking sector's liquidity was satisfactory as of 30/09/2020 despite negative effects to the economy caused by the pandemic.

According to reporting data as of 30/09/2020, the FB&H banking sector posted a positive financial result, but this is being by 39.7% lower than in the same period last year. Two banks posted operating loss in the first nine months of 2020.

FB&H Micro Credit Sector's Key Performance Indicators

In the FB&H, as of 30/09/2020, 14 MCOs comprising the FB&H microcredit sector had a license issued by the FBA, of which 11 were MCFs (non-profit organizations) and 3 MCCs (profit organizations). As at 30/09/2020, the number of organisational parts of MCOs seated in the FB&H was 392 employing 1,376 persons. This is higher by 2.4% vs. 31/12/2019.

Total assets of the FB&H micro credit sector as of 30/09/2020 were BAM 647.3 million, which is by BAM 17.7 million or 2.8% higher than as at 31.12.2019. Over the observed period, the rate of total assets increase of MCCs was 1.8% and 3.1% in MCFs.

Total net micro loans were BAM 529.2 million, thus constituting 81.8% of total assets of the FB&H micro credit sector. This is by BAM 22.4 million or 4.4% higher than as of 31/12/2019. The net MCCs' micro loans increased by 5.4%, while at the MCFs' level the increase was 4%, all compared to 31/12/2019.

Until 30/09/2020, total amount of microloans being approved with the moratorium/special measures was BAM 47 million or 8.8%. Thereof, BAM 42.2 million or 8.2% refers to private individuals and BAM 4.8 million or 33% to legal entities.

The FB&H micro credit sector's total liabilities under loans taken were BAM 309.6 million as of 30/09/2020, with a share of 47.8% in total liabilities and increasing by BAM 6.1 million or 2% compared to 31/12/2019. In the reporting period, MCCs' credit obligations decreased by 0.5%, while MCFs' credit obligations increased by 3.4%.

The total capital across the FB&H micro credit sector was BAM 307.7 million or 47.6% of total liabilities as of 30/09/2020 and was higher by BAM 13.4 million or 4.5% compared to the end of 2019, where the total capital of MCCs rose by 7.9% and the total capital of MCFs by 3.9%.

Across the FB&H micro credit sector, in the period from 01/01/2020 to 30/09/2020, positive financial performance (before taxation) was reported, which is 42.1% lower compared to the same period of 2019. This was caused by major increase of costs of provisioning for loan and other

losses and other operating expenses. The MCCs reported a loss of BAM 1 million, while MCFs reported a surplus of revenues over expenses of altogether BAM 10.6 million.

Operational efficiency of the FB&H micro credit sector was 18.39% as of 30/09/2020, which was within the regulatory indicator of up to 45%, while reported return on assets, adjusted by the inflation rate, market price of capital and donations, was positive and amounted to 2.09%, which was in compliance with the regulatory limit.

FB&H microcredit sector's key performance indicators show an increase of total assets, micro credit portfolio, loan obligations, total capital and headcount level. The sector's operations with a positive financial performance continued, although being lower than the figure posted in the same period the year before. The micro credit portfolio quality indicators across the sector (portfolio at risk over 30 days – 1.38% and write offs - 1.25%) were within the regulatory limits and showed increases vs. YE2019.

FB&H Leasing Sector's Key Performance Indicators

The FB&H leasing system comprised, as of 30/09/2020, five leasing companies (leasing sector) and one commercial bank performing financial leasing operations. The FB&H leasing sector employed a total of 111 persons as of 30/09/2020, thus being 1% lower than at the end of the previous year.

The FB&H leasing sector's total assets were BAM 340.6 million as at 30/09/2020 and were higher by BAM 17.4 million or 5.4% compared to 31/12/2019.

The net receivables under financial leasing, as the most significant item in the composition of total assets, were BAM 255.7 million or 75% of the total assets and were higher by BAM 14.6 million or 6% compared to 31/12/2019. With respect to the FB&H leasing sector's asset quality in the first nine months of 2020, an increase in overdue receivables of 70.8% was seen with respect to 31/12/2019, as largely caused by an increase of this item with one leasing company. The financial leasing loss reserves dropped by 6.6% vs. end of the previous year. The total number and value of newly concluded leasing contracts (financial and operational leasing) in the reporting period decreased by 35.4% and 17.5% respectively.

Until 30/09/2020, the total amount of loans being captured by some of the active special measures was BAM 42.5 million, thus representing 16.5% of total financing. Thereof, BAM 41.9 million or 18.4% refers to legal entities and BAM 0.6 million or 3.2% to private individuals.

The largest item in the composition of the FB&H leasing sector's total liabilities constituted, as of 30/09/2020, liabilities of BAM 302.7 million under loans taken and accounted for 88.9% of total liabilities. Compared to 31/12/2019, these liabilities increased by BAM 16.5 million or 5.7%. If observed from the perspective of contractual maturity, long term loan obligations hold a dominant share in total loan obligations.

The FB&H leasing sector's total capital was BAM 29.1 million as at 30/09/2020, comprising 8.6% of the FB&H leasing sector's total liabilities and slightly increasing by BAM 0.1 million or 0.3% compared to December 31st, 2019.

Across the FB&H leasing sector, in the January 1 - September 30, 2020 period, a positive financial result was reported, thus representing an increase by 20.2% compared to the same period of the preceding financial year. This increase of the leasing sector's business result largely refers

to the improved business result with two leasing companies by an amount of BAM 2.4 million. They have posted a major operating loss figure over the same period the year before. Observed individually, three leasing companies posted a positive financial result of BAM 2.6 million, although all three of them reported a profit decrease in the same period last year of BAM 2.1 million. At the same time, two leasing companies recognized a negative financial result of BAM 0.9 million.

FB&H Factoring Sector's Key Indicators

As of 30/09/2020, there were four commercial banks in the FB&H performing the factoring business, three of which are members of international banking groups seated in the EU member states and one in majority domestic ownership.

In the FB&H, 311 factoring contracts were concluded with the total nominal value of purchased monetary claims as of 30/09/2020 of BAM 83.8 million. Compared to the total number of concluded factoring contracts in the same period last year, this number increased in the period from 01/01/2020 to 30/09/2020 by 27.4%, while the nominal value of purchased monetary claims and settled payables saw a decrease by 39.8% vs. the same period the year before.

The factoring service providers' total income in the FB&H for the January 1 – September 30, 2020 period was BAM 0.8 million, which is lower by BAM 0.9 million or 54.4% vs. the same period in 2019.

INTRODUCTION

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

Accordingly, this Information on the BSEs, with balance as of 30/09/2020 was drawn up using processed reporting data provided by the BSEs to the FBA in the prescribed formats and within the prescribed timelines, and other data and information provided by the FB&H BSEs to the FBA and used in regular supervision of the BSEs.

Content-wise, this Information is divided into two sections. The first section covers a detailed analysis of the FB&H banking sector regarding bank supervision, its structure, financial performance indicators and FBA's recommendations for the FB&H banking sector. The second section relates to a detailed analysis of operations of non-deposit financial institutions, as well as compliance of their operations with the laws and regulations within which microcredit and leasing sectors, as well as factoring business, in the FB&H were addressed as separate segments, with the related specific FBA's recommendations.

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

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

In the existing situation of a prolonged crisis caused by the pandemic, FBA has continued with activities to avoid further negative consequences and to enable recovery of the economy in general. Therein, it has recognised a need to prolong the measures referring, among other things, to approval of relief measures to private individuals and legal entities whose revenues, i.e. sources of debt repayment, are still lower due to the effects of the pandemic, thus making it difficult, preventing or possibly preventing their debt settlement to BSEs. This entailed also continued activities to draft regulations – temporary measures - aimed at mitigating economic consequences caused by this virus disease and at maintaining stability of BSEs operations.

1. BANKING SECTOR

1.1. FB&H BANKING SECTOR'S STRUCTURE

1.1.1. Status, Number and Business Network

As of 30/09/2020, 15 commercial banks had banking license in the FB&H. Number of banks remained the same as on December 31st, 2019. All banks are members of the DIA.

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

Annex 1 provides basic information about the FB&H banks as at 30/09/2020.

The FB&H banks had, as of 30/09/2020, a total of 538 organizational units, which was fewer by 5 organisational parts or 0.9% compared to December 31st, 2019. In the territory of the FB&H there are 475 organizational units of banks. Seven banks from the FB&H had 52 organizational units in the RS, while 10 banks had 11 organizational units in the BD.

Three banks from the RS have 28 organisational parts in the FB&H, being one organisational part more than as at December 31st, 2019.

The table below shows organisational structure of banks in the FB&H as of 30/09/2020:

Table 1: Banks in the FB&H, organisational parts of RS banks doing business in the FB&H and network of ATMs and POS devices

No.	Bank name	Business unit/ branch	Other organisational parts	POS devices	ATMs
I Banks seated in the FB&H (in the territory of B&H)					
1.	Addiko Bank d.d. Sarajevo	35	-	35	81
2.	ASA Banka d.d. Sarajevo	12	8	-	27
3.	Bosna Bank International d.d. Sarajevo	35	1	-	58
4.	Intesa Sanpaolo Banka d.d. BiH Sarajevo	48	-	2,900	118
5.	Komercijalno-investigaciona banka d.d. V. Kladuša	5	7	-	4
6.	NLB Banka d.d. Sarajevo	42	-	1,779	82
7.	Privredna banka Sarajevo d.d. Sarajevo	7	10	-	25
8.	ProCredit Bank d.d. Sarajevo	3	3	-	15
9.	Raiffeisen Bank d.d. BiH Sarajevo	38	68	8,914	283
10.	Sberbank BH d.d. Sarajevo	32	-	33	66
11.	Sparkasse Bank d.d. BiH Sarajevo	47	-	-	107
12.	UniCredit Bank d.d. Mostar	74	-	9,142	274
13.	Union banka d.d. Sarajevo	4	9	-	15
14.	Vakufska banka d.d. Sarajevo	17	1	-	22
15.	ZiraatBank BH d.d. Sarajevo	18	14	779	65
Total I		417	121	23,582	1,242
II Organisational parts of banks from the RS doing business in the FB&H					
1.	Komercijalna banka a.d. Banja Luka	2	0	1	2
2.	Nova banka a.d. Banja Luka	3	11	495	26
3.	MF banka a.d. Banja Luka	7	5	71	11
Total II		12	16	567	39

1.1.2. Ownership Structure and Market Share

Ownership structure of the FB&H banks ² as of 30/09/2020 is the following:

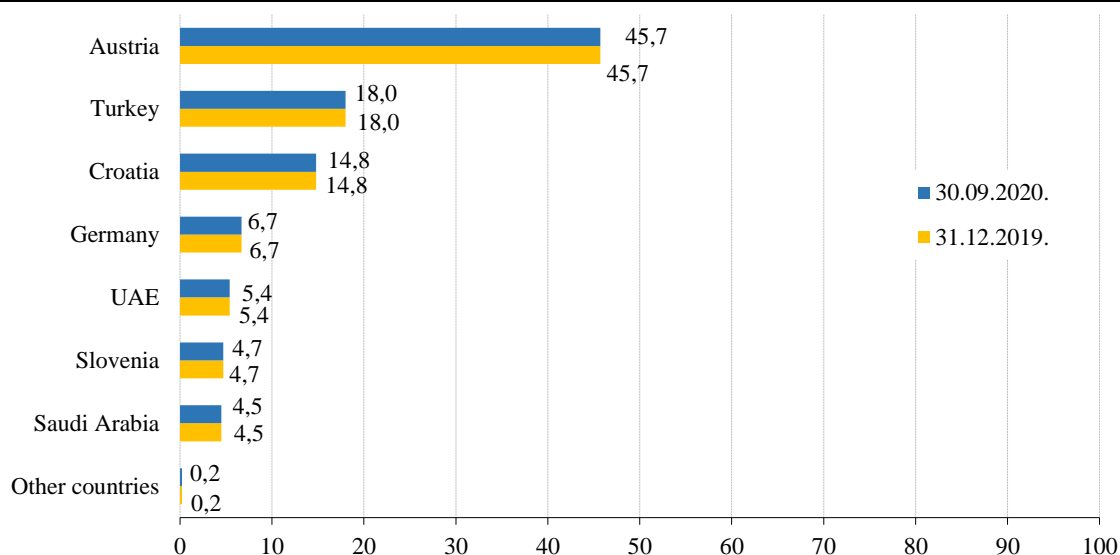
- privately owned and predominantly privately owned - 14 banks,
- state-owned and predominantly state-owned³ - one bank.

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

If only foreign capital is analysed, according to the shareholder country of origin criterion, as at 30/09/2020, the situation is unchanged compared to the end of 2019, since the highest share is still held by the shareholders from Austria (45.7% of foreign capital), followed by the shareholders from Turkey (18%) and Croatia (14.8%), while other countries have no major individual shares.

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

Chart 1: Structure of foreign capital by countries (share in %)



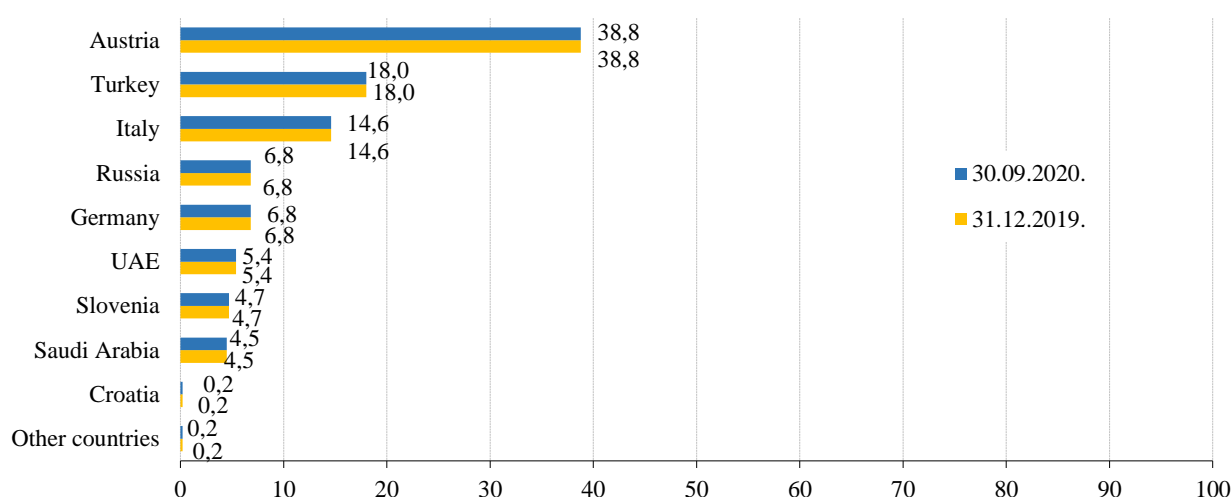
If the capital ties are considered, the foreign capital structure can also be viewed according to the criterion of the country of residence of the parent, i.e. the banking group that majority-owns (directly or indirectly through the members from the banking group) the FB&H banks.

According to this criterion the situation is unchanged compared to the end of 2019, since the highest share is held by the banking groups and banks from Austria, followed by the banking groups and banks from Turkey and Italy, while the banking groups and banks from other countries have no major individual shares (below 7%).

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

² Criteria here was the ownership over shareholder capital in banks.

³ State ownership refers to the capital of the FB&H Government.

Chart 2: Structure of foreign capital by countries – residence of the group⁴, share in %

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

-BAM 000 -

No.	Banks	31.12.2018		31.12.2019		30.09.2020		Index	
		Amount	% share	Amount	% share	Amount	% share	(5/3)	(7/5)
1	2	3	4	5	6	7	8	9	10
1.	State-owned banks	61,488	2.1	68,881	2.2	65,738	2.2	112	95
2.	Private banks	2,909,598	97.9	3,062,473	97.8	2,966,717	97.8	105	97
	Total	2,971,086	100	3,131,354	100	3,032,455	100	105	97

The total capital of the FB&H banking sector with the balance as at 30/09/2020 decreased by BAM 98.9 million or 3.2% compared to the end of 2019, amounting to BAM 3 billion.

The decrease of total capital by BAM 98.9 million was realized as a net effect of: an increase on the basis of the current financial result for the three quarters of 2020 of BAM 151.2 million and a decrease of accumulated other comprehensive income of BAM 2 million, a decrease based on initial implementation of the Decision on Credit Risk Management and Determination of Expected Credit Losses of BAM 244 million and a decrease based on transfers to the accrued tax liabilities on the transferred loan loss reserves created from the profits in Tier 1 capital of BAM 4.1 million.

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

- BAM 000 -

No.	Share capital	31.12.2018		31.12.2019		30.09.2020		Index	
		Amount	% share	Amount	% share	Amount	% share	(5/3)	(7/5)
1	2	3	4	5	6	7	8	9	10

⁴ In addition to the countries of residence of the parent-banking group whose members are the banks from the FB&H, the countries that all other foreign shareholders of the banks from the FB&H come from are also included.

1.	State-owned capital	41,619	3.2	41,619	3.2	41,619	3.2	100	100
2.	Private capital (residents)	139,637	10.7	139,355	10.7	139,460	10.7	100	100
3.	Foreign capital (non-residents)	1,118,444	86.1	1,118,725	86.1	1,118,621	86.1	100	100
Total		1,299,700	100	1,299,699	100	1,299,700	100	100	100

The shares of the state-owned capital, private capital (residents) and foreign capital (non-residents) as of 30/09/2020, remained at the same level compared to the end of 2019. This may be a result of difficulties in operations of the FB&H Securities Commission over the reporting period.

1.1.3. Staff Structure

The number of employees across the banking sector as at 30/09/2020 is 6,534, which is lower by 125 employees or 1.9% compared to the end of 2019. A decrease in the number of employees is present in 11 banks, while the number of employees increased in 4 banks and this number remained the same with one bank compared to YE2019.

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

No.	Qualification level	31.12.2018		31.12.2019		30.09.2020		Index	
		Number of employees	% share	Number of employees	% share	Number of employees	% share	(5/3)	(7/5)
1	2	3	4	5	6	7	8	9	10
1.	University degree	4,102	60.9	4,125	61.9	4,077	62.4	101	99
2.	Two-year post-secondary school degree	520	7.7	485	7.3	499	7.6	93	103
3.	Secondary school degree	2,108	31.3	2,041	30.7	1,952	29.9	97	96
4.	Others	9	0.1	8	0.1	6	0.1	89	75
Total		6,739	100	6,659	100	6,534	100	99	98

A decrease in the number of employees in the FB&H banking sector as of 30/09/2020 compared to the end of 2019 is present with the employees across all qualification levels, except for the category of two-year post-secondary school degree where there was an increase by 2.9%.

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

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

-BAM 000-

31.12.2018		31.12.2019			30.09.2020			
No. of employ.	Assets	Assets per employee	No. of employ.	Assets	Assets per employee	No. of employ.	Assets	Assets per employee
1	2	3	4	5	6	7	8	9
6,739	22,094,135	3,279	6,659	24,210,567	3,636	6,534	23,806,759	3,644

1.2. FINANCIAL PERFORMANCE INDICATORS

1.2.1. Balance Sheet

The presented indicators of the FB&H banks' performance and banking sector analyses include the indicators from the active sub-balance sheet of one bank with a majority of state-owned

capital⁵, in accordance with provisions of the FB&H Law on the Opening Balance Sheet of Enterprises and Banks, under which banks with a majority of state-owned capital are required to report to the FBA based on the „total“ balance sheet broken down into: passive, neutral, and active sub-balance sheets.

In that respect, the data are reported in Annex 2 of this Information - Balance Sheet of FB&H Banks According to the FBA Scheme (Active Sub-Balance Sheet). Annex 3 provides an overview of assets, loans, deposits and financial performance of the FB&H banks as at 30/09/2020.

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

-BAM 000-

Table 6: Balance sheet

No.	Description	31.12.2018		31.12.2019		30.09.2020		Index	
		Amount	% share	Amount	% share	Amount	% share	(5/3)	(7/5)
1	2	3	4	5	6	7	8	9	10
ASSETS									
1.	Cash	6,591,117	29.8	7,641,570	31.6	7,194,881	30.2	116	94
2.	Securities	1,304,626	5.9	1,456,321	6.0	1,781,709	7.5	112	122
3.	Placements to other banks	270,604	1.2	149,197	0.6	101,482	0.5	55	68
4.	Loans	14,325,634	64.8	15,220,759	62.8	15,113,127	63.5	106	99
5.	Impairments	1,190,760	5.4	1,120,940	4.6	1,182,082	5.0	94	105
6.	Net loans (loans minus impairments)	13,134,874	59.5	14,099,819	58.2	13,931,045	58.5	107	99
7.	Business premises and other fixed assets	531,767	2.4	600,684	2.5	552,921	2.3	113	92
8.	Other assets	261,147	1.2	262,976	1.1	244,721	1.0	101	93
TOTAL ASSETS		22,094,135	100	24,210,567	100	23,806,759	100	110	98
LIABILITIES									
9.	Deposits	17,604,487	79.7	19,414,294	80.2	19,177,471	80.6	110	99
10.	Borrowings from other banks	0	0.0	0	0.0	0	0.0	0	0
11.	Liabilities on loans	862,931	3.9	856,626	3.5	802,677	3.4	99	94
12.	Other liabilities	655,631	3.0	808,293	3.3	794,156	3.3	123	98
CAPITAL									
13.	Capital	2,971,086	13.4	3,131,354	13.0	3,032,455	12.7	105	97
TOTAL LIABILITIES (LIABILITIES AND CAPITAL)		22,094,135	100	24,210,567	100	23,806,759	100	110	98

The total net assets across the FB&H banking sector as of 30/09/2020 are BAM 23.8 billion, which is by BAM 403.8 million or 1.7% lower compared to the end of 2019. The banks' net loans have the highest share (58.5%) within the assets in the banks' balance sheet, followed by cash (30.2%), securities (7.5%), fixed assets (2.3%), other assets (1%), and placements to other banks (0.5%). The deposits (80.6%) have the highest share within the liabilities in the banks' balance sheet, followed by capital (12.7%), liabilities based on loans (3.4%) and other liabilities (3.3%).

As of 30/09/2020, compared to the end of 2019, securities increased, while decrease was evident with other assets positions in the balance sheet (cash, placements with other banks, loans and business premises, other fixed assets and other assets). Over the observed period, the liabilities side of the balance sheet displayed a decrease across all its positions.

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

⁵ The majority state-owned banks report in the "total" balance sheet passive and neutral items.

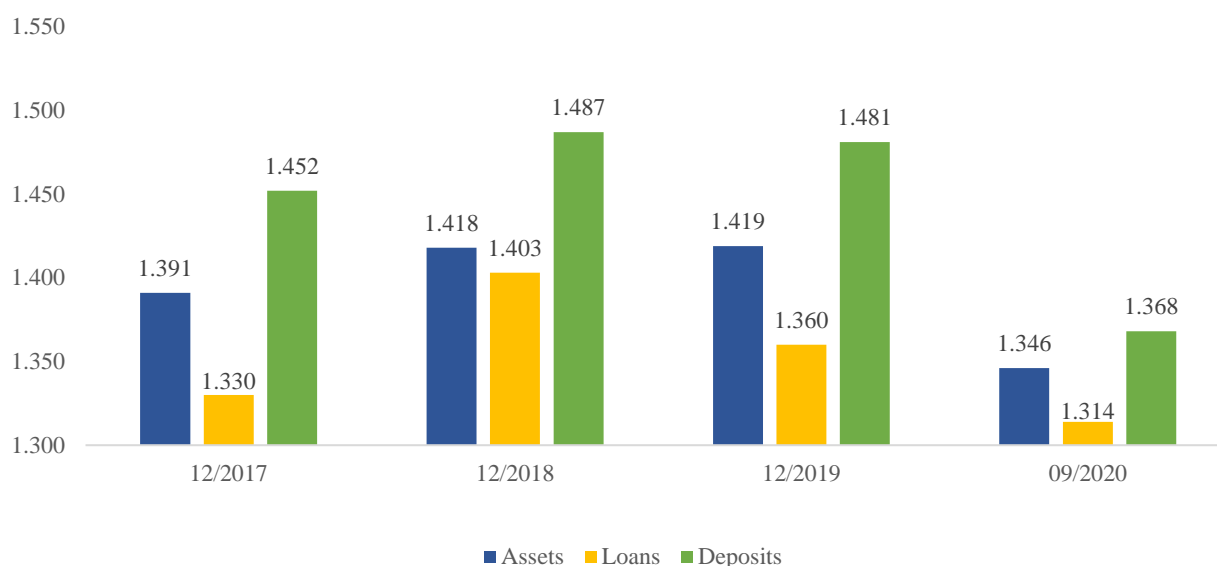
- BAM 000 -

Table 7: Banks' assets according to ownership structure

No.	Banks	31.12.2018			31.12.2019			30.09.2020			Index	
		Number of banks	Assets (BAM '000s)	% share	Number of banks	Assets (BAM '000s)	% share	Number of banks	Assets (BAM '000s)	% share	(7/4)	(10/7)
1	2	3	4	5	6	7	8	9	10	11	12	13
1.	State-owned	1	775,490	3.5	1	801,261	3.3	1	884,476	3.7	103	110
2.	Private	14	21,318,645	96.5	14	23,409,306	96.7	14	22,922,283	96.3	110	98
Total		15	22,094,135	100	15	24,210,567	100	15	23,806,759	100	100	98

An indicator of the concentrations in the three most important segments of the banking business: in the assets, loans, and deposits is the value of the Herfindahl index⁶. Its overview by periods is provided in the following chart:

Chart 3: Herfindahl index of concentration in assets, loans, and deposits



The Herfindahl index of concentration as of 30/09/2020, compared to the end of 2019, dropped for assets by 73 units, for loans by 46 units and for deposits by 113 units. The Herfindahl index of concentration for the reporting period shows a moderate concentration⁷ in all three relevant categories (assets, loans, and deposits).

Another indicator of the banking sector concentration is the market concentration ratio, i.e. the concentration ratio⁸ (hereinafter: CR), showing a total share of the biggest banks in the sector in the selected relevant categories: assets, loans, and deposits.

⁶ It is also called Hirschmann-Herfindahl index or HHI and it is calculated according to the formula $HI = \sum_{j=1}^n (S_j)^2$, representing the sum of the squares of the percentage shares of a specific size (e.g. assets, deposits, loans) of all market participants in the system. It should be noted that the index does not increase linearly and that the value of e.g. 3000 does not mean that the concentration in the system is 30%. In a hypothetical case of there being only one bank in the system, the HHI would be maximum 10000.

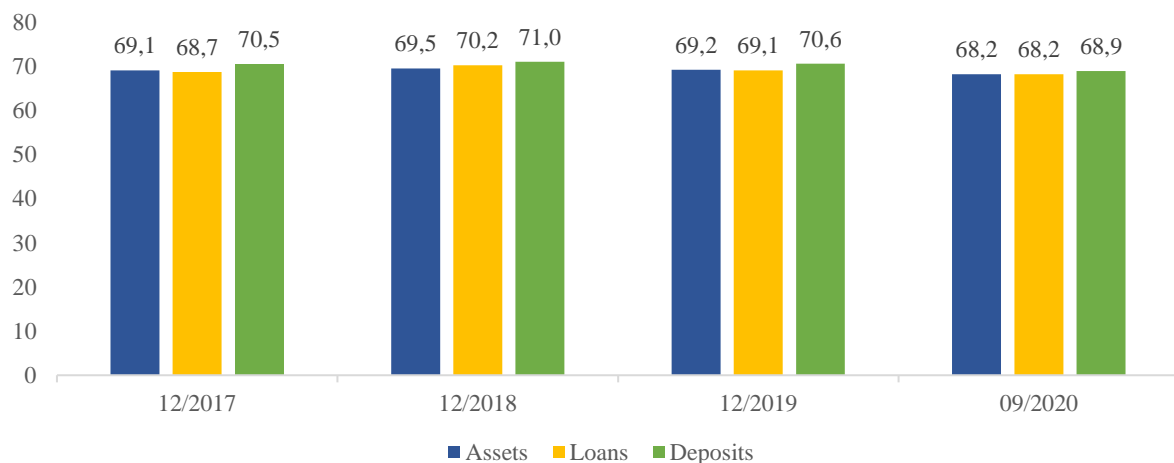
⁷ If the HHI value is less than 1000, it is considered that there is no market concentration, for the index value between 1000 and 1800 units there is a moderate market concentration, if the HHI value is above 1800, it is an indicator of there being a high concentration.

⁸ Concentration ratio (CR), designated according to the number of banks included in the calculation.

If a total share of the five biggest banks in the sector - CR5 as of 30/09/2020 is viewed compared to the end of 2019, there is a decrease with all selected relevant categories: market share by one percentage point, loans by 0.9 percentage points and deposits by 1.7 percentage points. The two biggest banks in the sector account for 44.7% of the market (assets 45.3%, loans 43.1% and deposits 45.8%).

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

Chart 4: Concentration ratios for five biggest banks - CR5: assets, loans, and deposits



The banking sector can also be analysed according to the criterion of classification to the groups created according to the size of assets⁹. As of 30/09/2020, three banks in the FB&H banking sector with a 54.7% share stand out according to the size of assets, comprising group I of banks with the assets of over BAM 2.0 billion.

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

- BAM 000 -

No.	Amount of assets	31.12.2018			31.12.2019			30.09.2020		
		Amount	% share	Number of banks	Amount	% share	Number of banks	Amount	% share	Number of banks
1	2	3	4	5	6	7	8	9	10	11
1.	I (over BAM 2 billion)	12,456,111	56.4	3	13,686,527	56.5	3	13,027,678	54.7	3
2.	II (BAM 1-2 billion)	6,075,531	27.5	5	6,645,925	27.5	5	6,740,224	28.3	5
3.	III (BAM 0.5-1 billion)	2,168,293	9.8	3	3,451,044	14.2	5	3,653,551	15.4	5
4.	IV (BAM 0.1-0.5 billion)	1,394,200	6.3	4	427,071	1.8	2	385,306	1.6	2
5.	V (below BAM 0.1 billion)	0	0.0	0	0	0.0	0	0	0.0	0
Total		22,094,135	100	15	24,210,567	100	15	23,806,759	100	15

As of 30/09/2020, there were no changes to the structure of groups in total assets of the FB&H banking sector. Over the observed period, no bank had assets below BAM 100 million.

⁹ Banks are divided into five groups depending on the size of assets.

Cash across the FB&H banking sector as of 30/09/2020 amounted to BAM 7.2 billion, down by BAM 446.7 million or 5.8% vs. YE2019. If observed by banks at the FB&H banking sector level, a cash increase was evident with seven banks, while eight banks posted a cash reduction.

Its overview through the periods is provided in the following table:

- BAM 000 -

No	Cash	31.12.2018		31.12.2019		30.09.2020		Index	
		Amount	% share	Amount	% share	Amount	% share	(5/3)	(7/5)
1	2	3	4	5	6	7	8	9	10
1.	Cash	910,481	13.8	1,004,445	13.1	1,253,726	17.4	110	125
2.	Reserve account with CBB&H	4,002,281	60.7	4,329,659	56.7	4,097,605	57.0	108	95
3.	Accounts with deposit institutions in B&H	38,746	0.6	48,611	0.6	36,080	0.5	125	74
4.	Accounts with deposit institutions abroad	1,639,544	24.9	2,258,758	29.6	1,807,465	25.1	138	80
5.	Cash in process of collection	65	0.0	97	0.0	5	0.0	149	5
	Total	6,591,117	100	7,641,570	100	7,194,881	100	116	94

As of 30/09/2020, compared to the end of 2019, there was a decrease of the banks' cash funds across all accounts, except for cash that posted an increase by BAM 249.3 million or 24.8%.

In the currency structure of cash funds as of 30/09/2020 (compared to the end of 2019), the share of local currency rose from 66.7% to 70.7%, along with a simultaneous decrease of the share in foreign currency from 33.3% to 29.3%.

The portfolio of securities as at 30/09/2020 amounted to BAM 1.8 billion, which was higher by BAM 325.4million or 22.3% compared to the end of 2019. The following table provide an overview of the portfolio according to the type of instruments and issuer:

-BAM 000-

No.	Investments in securities	31.12.2018		31.12.2019		30.09.2020		Index	
		Amount	% share	Amount	% share	Amount	% share	(5/3)	(7/5)
1	2	3	4	5	6	7	8	9	10
1.	Equity securities	5,281	0.4	5,313	0.4	5,323	0.3	101	100
2.	Debt securities:	1,299,345	99.6	1,451,008	99.6	1,776,386	99.7	112	122
2.1.	- Securities of all levels of governments in B&H	619,536	47.5	747,632	51.3	1,062,938	59.7	121	142
2.2.	- Government securities (other countries)	533,666	40.9	549,649	37.7	545,096	30.6	103	99
2.3.	- Corporate bonds ¹⁰	146,143	11.2	153,727	10.6	168,352	9.4	105	110
	Total	1,304,626	100	1,456,321	100	1,781,709	100	112	122

The most significant item within the investments in debt securities are the securities of entity governments, namely the securities issued by the FB&H¹¹ of the total value of BAM 745.3 million, and the securities of the RS as the issuer of BAM 254 million.

- BAM 000 -

No.	Investments in securities	31.12.2018		31.12.2019		30.09.2020		Index	
		Amount	% share	Amount	% share	Amount	% share	(5/3)	(7/5)
1	2	3	4	5	6	7	8	9	10
1.	Debt securities of FB&H as issuer:	436,164	71.3	532,147	72.6	745,277	74.6	122	140
1.1.	- Treasury bills	35,179	5.7	18,921	2.6	60,991	6.1	54	322
1.2.	- Bonds	400,985	65.6	513,226	70.0	684,286	68.5	128	133
2.	Debt securities of RS:	175,395	28.7	201,089	27.4	254,047	25.4	115	126

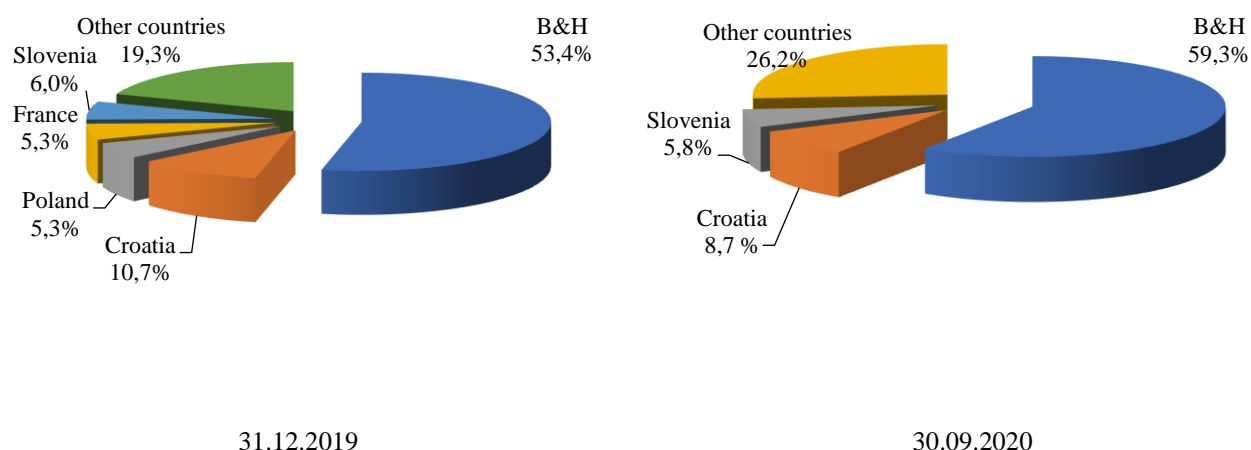
¹⁰ Majority, i.e. app. 77%, relates to the EU and US banks' bonds, while the remainder relates to the EU and B&H companies' bonds

¹¹ All types of securities of the FB&H as the issuer.

2.1.	- Treasury bills	0	0.0	0	0.0	43,316	4.3	-	-
2.2.	- Bonds	175,395	28.7	201,089	27.4	210,731	21.1	115	105
Total		611,559	100	733,236	100	999,324	100	120	136

If total investments in securities are analysed according to the exposures by countries, the highest share of 59.3% is to the issuers from B&H, followed by Croatia with a 8.7% share, Slovenia with 5.8% share and other countries with individual shares below 5%.

Chart 5: Structure of investments in securities according to the criterion of country issuer



1.2.2. Liabilities

As of 30/09/2020, the share of deposits, as the most significant source of the banks' funding, increased slightly by 0.4 percentage points (80.6%), while the share of loan obligations decreased by 0.1 percentage point compared to the YE2019 (3.4%).

The banks' loan obligations with the amount of BAM 802.7 million have decreased by BAM 53.9 million or 6.3% compared to the end of 2019. If subordinated loans of BAM 191.3 million are also added to the loan obligations, total loans have a 4.2% share in the funding sources.

The deposits recorded a decrease of BAM 236.8 million or 1.2% compared to the end of 2019, amounting to BAM 19.2 billion as at 30/09/2020. Out of the total amount of deposits at the end of the reporting period, BAM 1.3 billion or 6.6% relates to deposits collected in the FB&H banks' organizational parts in the RS and BD.

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

Chart 6: Total deposits (BAM 000)

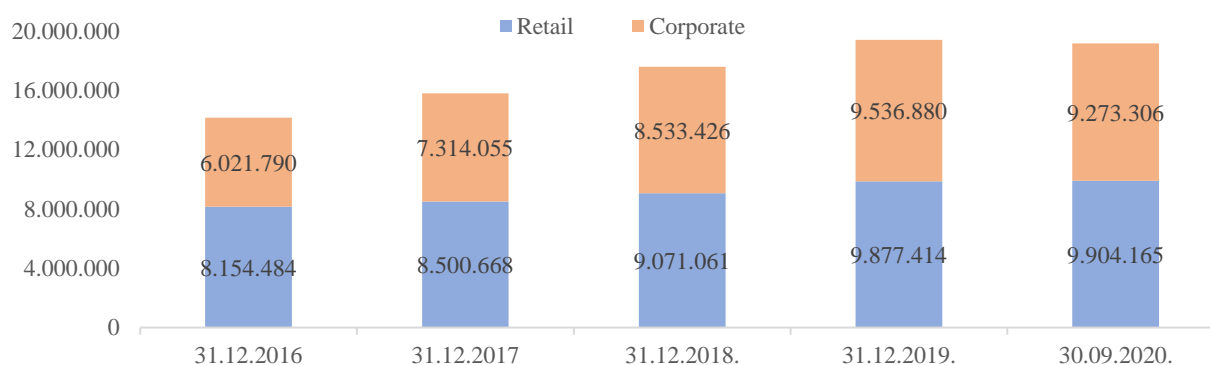
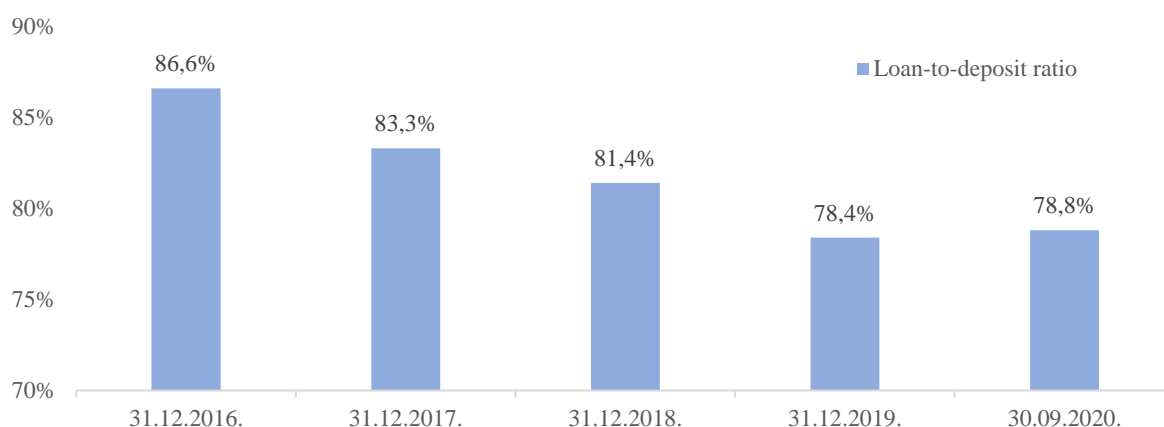


Chart 7: Loan-to-deposit ratio



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

- BAM 000 -

No.	Sectors	31.12.2018		31.12.2019		30.09.2020		Index	
		Amount	% share	Amount	% share	Amount	% share	(5/3)	(7/5)
1	2	3	4	5	6	7	8	9	10
1.	Government institutions	1,778,835	10.1	2,157,147	11.1	2,384,074	12.4	121	111
2.	Public enterprises	1,538,501	8.7	1,651,976	8.5	1,490,436	7.8	107	90
3.	Priv. enterp. and companies	2,834,717	16.1	3,236,224	16.7	3,558,319	18.5	114	110
4.	Banking institutions	1,215,334	6.9	1,208,613	6.2	569,122	3.0	99	47
5.	Non-bank fin. institutions	746,690	4.3	803,516	4.1	759,487	4.0	108	95
6.	Retail	9,071,061	51.5	9,877,414	50.9	9,904,165	51.6	109	100
7.	Other	419,349	2.4	479,404	2.5	511,868	2.7	114	107
Total		17,604,487	100	19,414,294	100	19,177,471	100	110	99

The largest share in the sector structure of deposits refers to retail loans with 51.6% and this share rose against YE2019 by 0.7 percentage points. As of 30/09/2020, retail deposits stood at BAM 9.9 billion.

An increase in deposits as of 30/09/2020, compared to the end of 2019, was realized in relation to the government institutions' deposits by BAM 226.9 million or 10.5%, deposits of private companies by BAM 322.1 million or 10%, retail deposits by BAM 26.8 million or 0.3% and other deposits by BAM 32.5 million or 6.8%.

A decrease of deposits as of 30/09/2020, compared to the end of 2019, was recorded in relation to public companies' deposits by BAM 161.5 million or 9.8%, banking institutions' deposits by BAM 639.5 million or 52.9% and deposits by non-banking financial institutions by BAM 44 million or 5.5%.

The biggest changes in the sector structure of deposits refer to changes in the financing structure regarding deposits of banking groups, while other changes are negligible. The banking group financing is present in eight banks in the FB&H, so that 80.6% of total deposits of banking institutions relates to deposits by banking groups.

The currency structure of deposits as at 30/09/2020 changed compared to the end of 2019, i.e. the share of deposits in domestic currency increased from 61.2% to 64.3%, while the share of deposits in foreign currency decreased from 38.8% to 35.7%. Deposits in BAM rose by an amount of BAM 436.6 million or 3.7%, while deposits in foreign currencies dropped by BAM 673.5 million or 9%.

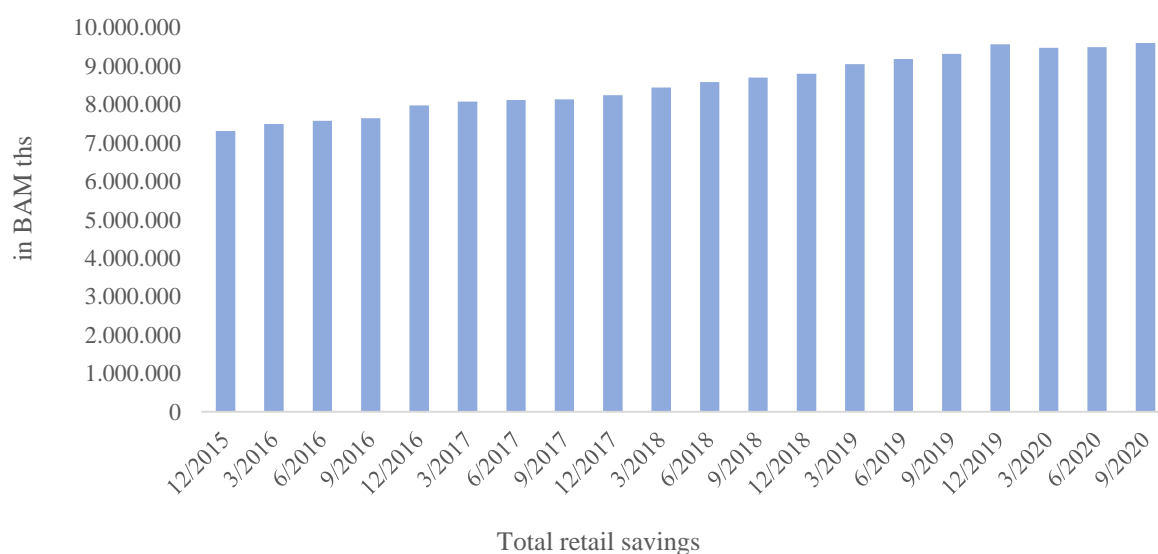
The structure of deposits according to the origin of depositors as of 30/09/2020, compared to the end of 2019, has the following structure: residents' deposits of BAM 18.3 billion have a 95.3% share (+3.4 percentage points), while non-residents' deposits are BAM 0.9 billion, which was 4.7% of total deposits (-3.4 percentage points).

After a slight decrease over the previous two quarters of 2020, the long term upward trend of savings deposits (as the most significant segment of deposit and financial potential of banks) has continued as of 30/09/2020 as well. As of 30/09/2020, savings deposits amounted to BAM 9.6 billion, up by BAM 30.6 million or 0.3% compared to the end of 2019. The retail savings trend is shown in the following table and chart:

- BAM 000 -

No.	Banks	Amount			Index	
		31.12.2018	31.12.2019	30.09.2020	(4/3)	(5/4)
1	2	3	4	5	6	7
1.	State-owned	91,645	96,979	99,926	106	103
2.	Private	8,712,454	9,476,470	9,504,102	109	100
	Total	8,804,099	9,573,449	9,604,028	109	100

Chart 8: Retail savings by periods



54.2% of savings are concentrated in two biggest banks, while five banks have the individual shares of less than 2%, amounting to 5.2% of the total savings in the sector. Of the total amount of the savings, 49.9% relate to savings deposits in domestic currency, while 50.1% relate to savings deposits in foreign currency.

As of 30/09/2020 vs. YE2019, short term retail deposits rose by BAM 218.5 million or 3.9% (while their share rose by 2 percentage points) and long term retail deposits dropped by BAM 187.9 million or 4.8% (while their went down by 2 percentage points).

The maturity structure of savings deposits can be seen in the following table:

- BAM 000 -

No.	Savings deposits	31.12.2018		31.12.2019		30.09.2020		Index	
		Amount	% share	Amount	% share	Amount	% share	(5/3)	(7/5)
1	2	3	4	5	6	7	8	9	10
1.	Short term savings deposits	4,977,201	56.5	5,634,426	58.9	5,852,911	60.9	113	104
2.	Long term savings deposits	3,826,898	43.5	3,939,023	41.1	3,751,117	39.1	103	95
	Total	8,804,099	100	9,573,449	100	9,604,028	100	109	100

Retail loans as of 30/09/2020 amounted to BAM 7.3 billion, down by 0.8% vs. YE2019. At the same time, retail deposits went up by 0.3% to BAM 9.9 billion as of 30/09/2020.

- BAM 000 -

No.	Description	31.12.2018	31.12.2019	30.09.2020	Index	
		Amount	Amount	Amount	(4/3)	(5/4)
1	2	3	4	5	6	7
1.	Retail loans	6,853,979	7,400,278	7,338,621	108	99
2.	Retail savings	8,804,099	9,573,449	9,604,028	109	100
2.1.	Term deposits	4,126,382	4,280,620	4,089,664	104	96
2.2.	Demand deposits	4,677,717	5,292,829	5,514,364	113	104
3.	Loans/savings	78%	77%	76%	-	-
4.	Retail deposits	9,071,061	9,877,414	9,904,165	109	100

5. Loans/Retail deposits	76%	75%	74%	-	-
--------------------------	-----	-----	-----	---	---

1.2.3. Capital and Capital Adequacy

In the process of harmonizing the FBA's regulations with the new laws, a new Decision on Capital Calculation in Banks came to effect in late 2017¹².

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

In 2019, FBA has issued the Decision on Credit Risk Management and Determination of Expected Credit Losses with the implementation date of 01/01/2020. Accordingly, banks are required to calculate effects of implementation of this new decision as of 31/12/2019, i.e. with the initial balance sheet dd 01/01/2020, post them among capital accounts and recognise them under common equity tier 1.

As of 30/09/2020, total banks' capital was BAM 3 billion, decreasing by BAM 98.9 million or 3.2% compared to the end of 2019 (more details are provided under Subheading 1.1.2 - Ownership Structure and Market Share).

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

- BAM 000 -

Table 16: Report on the balance of own funds

R. br.	Description	31.12.2018	31.12.2019	30.09.2020	Index	
					(4/3)	(5/4)
1	2	3	4	5	6	7
1.	Own funds	2,478,985	2,690,298	2,695,700	109	100
1.1.	Tier 1 capital	2,351,425	2,656,534	2,575,090	113	97
1.1.1.	Common Equity Tier 1	2,351,425	2,656,534	2,575,090	113	97
1.1.1.1.	Paid-up capital instruments	1,290,878	1,299,335	1,299,335	101	100
1.1.1.2.	Share premium	137,290	137,290	137,290	100	100
1.1.1.3.	(-) Own Common Equity Tier 1 instruments	-215	-215	-214	100	100
1.1.1.4.	Previous year retained profit	238,344	403,027	338,145	169	84
1.1.1.5.	Recognized gain or loss	-34,743	-36,302	-152,404	104	420
1.1.1.6.	Accumulated other comprehensive income	10,296	26,630	24,506	259	92
1.1.1.7.	Other reserves	876,626	970,088	1,000,157	111	103
1.1.1.8.	(-) Other intangible assets	-56,116	-57,589	-53,464	103	93
1.1.1.9.	(-) Deferred tax assets that rely on future profitability and of up to not arise from temporary differences less related tax liabilities	-101	-14	-23	14	164
1.1.1.10.	(-) Deduction from Addition Tier 1 items exceeding Additional Tier 1	0	-1,255	0	-	0
1.1.1.11.	(-) Deferred tax assets that are deductible and rely on future profitability and arise from temporary differences	-1,625	-1,349	-1,984	83	147
1.1.1.12.	(-) Financial sector entities' Common Equity Tier 1 instruments if bank has material investment	-12,118	-15,950	-16,254	132	102
1.1.1.13.	Elements or deductions from Common Equity Tier 1	-97,091	-67,162	0	69	0

¹² FB&H Official Gazette Nos. 81/17, 50/19 and 37/20

– other						
1.1.2.	Additional Tier 1	0	0	0	-	-
1.2.	Tier 2 capital	127,560	33,764	120,610	26	357
1.2.1.	Paid-up capital instruments and subordinated debts	105,592	170,158	120,624	161	71
1.2.2.	(–) Own Tier 2 instruments	-14	-14	-14	100	100
1.2.3.	General impairments for credit risk under standardized approach	153,706	163,569	0	106	0
1.2.4.	Deduction from Tier 2 items exceeding Tier 2 capital (deducted from Additional Tier 1 capital)	0	1,255	0	-	0
1.2.5.	Paid-up capital instruments and subordinated debts	-131,724	-301,204	0	229	0

The FB&H banks' own funds as of 30/09/2020 were BAM 2.7 billion and, compared to the end of 2019, it increased by BAM 5.4 million or 0.2%. The banks' T1 and CET1 capital as at the reporting period is BAM 2.6 billion, with a realized decrease of BAM 81.4 million or 3.1%, while Tier 2 capital is BAM 120.6 million, with a realized increase of BAM 86.8 million or 257.2% compared to the end of 2019.

The own funds' structure of the FB&H banking sector includes a share of Tier 1 capital of 95.5% (12/2019: 98.7%), while Tier 2 capital participates with 4.5% (12/2019: 1.3%). During the reporting period, the own funds' structure has changed via decreased share of Tier 1 capital, as referring to implementation of the Decision on Credit Risk Management and Determination of Expected Credit Losses and posting of its implementation effects under CET1. The increased share of T2 capital is a result of implementation of the same decision, as well as cancellation of a LLP shortfall as a deductible item from T2 capital.

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

- decrease of BAM 244 million based on the initial implementation of the Decision on Credit Risk Management and Determination of Expected Credit Losses that came into force on 01/01/2020,
- reduction of accumulated other comprehensive income of BAM 2 million,
- decrease based on a loss figure posted by two banks in the first three quarters of 2020 in an amount of BAM 15.5 million,
- increase based on transfer of LLP formed against profit to T1 capital, as per the decision reached by bank's general meeting of shareholders in an amount of BAM 16 million,
- increase based on reduction of deductible items (provisioning shortfall) of BAM 68 million related to initial implementation of the Decision on Credit Risk Management and Determination of Expected Credit Losses and decrease of intangible assets of BAM 5.1 million,
- increase based on included profit from 2019 of BAM 91 million.

The total risk exposure under the Decision on Capital Calculation in Banks is the sum of risk weighted exposures for credit, market, operational risk, settlement/free delivery risk and risk associated with large exposures arising from the trading book items.

The FB&H banking sector's total risk exposure with the balance as at 30/09/2020 was BAM 14.8 billion, whose structure is provided in the following table:

- BAM 000 -

No	Risk exposure	31.12.2018		31.12.2019		30.09.2020		Index	
		Amount	% share	Amount	% share	Amount	% share	(5/3)	(7/5)
1	2	3	4	5	6	7	8	9	10
1.	Risk weighted exposures for credit risk	12,296,292	86.7	13,085,560	87.1	12,896,133	86.9	106	99

2.	Settlement/free delivery risk exposures	0	0.0	0	0.0	0	0.0	0	0
3.	Market risk (position and currency risk) exposures	223,778	1.6	228,011	1.5	213,027	1.5	102	93
4.	Risk exposures for operational risk	1,657,561	11.7	1,705,834	11.4	1,724,151	11.6	103	101
Total risk exposure amount		14,177,631	100	15,019,405	100	14,833,311	100	106	99

The total risk exposure amount across the FB&H banking sector decreased in the first nine months of 2020 by BAM 186.1 million or 1.2%. Over the reporting period, there was an increase of operational risk weighted exposures by BAM 18.3 million or 1.1%, while the credit risk weighted exposures dropped by BAM 189.4 million or 1.4% and market risk weighted exposures posted a drop of BAM 15 million or 6.6%. There were five banks in the sector that have not posted currency risk exposures since their net open currency position did not exceed 2% of the own funds.

As of 30/09/2020, banks were most exposed to the credit risk (86.9% share), which is dominant in the FB&H banking sector. Compared to the end of the previous year, there were major changes in the structure of shares by individual risk types in the total exposure, i.e. the share of credit risk went down by 0.2 percentage points, while the share of the operational risk exposure had an equivalent increase and the market risk exposure remained the same at 1.5%.

Within the credit risk weighted exposures, the biggest share is with retail exposures (BAM 4.5 billion or 34.9%), followed by corporate exposures (BAM 3.4 billion or 26%) and RE-secured exposures (BAM 3.2 billion or 24.5%).

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

The FB&H banking sector capital adequacy indicators are provided in the following table:

- BAM 000 -

No.	Capital ratios	% and amount of regulatory minimum surplus or deficit		
		31.12.2018	31.12.2019	30.09.2020
1	2	3	4	5
1.	Common Equity Tier 1 capital ratio	16.6%	17.7%	17.4%
2.	Surplus (+) / Deficit (-) of Common Equity Tier 1 capital	1,394,434	1,642,724	1,573,841
3.	Tier 1 capital ratio	16.6%	17.7%	17.4%
4.	Surplus (+) / Deficit (-) of Tier 1 capital	1,075,438	1,304,787	1,240,091
5.	Own funds ratio	17.5%	17.9%	18.2%
6.	Surplus (+) / Deficit (-) of own funds	777,668	887,971	915,703

The own funds rate as at 30/09/2020 is 18.2% and it is considerably higher compared to the statutory minimum of 12% and the same stands for other capital ratios (Common Equity Tier 1 capital and Tier 1 capital ratios).

Compared to YE2019, own funds ratio rose by 0.3 percentage points, while T1 ratio decreased by 0.3 percentage points (as a result of initial implementation of the Decision on Credit Risk Management and Determination of Expected Credit Losses, i.e. posting of effects of initial

implementation within CET1 capital and cancellation of LLP shortfall as an offset item to supplementary capital).

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

- BAM 000 -

No.	Exposure values	31.12.2018	31.12.2019	30.09.2020
1	2	3	4	5
1.	Leverage ratio exposures - under Article 37(4) of Decision on Capital Calculation in Banks	23,162,644	25,201,918	24,908,761
2.	Tier 1 capital - under Article 37(3) of Decision on Capital Calculation in Banks	2,351,425	2,656,534	2,575,090
Leverage ratio - under Article 37(2) of Decision on Capital Calculation in Banks		10.1%	10.5%	10.3%

The leverage ratio across the banking sector as at 30/09/2020 is 10.3% and is lower by 0.2 percentage points compared to the end of 2019. As of 30/09/2020, eight banks had their leverage ratios above the FB&H banking sector average and seven banks had their leverage ratios below this average.

1.2.4. Credit Risk

Starting from 01/01/2018, banks are required to apply a new standard of financial reporting IFRS 9 – financial instruments (thus replacing IAS 39).

For purpose of standardising credit risk management and ECL valuation and ensuring IFRS 9 compliance, in 2019, FBA has adopted the Decision on Credit Risk Management and Determination of Expected Credit Losses (effect date 01/01/2020). Also, it adopted the Instructions for Classification and Valuation of Financial Assets providing detailed definition of individual clauses of the said Decision as to ensure unique accounting and regulatory treatment of financial assets.

Implementation of the said Decision rendered ineffective the Decision on Minimum Standards for Credit Risk Management and Assets Classification in Banks. The most significant changes in this respect refers to the fact that the concept of assets classification into five categories and LLP allocation for such assets was replaced by the concept of allocating exposures to three credit risk grades and determining ECL.

Credit risk grade 1 includes exposures with low level of credit risk the debtor is not overdue on a repayment in a material amount (meaning BAM 200 for private individuals and 1% of the total exposure, while for corporates this amount is BAM 1,000 and 1% of the total exposure) for more than 30 days. Credit risk grade 2 refers to items with increased level of credit risk with material amounts being overdue for more than 30 days, while the credit risk grade 3 (exposures in default status) includes items where a debtor is more than 90 days overdue in materially significant amounts.

Banks are required to adopt internal methodologies defining manner of classification and valuation of exposures, their allocation to credit risk grades and ECL determination. This needs to

be aligned with requirements prescribed by the said Decision and the Instructions. In addition, upon initial implementation of the Decision, banks are required to perform an accounting write-off of balance sheet exposures (i.e. transfer to off-balance sheet records) for two years after they have booked ECL at the level of 100% of gross book value of exposures and declared this fully due.

The table below provides an overview of balance sheet exposures at the FB&H banking sector level based on key categories of financial assets, off-balance sheet exposures and related ECLs:

- BAM 000 -

No	Description	31.12.2018			31.12.2019			30.09.2020		
		Amount	ECL	% ECL	Amount	ECL	% ECL	Amount	ECL	% ECL
1	2	3	4	5	6	7	8	9	10	11
1.	Cash and cash facilities	6,749,437	10,960	0.2	7,796,241	7,696	0.1	7,301,346	10,365	0.1
2.	Financial assets at amortised cost	14,598,680	1,238,638	8.5	15,417,105	1,150,848	7.5	15,324,484	1,193,676	7.8
3.	Financial assets at fair value	1,167,107	0	0.0	1,318,635	0	0.0	1,622,103	0	0.0
4.	Other financial receivables	154,014	20,060	13.0	224,665	36,030	16.0	191,723	31,134	16.2
I Total balance sheet exposure		22,669,238	1,269,658	5.6%	24,756,646	1,194,574	4.8	24,439,656	1,235,175	5.1
5.	Issued guarantees	1,199,603	19,197	1.6	1,350,083	21,488	1.6	1,411,315	25,999	1.8
6.	Uncovered letters of credit	55,676	781	1.4	48,255	554	1.1	46,819	1,040	2.2
7.	Irrevocably approved, but undrawn loans	2,058,020	20,741	1.0	2,058,199	19,685	1.0	2,285,168	26,308	1.2
8.	Other contingent liabil.	16,707	143	0.9	54,122	310	0.6	8,376	19	0.2
II Total off-bal.sheet items		3,330,006	40,862	1.2	3,510,659	42,037	1.2	3,751,678	53,366	1.4
Total exposure (I+II)		25,999,244	1,310,520	5.0	28,267,305	1,236,611	4.4	28,191,334	1,288,541	4.6

Total exposure of banks as of 30/09/2020 stood at BAM 28.2 billion, thereof BAM 24.4 billion referring to balance sheet exposures and BAM 3.8 billion to off-balance sheet items.

Over the first nine months of 2020, there was a decrease of balance sheet exposures compared to the YE2019 by BAM 317 million or 1.3%, as caused by a net effect of reduced cash volume and accounting write off as per the new regulation, as well as due to an increase of financial assets measured at fair value. Over the same period, there was an increase of off-balance sheet items by BAM 241 billion or 6.9%, as being largely a result of an increase of irrevocably approved, but undrawn loans with one bank (up by BAM 180.7 million).

The following table shows balance sheet and off-balance sheet exposures at the FB&H banking sector level by credit risk grades and related ECLs:

- BAM 000 -

No.	Description	31.12.2018			31.12.2019			30.09.2020		
		Amount	ECL	% ECL	Amount	ECL	% ECL	Amount	ECL	% ECL
1	2	3	4	5	6	7	8	9	10	11
1.	Credit risk grade 1	19,393,493	132,218	0.7	21,787,417	123,558	0.6	21,561,959	179,087	0.8
2.	Credit risk grade 2	1,899,346	115,699	6.1	1,652,439	113,839	6.9	1,777,870	171,535	9.6
3.	Credit risk grade 3	1,376,399	1,021,741	74.2	1,316,790	957,177	72.7	1,099,827	884,553	80.4
I Total balance sheet exposure		22,669,238	1,269,658	5.6	24,756,646	1,194,574	4.8	24,439,656	1,235,175	5.1
4.	Credit risk grade 1	2,908,560	21,387	0.7	3,027,094	20,431	0.7	3,360,390	25,247	0.8
5.	Credit risk grade 2	410,239	12,629	3.1	474,159	15,610	3.3	384,876	25,008	6.5
6.	Credit risk grade 3	11,207	6,846	61.1	9,406	5,996	63.7	6,412	3,111	48.5

II Total off-bal.sheet items	3,330,006	40,862	1.2	3,510,659	42,037	1.2	3,751,678	53,366	1.4
Total exposure (I+II)	25,999,244	1,310,520	5.0	28,267,305	1,236,611	4.4	28,191,334	1,288,541	4.6

As of 30/09/2020, balance sheet exposures within the credit risk grade 1 amounted to BAM 21.6 billion and make up for 88.2% of the total balance sheet exposures. Compared to YE2019, they have dropped by BAM 225.5 million or 1%. The reduction mostly came as a net effect of: decreased cash funds and cash receivables of BAM 509.9 million, increased financial assets measured at fair value by BAM 168.6 million and increased loan portfolio within this credit risk grade by BAM 118 million.

As of 30/09/2020, balance sheet exposures within the credit risk grade 2 stood at BAM 1.8 billion, representing 7.3% of the total balance sheet exposures. Compared to YE2019, they have risen by BAM 125.4 million or 7.6%. The increase of total balance sheet exposures within this credit risk grade came as a net effect of: an increase of securities allocated to the credit risk grade 2 by BAM 145.2 million, cash funds and cash receivables by BAM 16.2 million and other assets valued at amortised cost by BAM 4.8 million, as well as reduction of loan portfolio within the same credit risk grade by BAM 29.9 million and other financial receivables by BAM 11.8 million.

As of 30/09/2020, balance sheet exposures within the credit risk grade 3 equaled BAM 1.1 billion, representing 4.5% of the total balance sheet exposures. If observed against YE2019, they have dropped by BAM 217 million or 16.5%, as largely resulting from the accounting write-off of balance sheet exposures.

Over the first nine months of 2020, ECLs at the credit risk grades 1 and 2 for the balance sheet exposures had a total increase of BAM 113.2 million (ECL for credit risk grade 1 rose by BAM 55.5 million and at the credit risk grade 2 by BAM 57.7 million). ECL at the credit risk grade 3 went down by BAM 72.6 million due to the accounting write off in line with the new regulation. The ECL level for balance sheet exposures at the FB&H banking sector level as at 30/09/2020 is lower than the value adjustment posted in the Form BS by an amount of BAM 1.7 million. This is a result of a fact that four banks formed also value adjustments for assets items that are not financial assets. The biggest difference refers to one bank (BAM 1.3 million) that formed value adjustments for foreclosed tangible assets.

As a result of implementation of the Decision on Credit Risk Management and Determination of Expected Credit Losses, ECL coverage rates have risen against YE2019. Exposure coverage at the credit risk grade 1 rose from 0.6% to 0.8%, at the credit risk grade 2 from 6.9% to 9.6% and at the credit risk grade 3 from 72.7% to 80.4%.

As of 30/09/2020, off-balance sheet exposures at the credit risk grade 1 stood at BAM 3.4 billion, thus representing 89.6% of the total off-balance sheet exposures. Exposures at the credit risk grade 2 amount to BAM 384.9 million or 10.2% of the total off-balance sheet exposures, while the credit risk grade 3 includes exposures of BAM 6.4 million or 0.2% of the total off-balance sheet exposures.

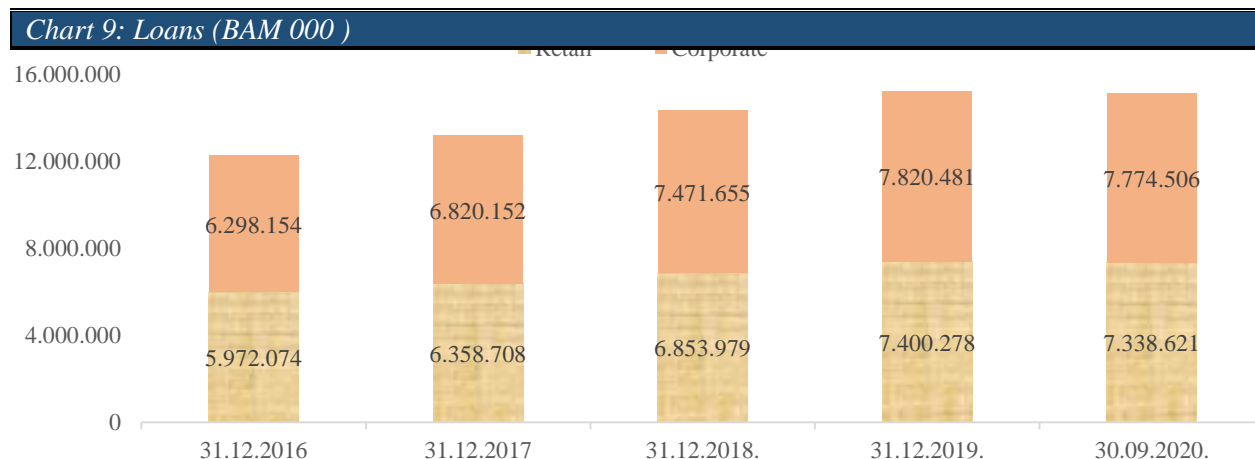
Total ECL coverage for off-balance sheet exposures rose from 1.2% to 1.4%. The increase of coverage rate was noted with the credit risk grades 1 and 2, while the credit risk grade 3 shows a drop in the coverage rate, as mostly resulting from the accounting write off performed with two banks.

As of 30/09/2020, loans stood at BAM 15.1 billion, down by BAM 107.6 million or 0.7% vs. YE2019. However, the nominal loan portfolio growth was higher considering the accounting write-off of the loan portfolio in an amount of BAM 191.1 million was performed at the FB&H

banking sector level subject to the effect date of the Decision on Credit Risk Management and Determination of Expected Credit Losses.

Retail loans amount to BAM 7.3 billion and hold a share in total loans of 48.6%. Over the first nine months of 2020 they have declined by 0.8%, while corporate loans (amounting to BAM 7.8 billion and representing 51.4% of total loans) have dropped by 0.6%.

The following chart provides an overview of retail and corporate loans at the FB&H banking sector level in the period from 31/12/2016 to 30/09/2020:



The following table shows a trend and changes of individual sectors of loan users in the total loan structure:

-BAM 000 -

Table 22: Loan structure by sectors

No.	Sectors	31.12.2018		31.12.2019		30.09.2020		Index	
		Amount	% share	Amount	% share	Amount	% share	(5/3)	(7/5)
1	2	3	4	5	6	7	8	9	10
1.	Government institutions	216,596	1.5	189,360	1.2	167,551	1.1	87	88
2.	Public sector enterprises	321,493	2.3	359,635	2.4	398,980	2.7	112	111
3.	Private companies	6,625,641	46.3	6,922,742	45.5	6,548,602	43.3	104	95
4.	Banking institutions	217,706	1.5	247,501	1.6	563,671	3.7	114	228
5.	Non-banking financial instit.	75,804	0.5	86,902	0.6	82,725	0.5	115	95
6.	Retail	6,853,979	47.8	7,400,278	48.6	7,338,621	48.6	108	99
7.	Other	14,415	0.1	14,341	0.1	12,977	0.1	99	90
	Total	14,325,634	100	15,220,759	100	15,113,127	100	106	99

The following table provides maturity structure of loans by sectors – loan users as of 30/09/2020:

- BAM 000 -

Table 23: Maturity structure of loans

No.	Sectors	31.12.2019			30.09.2020			Index		
		ST loans	LT loans	Receiv. due	ST loans	LT loans	Receiv. due	(6/3)	(7/4)	(8/5)
1	2	3	4	5	6	7	8	9	10	11
1.	Government institutions	40	189,215	105	1,885	165,330	336	4.713	87	320
2.	Public sector enterprises	39,363	307,603	12,668	44,431	347,671	6,878	113	113	54
3.	Private companies	2,414,723	3,897,580	610,440	2,312,583	3,689,918	546,101	96	95	89

4.	Banking institutions	247,491	0	10	563,671	0	0	228	0	0
5.	Non-banking financial instit.	26,103	55,779	5,020	17,027	65,686	12	65	118	0
6.	Retail	423,373	6,651,895	325,010	411,783	6,661,593	265,245	97	100	82
7.	Other	7,772	5,686	883	7,346	5,368	263	95	94	30
Total		3,158,865	11,107,758	954,136	3,358,726	10,935,566	818,835	106	98	86

As of 30/09/2020, compared to the end of 2019, short term loans in the FB&H banking sector have risen by BAM 199.9 million or 6.3% and long term loans went down by BAM 172.2 million or 1.6%.

Receivables due amount to BAM 818.8 million, down by BAM 135.3 million or 14.2% vs. YE2019. This significant rate of reduction of receivables due stems largely from the performed accounting write-off.

In the currency structure of loans, loans approved in domestic currency have the highest share of 49.8% or BAM 7.5 billion in the loans' currency structure, followed by loans approved with a currency clause with a share of 46% or BAM 7 billion (EUR: BAM 6.9 billion or 99.8%, CHF: BAM 15 million or 0.2%), while loans approved in foreign currency have the lowest share of 4.2% or BAM 637.4 million (of which BAM 636.9 million or 99.9% relates to EUR).

The following table provides an overview of corporate and retail loans by credit risk grades and related ECLs:

- BAM 000-

No.	Description	31.12.2018			31.12.2019			30.09.2020		
		Amount	ECL	% ECL	Amount	ECL	% ECL	Amount	ECL	% ECL
1	2	3	4	5	6	7	8	9	10	11
I Corporate loans										
1.	Credit risk grade 1	5,624,867	59,945	1.1	6,146,371	51,146	0.8	6,209,837	87,613	1.4
2.	Credit risk grade 2	1,017,975	57,914	5.7	904,039	55,828	6.2	954,993	109,049	11.4
3.	Credit risk grade 3	828,813	572,989	69.1	770,071	516,128	67.0	609,676	475,541	78.0
Total I		7,471,655	690,848	9.2	7,820,481	623,102	8.0	7,774,506	672,203	8.6
II Retail loans										
4.	Credit risk grade 1	5,814,039	59,449	1.0	6,451,878	59,562	0.9	6,506,257	76,595	1.2
5.	Credit risk grade 2	572,455	56,327	9.8	471,019	57,081	12.1	379,475	58,562	15.4
6.	Credit risk grade 3	467,485	384,481	82.2	477,381	381,194	79.9	452,889	374,722	82.7
Total II		6,853,979	500,257	7.3	7,400,278	497,837	6.7	7,338,621	509,879	6.9
Total loans										
7.	Credit risk grade 1	11,438,906	119,394	1.0	12,598,249	110,708	0.9	12,716,094	164,208	1.3
8.	Credit risk grade 2	1,590,430	114,241	7.2	1,375,058	112,909	8.2	1,334,468	167,611	12.6
9.	Credit risk grade 3	1,296,298	957,470	73.9	1,247,452	897,322	71.9	1,062,565	850,263	80.0
Total loans (I+II)		14,325,634	1,191,105	8.3	15,220,759	1,120,939	7.4	15,113,127	1,182,082	7.8

The loan portfolio allocated to the credit risk grade 1 as of 30/09/2020 stood at BAM 12.7 billion, representing 84.2% of the total loan portfolio. This represents an increase against YE2019 by BAM 117.8 million or 0.9%. The ECL coverage rate for the credit risk grade 1 is 1.3% (corporate 1.4% and retail 1.2%), up by 0.4 percentage points vs. 31/12/2019.

The loan portfolio in the credit risk grade 2 as of 30/09/2020 stood at BAM 1.3 billion, thus making up for 8.8 of the total loan portfolio. Compared to YE2019, it is by BAM 40.6 million or

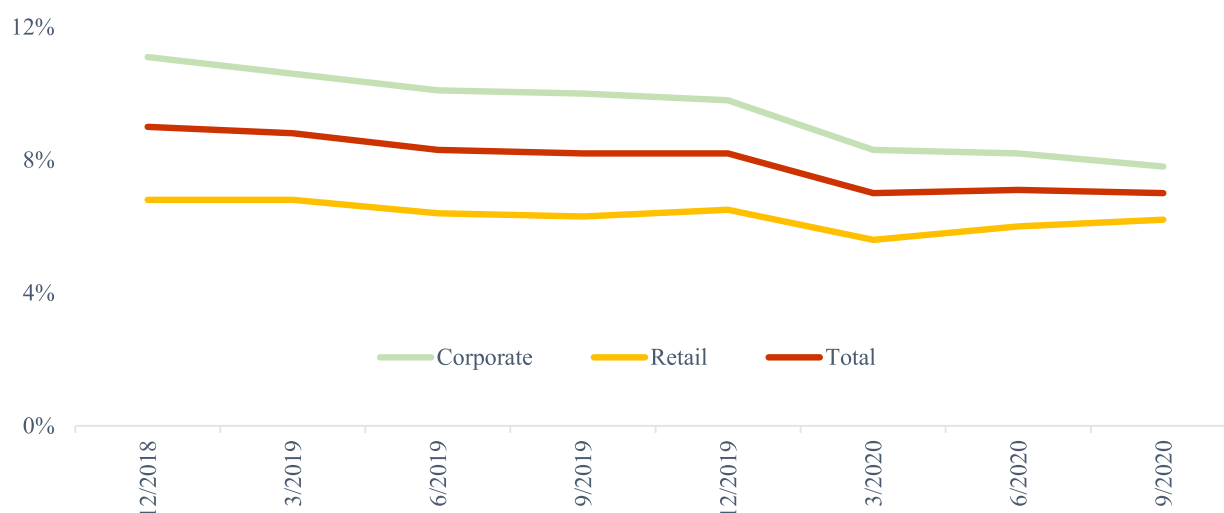
3% lower. The ECL coverage rate for this credit risk grade is 12.6% (corporate 11.4% and retail 15.4%), up by 4.4 percentage points compared to 31/12/2019.

The loan portfolio in the credit risk grade 3 (NPL) as of 30/09/2020 amounted 1.1 billion, thus constituting 7% of the total loan portfolio. Its reduction by BAM 184.9 million or 14.8% vs. YE2019 was largely resulting from the accounting write off performed in line with the Decision on Credit Risk Management and Determination of Expected Credit Losses. The ECL coverage rate for the credit risk grade 3 is 80% (corporate 78% and retail 82.7%), up by 8.1 percentage points vs. 31/12/2019.

Out of total corporate loans, BAM 609.7 million or 7.8% refers to the NPL segment, down by 2 percentage points vs. YE2019. As for the retail segment, NPLs stood at BAM 452.9 million or 6.2%, thus being 0.3 percentage points lower than as at YE2019.

An overview of NPLs (loan portfolio allocated to the credit risk grade 3) is provided in the following chart:

Chart 10: Share of NPLs in loans



A more detailed and complete sector analysis of the loan portfolio of the FB&H banking sector is provided in the Annex 4 of this Information and it rests on data of sector-level concentration of loans within corporate (by line of business) and retail segments (by purpose).

As for corporate loans, the biggest share relates to the trade sector (BAM 2.8 billion or 35.5% of corporate loans, i.e. 18.3% of the total loan portfolio), processing industry (BAM 1.9 billion or 24.2% of corporate loans, i.e. 12.5% of the total loans) and financial industry (BAM 636.6 million or 8.2% of corporate loans, i.e. 4.2% of the total loans). The share of NPLs in loans to the trade sector is 7.8%, to the processing industry 10.3% and to the financial industry 0%.

With regards to corporate loans, the biggest share of NPLs as of 30/09/2020 referred to loans approved to education (28.8%), agriculture (21.8%) and real estate business (14.5%).

As far as retail loans are concerned, the largest share is with general consumption loans (BAM 5.9 billion or 80.1% of retail loans, i.e. 38.9% of the total loan portfolio) and housing loans (BAM 1.4 billion or 18.6% of retail loans, i.e. 9% of the total loan portfolio). The share of NPLs in general consumption loans is 6.7% and with housing loans 3.9%. The high share of general consumption

loans in the loan portfolio of the FB&H banking sector calls for greater caution in shaping credit policies in banks.

Credit risk is the dominant risk in the FB&H banking sector, which is why the supervisor's focus is on reviewing the credit risk management practices, i.e. on an assessment of practices regarding approval, monitoring and analysis of credit risk exposures, establishment of an early warning system for cases of increased credit risk, allocation of exposures to credit risk grades and ECL determination, as well as treatment of non-performing exposures and concentration risk management.

The first nine months of 2020 saw an improvement of key indicators of credit risk measurement in the FB&H banking sector (share of NPLs, ECL coverage rate and share of loans due, as mostly caused by implementation of the new regulatory framework). A challenge placed before the FB&H banking sector in the forthcoming period is to maintain positive trends considering negative effects for the economy caused by the pandemic.

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

In order to mitigate negative economic consequences caused by the pandemic and maintain stability of the FB&H banking sector, in March 2020, FBA has adopted the Decision on Temporary Measures of Banks to Mitigate Negative Economic Consequences Caused by COVID-19¹³. In this situation of prolonged crisis, FBA continuously acted towards avoiding additional negative consequences and enabling recovery of the economy. Therein, it recognised a need to extend the measures that, among other things, referred to approval of relaxations to private individuals and legal entities whose income, i.e. repayment sources, are still lower as a result of the pandemic, thus making it difficult or impossible to settle their debts towards banks. In August 2020, FBA has adopted the Decision on Temporary Measures of Banks to Ensure Recovery from Negative Economic Consequences Caused by Covid-19¹⁴. This Decision determines temporary measures related to approval of loan relaxations to bank customers all for purpose of overcoming the difficulties they are facing. Also, it defines special rules for credit risk management that banks shall apply in case of approval of special measures to their customers, as well as measures aimed at preserving capital in banks.

In the period until 30/09/2020, BAM 1.2 billion or 8.2% of total loans was encompassed by some of active special measures. The total amount of the corporate loan portfolio subjected to special measures was BAM 998.3 billion or 12.8% of the corporate loan portfolio, while active special measures refer to the retail portfolio amount of BAM 237.7 million or 3.2 of the retail loan portfolio.

1.2.5. Profitability

Bank profitability is affected the most by asset quality, i.e. risks, structure, diversification and funding costs, cost efficiency, FB&H banking, i.e. financial sector specific external factors (financial system development, regulatory features, industry concentration, etc.) and external

¹³ FB&H Official Gazette Nos. 22/20 and 37/20

¹⁴ FB&H Official Gazette No. 60/20

macroeconomic factors (economic growth, global market interest rates, employment and unemployment rates, salary trend, inflation, etc.).

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

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

Positive financial performance of BAM 151.2 million across the FB&H banking sector was reported for the January 1 – September 30, 2020 period, which was lower by BAM 99.7 million or 39.7% compared to the same period of 2019. Consequences caused by the pandemic had significant influence over the financial result of the FB&H banking sector during the first nine months of 2020, and this will only be visible over the following period. The total net profit was BAM 166.7 million (13 banks), with a BAM 15.5 million loss reported by two banks (99.1% of the posted loss refers to one bank that saw a major increase of value adjustment costs).

Annex 5 shows the FB&H banks' income statement for the January 1 – September 30, 2020 period, according to the FBA's scheme, with the comparative data for the same reporting period of 2019.

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

-BAM 000-

No.	Description	30.09.2018		30.09.2019		30.09.2020	
		Amount	Number of banks	Amount	Number of banks	Amount	Number of banks
1	2	3	4	5	6	7	8
1.	Profit	259,927	14	251,571	14	166,670	13
2.	Loss	13,256	1	647	1	15,478	2
	Total	246,671	15	250,924	15	151,192	15

FB&H Banking Sector's Total Income

According to the banks' reporting data as of 30/09/2020, the total income across the FB&H banking sector is BAM 870.8 million and, compared to the same period last year, it decreased by BAM 28.1 million or 3.1%.

-BAM 000 -

No.	Structure of total income	30.09.2019		30.09.2020		Index (5/3)
		Amount	%	Amount	%	
1	2	3	4	5	6	7
I Interest income and similar income						
1.	Interest-bearing deposit accounts with deposit institutions	4,075	0.5	2,169	0.2	53
2.	Loans and leasing operations	486,425	54.1	468,473	53.8	96
3.	Other interest income	58,788	6.5	53,038	6.1	90
	Total I	549,288	61.1	523,680	60.1	95
II Operating income						
4.	Service fees	264,846	29.5	250,951	28.8	95
5.	Income from FX operations	47,758	5.3	40,427	4.7	85
6.	Other operating income	36,992	4.1	55,700	6.4	151
	Total II	349,596	38.9	347,078	39.9	99

Total income (I+II)	898,884	100	870,758	100	97
----------------------------	----------------	------------	----------------	------------	-----------

In the total income structure, interest income and similar income hold a share of 60.1%, while operating income participate with 39.9%. Compared to the same period the year before, there was a decrease of share of interest and similar income by one percentage point, while share of operating income increased by the same percentage point.

Total interest and similar income reported a decrease in the reporting period by BAM 25.6 million or 4.7%. A dominant item among these income categories was income from interest on loans and leasing facilities with a share in total income dropping by 0.3 percentage points. At the same time, the share of loans and leasing type receivables in total assets increased by 0.7 percentage point (from 62.8% to 63.5%), while average interest receivables related to loans went down from 3.32% to 3.10% (by 0.22 percentage points).

Over the first nine months of 2020, interest income under interest-bearing deposit accounts with deposit institutions dropped by 46.8% compared to the same period last year. As for other interest income, there was a reduction across all interest income positions (securities held to maturity by 6.4%, placements to other banks by 34.1% and other interest income by 8.5%).

Looking into the sector structure of interest income, most of this refers to income from the retail segment (62.4%), although retail loans make up for 48.6% of the total loan portfolio of the FB&H banking sector due to higher average NIR of the Retail segment of 5.50% compared to the corporate segment's NIR of 2.51%, as well as due to lower share of NPLs in retail loans. Out of total interest income, the part that refers to private companies is 29.2% and 4.2% refers to government institutions and 1.6% to public companies.

The total operating income recorded a decrease of BAM 2.5 million or 0.7% in the reporting period. The largest item in the structure of total operating income is income from service fees which recorded a decrease of BAM 13.9 million or 5.2%. There was also a decrease in the income from foreign exchange operations by BAM 7.3 million or 15.4%, while other operating income rose by BAM 18.7 million or 50.6%. Therein, the largest increase refers to three banks. One bank posted extraordinary income based on a damage claim collected from an insurance company, the other posted income from sale of a commercial building, and the third one collected major amount of default interest and written off receivables.

FB&H Banking Sector's Total Expenses

According to the banks' reporting data as of 30/09/2020, total expenses across the FB&H banking sector are BAM 719.2 million, which increased by BAM 72.9 million or 11.3% compared to 30/09/2019. The structure of the FB&H banking sector's total expenses in the reporting period is provided in the following table:

- BAM 000-

No.	Structure of total expenses	30.09.2019		30.09.2020		Index (5/3)
		Amount	%	Amount	%	
1	2	3	4	5	6	7
I Interest expenses and similar expenses						
1.	Deposits	70,777	10.9	68,728	9.6	97
2.	Liabilities on loans and other borrowings	6,878	1.1	6,092	0.8	89
3.	Other interest expenses	18,267	2.8	23,587	3.3	129
Total I		95,922	14.8	98,407	13.7	103
II Non-interest expenses						

4.	Costs of impairments of assets at risk, provisions on contingent liabilities and other value adjustments	58,147	9.0	133,504	18.6	230
5.	Salary and contribution costs	194,329	30.1	192,141	26.7	99
6.	Business premises costs and depreciation	114,495	17.7	118,273	16.5	103
7.	Other operating and direct costs	103,937	16.1	100,312	13.9	97
8.	Other operating costs	79,412	12.3	76,533	10.6	96
Total II		550,320	85.2	620,763	86.3	113
Total expenses (I+II)		646,242	100	719,170	100	111

The total expenses structure is dominated by non-interest expenses with a share of 86.3%, while interest expenses and similar expenses account for 13.7%. Compared to the same period last year, the share of interest expenses dropped by 1.1 percentage point, while the share of non-interest expenses rose by the equivalent percentage point.

In the reporting period, interest and similar expenses increased by BAM 2.5 million or 2.6%, whereas interest expenses on deposits, which are the FB&H banking sector's dominant funding source, dropped by BAM 2 million or 2.9%, despite higher level of deposits compared to 30/09/2019. The deposit potential at the end of September 2020 stood at BAM 19.2 billion, up by BAM 212.3 million compared to the same period last year. Interest-bearing deposits participate in total deposit potential as of 30/09/2020 with a share of 70.3%, thus their share has dropped since the end of September 2019 when they participated with 72.7%. This reduction of interest expenses on deposits came as a result of reduced share of interest-bearing deposits and lower average NIR going from 0.79% as of 30/09/2019 to 0.67% at the end of September 2020.

Other interest expenses increased during the observed period by BAM 5.3 million or 29.1%, as largely based on negative interest on deposits with foreign banks and negative fee on banks' funds in excess of the legal reserves with CBBH.

Over the observed period, interest expenses on loans and other borrowings dropped by 11.4%, while the FB&H banking sector's level of indebtedness on loans and other borrowings rose by BAM 5.5 million or 0.7%.

Across the FB&H banking sector, there was an increase by BAM 70.4 million or 12.8% in the total non-interest expenses in the reporting period, where the most significant structural change relates to an increase in the costs of impairments of risk assets and provisions for contingent liabilities and other value adjustments by BAM 75.4 million. This major increase of impairment costs resulted from negative effects of the pandemic to the FB&H economy.

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

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

-BAM 000 or %-

No.	Description	30.09.2018	30.09.2019	30.09.2020
1	2	3	4	5
1.	Net profit	246,671	250,924	151,192
2.	Average net assets	20,862,740	22,947,679	23,725,550
3.	Average total capital	2,898,374	3,092,301	2,975,110
4.	Total income	785,718	802,962	772,351
5.	Net interest income	456,236	453,366	425,273
6.	Operating income	329,482	349,596	347,078
7.	Operating expenses	383,777	388,236	386,947
8.	Operating and direct expenses	155,270	162,084	233,816

9.	Other operating and direct expenses	91,893	103,937	100,312
10.	Return on average assets (ROAA)	1.2	1.1	0.6
11.	Return on average equity (ROAE)	8.5	8.1	5.1
12.	Total income/average assets	3.8	3.5	3.3
13.	Net interest income/average assets (NIM)*	2.2	2.0	1.8
14.	Net interest margin (interest income /average interest-bearing assets – interest expenses/average interest-based liabilities)	2.2	2.0	1.9
15.	Operating expenses/total income minus other operating and direct expenses (CIR)**	55.3	55.5	57.6

* NIM - Net Income Margin

** CIR - Cost-income Ratio

During the first nine months of 2020, all indicators of profitability are showing a downward trend against the same period of the year before. This is mostly a result of effects of the pandemic.

Looking into the net interest income, there is a decrease vs. the same period in 2019 by BAM 28.1 million or 6.2%. This item constitutes 55.1% of total income, while in the same period in 2019 its share was 56.5%.

1.2.6. Weighted NIR and EIR

In order to increase transparency and facilitate the comparability of the banks' terms for approving loans and receiving deposits, as well as to protect clients through introduction of transparent disclosure of the loan costs, i.e. the deposit income, in accordance with the international standards, criteria, and practices in other countries, the FBA prescribed a uniform method of calculating and disclosing EIR for all banks seated in the FB&H, as well as the organizational parts of the banks seated in the RS, which operate in the FB&H, and mandatory monthly reporting to the FBA on weighted NIR and EIR on approved loans and received deposits in the reporting month, in accordance with the prescribed methodology¹⁵.

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

Annex 6 provides weighted average NIR and EIR on loans and deposits by periods.

The total weighted average EIR on loans in the FB&H banking sector as of 30/09/2020 is 3.65% and is lower by 0.28 percentage points compared to the same period in 2019, when it was 3.93%. The downward trend in the weighted average EIR is present across the FB&H banking sector in the reporting period, both in long-term loans (0.13 percentage point, decrease from 5.59% to 5.46%) and in short-term loans (0.2 percentage points, from 2.71% to 2.51%). Viewed in the aforementioned period according to the sector structure, EIR on total corporate loans decreased by 0.12 percentage point (from 2.85% to 2.73), while on retail loans it increased by 0.14 percentage points (from 6.91% to 7.05%).

¹⁵ Decision on Uniform Method of Calculating and Disclosing Effective Interest Rates on Loans and Deposits ("Official Gazette of the Federation of B&H", No. 81/17), and Instructions for Calculating Weighted Nominal and Effective Interest Rates

The total weighted average EIR on deposits in the FB&H banking sector as of 30/09/2020 is 0.67% and is lower by 0.09 percentage points compared to the same period in 2019, when it was 0.76%.

Viewed according to the deposit maturity, the weighted average EIR on short-term deposits recorded an increase of 0.02 percentage points (from 0.32% to 0.34%), while it decreased by 0.2 percentage points (from 1.20% to 1.00%) on long-term deposits.

On the overall level in the reporting period, the decrease in EIR on loans (0.28 percentage points) was more pronounced compared to the decrease in EIR on deposits (0.09 percentage points).

1.2.7. Liquidity

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

The Decision on Liquidity Risk Management in Banks¹⁶ provides for the minimum qualitative requirements for liquidity risk management in banks, starting from the regulatory standards for risk management in banks, quantitative requirements for banks in respect of LCR (min. 100%) and ensuring stable funding, as well as using additional mechanisms for liquidity risk monitoring and assessment.

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

-BAM 000-

Table 29: LCR

No.	Description	31.12.2018	31.12.2019	30.09.2020	Index	
					(4/3)	(5/4)
1	2	3	4	5	6	7
1.	Liquidity buffer	4,325,281	4,727,454	5,358,843	109	113
2.	Net liquidity outflows	1,392,629	1,628,421	1,952,632	117	120
LCR		311%	290%	274%	93	95

As of 30/09/2020, LCR across the FB&H banking sector was 274%. All banks in the FB&H banking sector with the balance as at 30/09/2020 meet the requirements in respect of LCR.

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

- BAM 000 -

Table 30: Maturity structure of deposits by residual maturity

No.	Deposits	31.12.2018		31.12.2019		30.09.2020		Index	
		Amount	% share	Amount	% share	Amount	% share	(5/3)	(7/5)
1	2	3	4	5	6	7	8	9	10
1.	Savings and sight deposits (up to 7 days)	10,562,608	60.0	11,196,133	57.7	12,417,386	64.7	106	111
2.	7-90 days	1,058,414	6.0	855,191	4.4	816,010	4.3	81	95
3.	91 days to one year	2,616,873	14.9	3,175,998	16.4	2,438,817	12.7	121	77
I Total short-term		14,237,895	80.9	15,227,322	78.5	15,672,213	81.7	107	103
4.	Up to 5 years	3,193,809	18.1	3,983,643	20.5	3,336,013	17.4	125	84

¹⁶ FB&H Official Gazette Nos. 81/17 and 37/20

5.	Over 5 years	172,783	1.0	203,329	1.0	169,245	0.9	118	83
II Total long-term		3,366,592	19.1	4,186,972	21.5	3,505,258	18.3	124	84
Total (I + II)		17,604,487	100	19,414,294	100	19,177,471	100	110	99

As of 30/09/2020, short-term deposits had a 81.7% share, while long-term ones had a 18.3% share, with the share of the short-term deposits increasing, i.e. the share of the long-term ones decreasing by 3.2 percentage points compared to the end of 2019.

In the reporting period, an increase of BAM 444.9 million or 2.9% was recorded in relation to short-term deposits and a decrease of BAM 681.7 million or 16.3% in relation to long-term deposits. A decrease in long-term deposits was also realized in the deposits of up to 5 years (by BAM 647.6 million or 16.3%) and in deposits of over 5 years (by BAM 34.1 million or 16.8%). Looking into the structure of long term deposits by residual maturity, evidently they are dominated by deposits with residual maturity of up to 5 years (95.2%).

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

- % -

No.	Ratios	31.12.2018	31.12.2019	30.09.2020
1	2	3	4	5
1.	Liquid assets ¹⁷ / net assets	30.8	31.9	30.4
2.	Liquid assets/ short-term financial liabilities	46.3	49.2	44.7
3.	Short-term financial liabilities/ total financial liabilities	77.7	75.4	78.7
4.	Loans/deposits and loans taken ¹⁸	77.6	75.1	75.6
5.	Loans/ deposits, loans taken and subordinated debts ¹⁹	77.1	74.4	74.9

The loans to deposits and loans taken ratio as at 30/09/2020 was 75.6%, which was higher by 0.5 percentage points compared to the end of 2019 (still located in the marginally satisfactory zone). With three banks, this indicator was higher than 85%.

As of end of September 2020, all liquidity ratios changed vs. end of 2019, as deemed to be partially a result of the economic crisis caused by the pandemic and changes in the financing structure with deposits of banking groups. The share of short-term financial liabilities in total financial liabilities is still high, but the liquid assets to net assets ratio is still satisfactory. For purpose of planning the required level of liquid resources, banks should plan the funding and structure of an adequate liquidity potential and also plan a credit policy accordingly. The maturity of placements, i.e. the loan portfolio is determined precisely by the maturity of funding. An important aspect of monitoring and analysis of the liquidity position is maturity matching of remaining maturities of financial assets and liabilities on a timescale, created for the time horizon of 180 days as per prescribed minimum limits²⁰. Given that the maturity transformation of funds in banks is inherently related to functional characteristics of banking operations, banks continuously control and hold maturity mismatches between the funding and placements in accordance with regulatory limits.

¹⁷ Liquid assets in narrow sense: cash and deposits and other financial assets with residual maturity period of less than three months, excluding interbank deposits.

¹⁸ Empirical standards are: less than 70% - very solid, 71%-75% - satisfactory, 76%-80% - borderline satisfactory, 81%-85% - insufficient, over 85% - critical

¹⁹ Previous ratio is expanded, the funding also includes subordinated debts, which is a more realistic indicator.

²⁰ Decision on Liquidity Risk Management in Banks

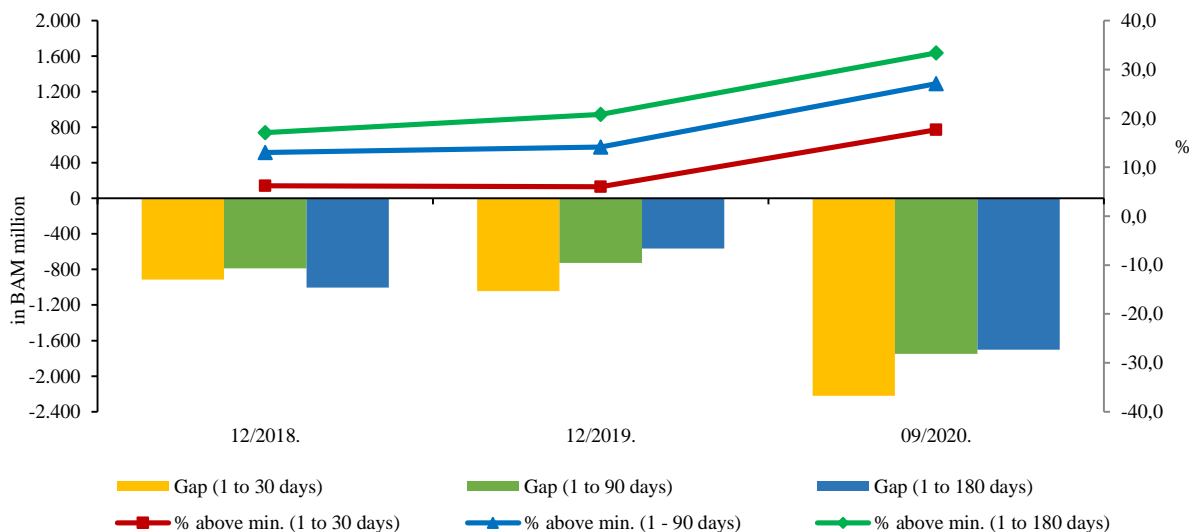
For purpose of mitigating negative effects caused by the pandemic, as well as unfavourable consequences to the economic situation in the country, in May 2020, FBA has amended the Decision on Liquidity Risk Management in Banks so to stimulate lending activity of banks in a way to have changed provisions of the Decision and enabled banks to apply measures under these new business circumstances that relate to reduction of prescribed limitations regarding maturity matching of financial assets and liabilities in maturity buckets of up to 180 days. An objective here is to enable banks to be more flexible in responding to customer applications and managing liquidity positions. The said Decision prescribes that min. 65% of the funding sources with maturity of up to 30 days must be engaged in facilities with maturity up to 30 days, min. 60% of funding sources with maturity up to 90 days to be engaged in facilities with maturity up to 90 days and min. 55% of the funding sources with maturity up to 180 days to be engaged with facilities whose maturity is up to 180 days.

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

-BAM 000-

<i>Table 32: Maturity matching of financial assets and financial liabilities of up to 180 days</i>						
No.	Description	31.12.2018	31.12.2019	30.09.2020	Index	
		Amount	Amount	Amount	(4/3)	(5/4)
1	2	3	4	5	6	7
I 1-30 days						
1.	Amount of financial assets	9,513,412	10,579,834	10,621,854	111	100
2.	Amount of financial liabilities	10,425,706	11,624,766	12,843,811	112	110
3.	Balance (+ or -) = 1-2	-912,294	-1,044,932	-2,221,957	-	-
<i>Calculation of compliance with regulatory requirements in %</i>						
a)	Actual %= no. 1 / no. 2	91.2%	91.0%	82.7%		
b)	Regulatory minimum %	85.0%	85.0%	65%		
More (+) or less (-) = a – b		6.2%	6.0%	17.7%		
II 1-90 days						
1.	Amount of financial assets	10,556,830	11,641,857	11,793,694	110	101
2.	Amount of financial liabilities	11,345,741	12,367,913	13,541,963	109	109
3.	Balance (+ or -) = 1-2	-788,911	-726,056	-1,748,269	-	-
<i>Calculation of compliance with regulatory requirements in %</i>						
a)	Actual %= no. 1 / no. 2	93.0%	94.1%	87.1%		
b)	Regulatory minimum %	80.0%	80.0%	60%		
More (+) or less (-) = a – b		13.0%	14.1%	27.1%		
III 1-180 days						
1.	Amount of financial assets	11,640,075	12,985,569	12,964,355	112	100
2.	Amount of financial liabilities	12,644,902	13,550,664	14,668,266	107	108
3.	Balance (+ or -) = 1-2	-1,004,827	-565,095	-1,703,911	-	-
<i>Calculation of compliance with regulatory requirements in %</i>						
a)	Actual %= no. 1 / no. 2	92.1%	95.8%	88.4%		
b)	Regulatory minimum %	75.0%	75.0%	55.0%		
More (+) or less (-) = a – b		17.1%	20.8%	33.4%		

Chart 11: Maturity matching of financial assets and financial liabilities of up to 180 days



As of 30/09/2020, financial assets in all three time buckets were lower than financial liabilities, and the actual percentages of maturity matching were above the prescribed minimum: in the first time bucket by 17.7%, in the second one by 27.1% and in the third time bucket by 33.4%.

By observing the key liquidity indicators, qualitative and quantitative requirements, as well as other factors affecting banks' liquidity position, it could be inferred that the FB&H banking sector's liquidity as of 30/09/2020 is satisfactory despite negative effects to the economy caused by the pandemic.

1.2.8. Foreign Exchange (FX) Risk

In their operations, banks are exposed to risks arising from potential losses related to on- and off-balance sheet items resulting from changes in market prices. One of those risks is also FX risk, arising as a result of changes in exchange rates and/or mismatches in the levels of assets, liabilities, and off-balance sheet items in the same currency - individual foreign exchange position or all currencies combined with which the bank operates – the bank's total foreign exchange position.

The Decision on Foreign Exchange Risk Management in Banks²¹ provides for how the foreign exchange position is calculated and maximum permitted FX risk exposure, i.e. the limits for open individual and total foreign exchange positions (long or short), calculated by reference to the bank's eligible capital²². For purpose of mitigating consequences of the pandemic, FBA has amended this Decision as well by increasing the limit for individual FX position for EUR and for total FX position of the bank. In order for the FBA to monitor banks' compliance with the regulatory limits and FX risk exposure level, banks are required to report to the FBA on a daily

²¹ FB&H Official Gazette Nos. 81/17 and 37/20

²² Article 3 of the Decision on Foreign Exchange Risk Management in Banks provides for the limits: maximum of up to 40% for individual foreign exchange position for EUR, up to 20% for other currencies, and maximum of up to 40% of the bank's eligible capital for the bank's foreign exchange position.

basis. Based on the control, monitoring and analysis of reports, it could be inferred that banks comply with the regulatory limits and perform their FX activities within such limits. According to the balance as at 30/09/2020, the items in foreign currencies amounted to BAM 3.6 billion, with a 159% share (BAM 3.8 billion or 15.7% at the end of 2019) in the currency structure of the banks' assets across the banking sector. The currency structure of liabilities is significantly different, because the share of liabilities in foreign currency is significantly higher and amounts to BAM 7.9 billion or 33.1% (BAM 8.6 billion, with 35.5% share at the end of 2019).

The following table provides the structure of financial assets and financial liabilities and foreign exchange position for EUR, as the most important currency, and total foreign exchange position across the banking sector:

-BAM million-

<i>Table 33: Foreign exchange matching of financial assets and financial liabilities (EUR and total)</i>											
No.	Description	31.12.2019				30.09.2020				Index	
		EUR		Total		EUR		Total		EUR	Total
		Amount	% share	Amount	% share	Amount	% share	Amount	% share	(7/3)	(9/5)
1	2	3	4	5	6	7	8	9	10	11	12
I Financial assets											
1.	Cash	2.065	20,6	2.543	23,8	1.559	16,5	2.102	20,7	75	83
2.	Loans	336	3,4	337	3,2	623	6,6	623	6,1	185	185
3.	Loans with currency clause	6.651	66,3	6.655	62,2	6.333	67,1	6.334	62,5	95	95
4.	Other	727	7,2	911	8,5	704	7,5	856	8,4	97	94
5.	Other financial assets with currency clause	251	2,5	251	2,3	226	2,4	226	2,2	90	90
Total I (1+2+3+4+5)		10.030	100	10.697	100	9.445	100	10.141	100	94	95
II Financial liabilities											
6.	Deposits	6,841	73,8	7,529	75,6	6,130	72,0	6,850	74,1	90	91
7.	Loans	850	9,2	850	8,5	800	9,4	800	8,7	94	94
8.	Deposits and loans with currency clause	1,363	14,7	1,364	13,7	1,363	16,0	1,363	14,7	100	100
9.	Other	213	2,3	221	2,2	225	2,6	235	2,5	106	106
Total II (1+2+3+4)		9,268	100	9,964	100	8,518	100	9,248	100	92	93
III Off-balance sheet											
10.	Assets	37		79		95		137		257	173
11.	Liabilities	764		771		989		991		129	129
IV Position											
Long (amount)		35		41		33		39			
%		1.3%		1.5%		1.3%		1.5%			
Short											
%											
Permitted		30.0%		30.0%		40.0%		40.0%			
Less than permitted		28.7%		28.5%		38.7%		38.5%			

Viewed by banks and as the total across the FB&H banking sector, it could be noted that the banks and sector's FX risk exposures as of 30/09/2020 ranged within the regulatory limits. As of 30/09/2020, nine banks had long foreign exchange positions, while six banks had short positions. A long foreign exchange position of 1.5% of the banks' total eligible capital was reported across the sector, which was lower by 38.5 percentage points than the permitted one. The individual foreign exchange position for EUR was 1.3%, which was lower by 38.7 percentage points than the permitted one, where the financial asset items were higher than the financial liabilities (long position).

If the structure of foreign currencies in the financial assets is analysed²³ the EUR's 80.6% share is dominant (82.5% as at December 31st, 2019), with a decrease in the nominal amount by BAM 241.5 million or 7.7% vs. YE2019. The EUR's share in financial liabilities is 90.7% and, compared to the end of 2019, it decreased by BAM 749.2 million or 9.5%. The calculation basis for EUR's share in financial assets and financial liabilities does not include the items with a currency clause.

1.3. BANKING SECTOR RECOMMENDATIONS

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

- monitoring consequences caused by the pandemic and measures taken by Crisis Headquarters on operations of legal entities and on financial capacity of citizens, as well as ensuring timely intervention within the regulatory framework for purpose of enabling support to the banking sector, legal entities and citizens (as customers), thus preserving stability of the banking sector;
- monitoring effects of FBA's special measures to ensure recovery from adverse consequences caused by the pandemic and banks' actions regarding these measures;
- implementing SREP for all banks in line with adopted Methodology;
- controls of the dominant risky business areas, examinations of the systemically important banks in terms of the development of credit activities and banks in which large amounts of savings and other deposits are concentrated, and examinations of practices applied in banks in the segment of protection of financial users and guarantors, etc.;
- implementation of capital plans of banks, especially those with a major share of NPLs;
- monitoring implementation of the Decision on Credit Risk Management and Determination of Expected Credit Losses;
- continued cooperation with competent supervisory authorities for the supervision of banking groups from the EU and third countries whose members are seated in the FB&H, with a view to supervising more efficiently and improving supervisory practices and cooperating and sharing information with the ECB and EBA on the issues of supervision and banking regulations, as well as with the international financial institutions;
- improving cooperation by signing new cooperation agreements with relevant institutions in B&H, which are included in the institutional framework for the performance of supervision, crisis and systemic risk management, financial users' protection; and
- continuing cooperation with the BAB&H, with a view to improving banks' operations, compliance of their operations with regulations, international standards, and professional rules, and market requirements, etc.

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

Due to a special role and responsibilities that banks have in the financial system and the overall economic system, achieved level of development of the FB&H banking sector, and the fact that retail deposits are a dominant funding source for banks, as well as considering negative

²³ Source: Report on Bank's Foreign Exchange Position: Part of Financial Assets (in Foreign Currencies Denominated in BAM). Financial assets are reported in net terms, i.e. minus impairments and reserves for contingent liabilities.

consequences caused by the pandemic, the banks are expected to focus their activities in the coming period on:

- consistent implementation of special measures that the FBA adopted for purpose of ensuring recovery from negative consequences of the COVID-19 pandemic;
- corporate and retail credit support, with implementation of the regulatory requirements in respect of credit risk management and maintenance of adequate capitalization against banks' risk profiles;
- efficiency of an integrated risk management system and improvement of a system for early increased credit risk identification, i.e. deterioration in the loan portfolio's quality, as well as more efficient NPL management measures;
- bringing operations in compliance with the new regulatory requirements for banks' operations and supervision, including also the requirements related to recovery and resolution planning in banks;
- consistent and full implementation of the IAS/IFRS;
- updating business continuity plans in order to adequately prepare for operations under emergency situations;
- updating recovery plans, thus paying special attention to the following key segments: escalation process, recovery indicators and options;
- improving ICAAP and ILAAP in accordance with the new regulatory requirements;
- consistent implementation of regulations in the segments of payment operations, AML/CTF, protection of financial users and guarantors, security and safety of money in banks and in transport;
- further monitoring of increased risks related to information system security and implementation of new technologies, especially in the retail business segment, etc.

2. NON-DEPOSIT FINANCIAL INSTITUTIONS SECTOR

This section of the Information provides an overview of the structure and financial indicators of operations of the non-deposit financial institutions in the FB&H (MCOs, leasing companies and factoring business) in the Q3 2020 for which founding, operations, management, supervision and termination of their activities are regulated under special laws and regulations. MCO data for 2019 are aligned with the new reporting methodology²⁴ using forms prescribed by the Decision on Reports Micro Credit Organisations Deliver to the Banking Agency of the Federation of Bosnia and Herzegovina and Reporting Deadlines²⁵.

2.1. MICROCREDIT SECTOR

2.1.1. MICROCREDIT SECTOR STRUCTURE IN THE FB&H

2.1.1.1. Status, Number and Business Network

In the FB&H as of 30/09/2020, FBA's operating licenses were held by 14 MCOs that comprise the microcredit sector in the FB&H, of which 11 are MCFs (non-profit organizations) and three are MCCs (profit organizations). Compared to December 31, 2019, there were no changes to the number of MCOs.

The microcredit sector in the FB&H is, as of 30/09/2020, operates through the total of 392 organizational parts of MCOs seated in the FB&H, which, compared to data as of December 31, 2019 represents an increase by 18 organizational parts or 4.8%. As of the reporting date, MCCs with headquarters in the RS operate in the FB&H through 50 organizational units, which is an increase by one organizational part of 4.1% compared to December 31, 2019.

Annex 7 provides basic information on MCFs and MCCs which, as of 30/09/2020 held the FBA's license for performing the micro lending activity.

2.1.1.2. Ownership Structure

MCO is a legal person that, in accordance with regulations, can be founded and do business as MCF or MCC. MCFs in the FB&H were founded by non-governmental, mostly humanitarian organizations, citizens' associations and natural persons being registered founders of MCFs, but having no ownership right over capital. Out of three MCCs, one MCC is in 100% ownership of a MCF, one MCC is in the full ownership of one non-resident legal entity and one MCC is in 100% ownership of one resident legal entity.

2.1.1.3. Staff Structure

The microcredit sector in the FB&H, as of 30/09/2020, had a total of 1,376 employees, which is higher by 33 employees, i.e. 2.4%, compared to December 31, 2019. More precisely, in five MCFs and two MCCs there is an evident increase in the number of employees, in four MCFs and one MCC there is a decrease in the number of employees, while in two MCFs and one MCC the

²⁴ Manner and methodology of preparing reports of MCOs is prescribed in the Reporting Instructions for Micro Credit Organisations No. 01-56/20 of 15.01.2020.

²⁵ FB&H Official Gazette No. 87/19

number of employees remained unchanged. Out of the total number of employees in the microcredit sector in the FB&H, MCFs employ 1,111 persons or 80.7% %, while MCCs employ 265 persons or 19.3%.

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

No.	Qualification	31.12.2019		30.09.2020		Index (5/3)
		No. of employees	% share	No. of employees	% share	
1	2	3	4	5	6	7
1.	University qualifications	702	52.3	727	52.8	104
2.	Two-year post-secondary school qualifications	102	7.6	102	7.4	100
3.	Secondary school qualifications	529	39.4	536	39.0	101
4.	Other	10	0.7	11	0.8	110
Total		1,343²⁶	100	1,376	100	102

An analysis of data on staff efficiency in the FB&H microcredit sector as of 30/09/2020 shows that assets per MCO employee amounted BAM 470 ths, up by 0.3% vs. 31/12/2019.

2.1.2. FINANCIAL INDICATORS OF PERFORMANCE

2.1.2.1. Balance Sheet

Total assets of the FB&H microcredit sector as of 30/09/2020 amounted to BAM 647.3 million and are higher by BAM 17.7 million, i.e. 2.8% compared to December 31, 2019. The biggest share in the total balance sheet of MCOs is with five MCFs and one MCC with assets amounting to BAM 592.3 million or 91.5% of total assets of the microcredit sector.

Annexes 8 and 9 provide a summary overview of balance sheets of MCFs and MCCs, while Annex 10 shows basic financial indicators of MCOs based on reporting data as of 30/09/2020.

The aggregate balance sheet of the FB&H microcredit sector as of 30/09/2020 and comparative data with December 31, 2019 are shown in the following table:

- BAM 000-

No.	Description	31.12.2019				30.09.2020				Index (9/5)
		Balance for MCFs	Balance for MCCs	Total	%	Balance for MCFs	Balance for MCCs	Total	%	
1	2	3	4	5=3+4	6	7	8	9=7+8	10	11
ASSETS										
1.	Cash	35,594	13,281	48,875	7.8	36,649	9,512	46,161	7.1	94
2.	Placements to banks	2,150	0	2,150	0.3	1,640	0	1,640	0.2	76
3.	Microloans	370,298	140,707	511,005	81.2	386,420	149,937	536,357	82.9	105
4.	Loan loss provisions	2,759	1,411	4,170	0.7	4,038	3,105	7,143	1.1	171
5.	Net microloans	367,539	139,296	506,835	80.5	382,382	146,832	529,214	81.8	104
6.	Premises and other fixed assets	28,231	5,747	33,978	5.4	27,602	4,749	32,351	5.0	95
7.	Long-term investments	33,061	0	33,061	5.3	33,061	0	33,061	5.1	100
8.	Other assets	3,415	1,304	4,719	0.7	3,497	1,406	4,903	0.8	104
9.	Reserves on other items in assets, apart from loans	3	0	3	0.0	3	0	3	0.0	100
Total assets		469,987	159,628	629,615	100	484,828	162,499	647,327	100	103
LIABILITIES										

²⁶ The number of employees as of 31.12.2019 was adjusted with one MCF and one MCC.

10.	Liabilities on loans	196,769	106,797	303,566	48.2	203,456	106,196	309,652	47.8	102
11.	Other liabilities	24,218	7,517	31,735	5.0	22,555	7,397	29,952	4.6	94
12.	Capital	249,000	45,314	294,314	46.8	258,817	48,906	307,723	47.6	105
	Total liabilities	469,987	159,628	629,615	100	484,828	162,499	647,327	100	103
13.	Off-bal.sheet records	357,812	62,655	420,467		196,546	35,864	232,410		55

In the structure of assets of the FB&H microcredit sector as of 30/09/2020, the level of cash, placements to banks and net tangible and intangible assets got reduced. Net loans and other assets rose against the end of the previous year and long term investments and reserves for other assets items (except loans) remained the same.

The rate of fixed assets compared to total assets (reduced by donated capital across the FB&H microcredit sector) as of 30/09/2020 amounts to 5.4%, which is within the prescribed limit (up to 10.0%).

The net microloan portfolio, as a dominant assets item in the microcredit sector amounts to BAM 529.2 million with a share of 81.1% in total assets, hence it recorded an increase in absolute amount of BAM 22.4 million, i.e. 4.4%, of which BAM 14.8 million, i.e. 4% relate to an increase in net microloans in MCFs, and BAM 7.5 million, i.e. 5.4% relate to an increase of net loans in MCCs, compared to December 31, 2019. The level of loan loss provisions (LLP) for the entire microcredit portfolio in the reporting period is higher by BAM 2.9 million, i.e. 71.3%, as mostly caused by negative effects of the pandemic. LLP for MCFs went up by BAM 1.3 million with a growth rate of 46.38% and with MCCs this amount is BAM 1.7 million or higher by 120%. One MCC had a share of 61.8% in total LLPs of MCCs, i.e. 26.8% of total LLPs of the microcredit sector.

Of the total amount in off-balance sheet records as of 30/09/2020 of BAM 232.4 million, written off loans make up for BAM 149.7 million or 64.4% (write-off under the principal and regular interest – BAM 100.3 million or 67%, write offs under default interest – BAM 42.9 million or 28.7% and write offs of court expenses – BAM 6.5 million or 4.3%), thus being lower by BAM 2.8 million or 1.8% vs. end of the previous year. The total number of written off microloans as of 30/09/2020 was 36,942, down by a total of 330 microloans (1%) vs. 31/12/2019. This came as a net effect of new write offs, permanent write offs and fully collected microloans.

2.1.2.2. Capital and Liabilities

The biggest items in liabilities in the FB&H microcredit sector as of 30/09/2020 relate to: liabilities on loans taken, which amount to BAM 309.6 million, i.e. 47.8% of the total liabilities and capital, amounting to BAM 307.7 million and representing 47.6% of total liabilities. The remaining amount of BAM 30 million, i.e. 4.6% relates to other liabilities. Compared to December 31, 2019, there is an evident increase in liabilities for loans taken by BAM 6.1 million, i.e. 2%.

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

-BAM 000-

No.	Description	31.12.2019				30.09.2020				Index (9/5)
		MCF	MCC	Total	%	MCF	MCC	Total	%	
1	2	3	4	5=3+4	6	7	8	9=7+8	10	11
1.	Liabilities on short-term loans taken	45,676	56,995	102,671	33.8	21,652	450	22,102	7.1	22
2.	Liabilities on long-term loans taken	150,186	48,888	199,074	65.6	180,514	104,827	285,341	92.2	143
3.	Liabilities based on interest due	907	914	1,821	0.6	1,290	919	2,209	0.7	121
	Total	196,769	106,797	303,566	100	203,456	106,196	309,652	100	102

In the structure of total liabilities on loans taken as of 30/09/2020, loan obligations of MCFs represent 65.7%, while loan obligations of MCCs represent 34.3%. With respect of the maturity structure of loan obligations compared to December 31, 2019, there is a much decreased share of short term liabilities by 78.5% with an increase of long term liabilities by 43.3% since there is one MCC (with a share of 96% in total loan obligations of MCCs) that has not posted values under short term loan obligations as of the reporting date. Liabilities related to interest due have risen by 21.3%. The largest creditors of the FB&H microcredit sector, according to their share in total loan obligations of MCCs as of 30/09/2020, are EFSE Luxembourg with 10.7%, Hansainvest Finance - Germany with 5% and European Bank for Reconstruction and Development – UK with 4.5%.

In the reporting period, across the FB&H microcredit sector, the total increase in capital amounted to BAM 13.4 million, i.e. 4.5%, of which the amount of BAM of 9.8 million, i.e. 3.9% relates to the capital increase in MCFs, while the capital of MCCs in the reporting period increased by BAM 3.6 million, i.e. 7.9%.

The structure of capital of the FB&H microcredit sector is shown in the following table:

- BAM 000 -

Table 37: Microcredit sector's capital structure

No.	Description	31.12.2019				30.09.2020				Index (9/5)
		Balance for MCF	Balance for MCC	Total	%	Balance for MCF	Balance for MCC	Total	%	
1	2	3	4	5=3+4	6	7	8	9=7+8	10	11
1.	Donated capital	48,076	0	48,076	16.3	48,076	0	48,076	15.6	100
2.	Tier 1 capital	3,868	31,600	35,468	12.1	3,868	33,100	36,968	12.0	104
3.	Surplus & deficit of revenue over expense	196,938	0	196,938	66.9	206,766	0	206,766	67.2	105
4.	Emission premium	0	0	0	0.0	0	0	0	0.0	0
5.	Unallocated profits	0	9,191	9,191	3.1	0	8,896	8,896	2.9	97
6.	Regulatory reserves	0	2,528	2,528	0.9	0	3,568	3,568	1.2	141
7.	Other reserves	118	2,000	2,118	0.7	107	3,342	3,449	1.1	163
	Total capital	249,000	45,319	294,319	100	258,817	48,906	307,723	100	105

Out of the total capital of the FB&H microcredit sector which, as of 30/09/2020 amounted to BAM 307.7 million, the total capital of MCFs amounted to BAM 258.8 million, i.e. 84.1%, and the biggest items are the surplus of revenues over expenses, amounting to BAM 206.8 million and representing 79.9% of total capital of MCFs, and donated capital, amounting to BAM 48.1 million, i.e. 18.6%. Out of the total amount of donated capital, donations for credit fund were reported by nine MCFs, where 64.5% relates to three MCFs, of which one MCF is responsible for 39.1% of the total donations for the credit fund. Five largest individual donors in MCFs in the FB&H participate with 69.1% (BAM 33.2 million), where the largest donor participates with BAM 10.1 million or 21% of the total donated capital in one MCF.

Total capital of MCCs amounts to BAM 48.9 million, comprising 15.9% of the total capital of the microcredit sector. Its structure includes these key items: Tier 1 capital of BAM 33.1 million, i.e. 67.7%, and unallocated profit of BAM 8.9 million, i.e. 18.2%. The remaining BAM 6.9 million, i.e. 14.1% of MCC capital relate to statutory and other reserves. Looking into the capital rate reduced by donated capital vs. assets, as of 30/09/2020, it amounted 40.1% at the microcredit sector level. Thus, we find that it is in line with the prescribed limit (more than 10%).

Other liabilities across the FB&H microcredit sector as of 30/09/2020 amounted to BAM 30 million, i.e. 4.6% of total liabilities, and compared to December 31, 2019 they have decreased by BAM 1.8 million, i.e. 5.6%.

2.1.2.3. Assets and Asset Quality

The microloan portfolio reported in gross amount in the balance sheet total of the FB&H microcredit sector as of 30/09/2020 amounted to BAM 536.3 million, i.e. 82.9% of total assets of the microcredit sector, i.e. with a reduction for the corresponding LLR in the total amount of BAM 7.1 million, the net microloan portfolio amounts to BAM 529.2 million, i.e. 81.8% of total assets of the FB&H microcredit sector. Compared to December 31, 2019, the gross microloan portfolio rose by BAM 25.4 million, i.e. by 5%, while the net microloan portfolio rose by the amount of BAM 22.4 million, i.e. 4.4%.

In the same period, the level of LLR increased by BAM 2.9 million, i.e. 71.3% due to worsened portfolio quality caused by difficult business conditions during the pandemic. The LLR to total gross microloan portfolio as of 30/09/2020 amounted to 1.3%, which, compared to the same ratio as of December 31, 2019, when it amounted to 0.8%, represents an increase by 0.5 percentage points. In the structure of total net portfolio of the microcredit sector in the FB&H as of 30/09/2020, the net microloans of MCFs amounted to BAM 382.4 million and represent 72.3% of the total net microloans across the sector, while the amount of BAM 146.8 million, i.e. 27.7% of the total net microloans across the sector relate to MCCs. Compared to December 31, 2019, net microloans of MCFs increased by BAM 14.8 million, i.e. 4%, while the net microloans of MCCs increased by BAM 7.5 million, i.e. 5.4%.

Net microloans as of 30/06/2020 are shown in the following table:

-BAM 000-

Table 38: Net microloans

No.	Description	31.12.2019			30.09.2020			Index (8/5)
		MCF	MCC	Total	MCF	MCC	Total	
1	2	3	4	5=3+4	6	7	8=6+7	9
1.	Microloans (gross)	370,298	140,707	511,005	386,420	149,937	536,357	105
2.	LLP	2,759	1,411	4,170	4,038	3,105	7,143	171
3.	Net microloans (1.-2.)	367,539	139,296	506,835	382,382	146,832	529,214	104

Detailed data on the sector and the maturity structure of the microloan portfolio (reduced by deferred fee income) as of 30/09/2020 are shown in the following table:

- BAM 000 -

Table 39: Sector and maturity structure of microloans

No.	Microloans	ST micro loans	LT micro loans	Receivables due	Total	%
1	2	3	4	5	6=3+4+5	7
1.	Corporate					
a)	Services	277	8,009	24	8,310	57.2
b)	Trade	118	2,645	12	2,775	19.1
c)	Agriculture	30	1,008	0	1,038	7.2
d)	Manufacturing	119	2,132	4	2,255	15.5
e)	Other	27	116	0	143	1.0
	Total 1	571	13,910	40	14,521	100
2.	Retail					
a)	Services	3,283	93,775	236	97,294	18.9
b)	Trade	792	12,952	43	13,787	2.7
c)	Agriculture	5,254	163,177	278	168,709	32.7
d)	Manufacturing	379	12,175	27	12,581	2.4
e)	Housing needs	2,536	113,857	272	116,665	22.6
f)	Other	19,282	86,672	1,134	107,088	20.7

Total 2	31,526	482,608	1,990	516,124	100
Total (1+2)	32,097	496,518	2,030	530,645	

In the maturity structure of total microloan portfolio as of 30/09/2020 shown in the table above, the highest share is the share of long-term micro loans with 93.6%, while short-term micro loans have a 6% share and receivables due on micro loans have a 0.4% share.

Upon observing the sector structure, the dominant share is the share of retail microloans, with 97.3%, while the remaining 2.7% relate to corporate microloans. Within the retail microloan portfolio, the biggest is the share of microloans approved for agriculture, which amounts to 32.7% and for housing needs, at 22.6%. By share levels, other sectors follow with 20.7% and services with 18.9%. The share of microloans for trade is 2.7% and for manufacturing 2.4%. In the structure of corporate microloans, the dominant share is the share of microloans for services – 57.2%.

The following table provides an overview of receivables with related provisions by groups according to the number of days in default, as well as data on outstanding overdue receivables over 180 days (being removed from the balance sheet), as of 30/09/2020:

- BAM 000 -

Table 40: LLP

No	Days in default	Rate of provisions	Amount of loans	Share (%)	Interest due		Amount of other assets items	Provisions				Total provisions
					Rate of provisions	Amount of interest		By micro loan	By past -due interest	By other items in assets	By micro loan	
					6	7	8	9=4x3	10=7x6	11=8x3	12	13=9+10+11+12
1.	0	0%	512,904	96.7	0%	219	379	0	0	0	212	212
2.	1–15	2%	5,379	1.0	2%	72	0	108	2	0	2	112
3.	16–30	15%	5,014	1.0	100%	61	0	752	61	0	36	849
4.	31–60	50%	2,763	0.5	100%	73	0	1,382	73	0	23	1,478
5.	61–90	80%	1,750	0.3	100%	70	0	1,400	70	0	0	1,470
6.	91–180	100%	2,835	0.5	100%	171	0	2,835	171	0	16	3,022
	Total		530,645	100		666	379	6,477	377	0	289	7,143
7.	over 180	Write off	1,939	-	100%	370	0	0	0	0	0	0

In the total microloan portfolio at the sector level, 96.7% relate to microloans without defaults, while in the remaining 3.3% of microloans there are defaults, of which defaults up to 30 days represent 2% of micro loans, while 1.3% are defaults of 31 to 180 days. Out of the total amount of due interest (BAM 0.6 million), defaults up to 30 days represent 20%, while defaults of 31 to 180 days represent 47.1%. For due interest that has not been collected within the deadline of up to 15 days, MCOs are required to form loan loss provisions in 100% amount of receivables. During Q3 2020, MCOs have written off BAM 2.3 million of principal and interest.

Out of the total amount of provisions under microloans, interest and other asset items as of 30/09/2020 (BAM 7.1 million), the largest item corresponds to provisions formed for microloans in default of 91 to 180 days, which amount to BAM 3 million and represent 42.3% of the total amount of provisions.

For purpose of mitigating negative economic consequences of the pandemic and preserving stability of the FB&H financial sector, in March 2020, FBA has adopted the Decision on Temporary Measures of Leasing Companies and Microcredit Organisations to Mitigate Negative Economic Consequences Caused by COVID-19²⁷. In this new situation of prolonged crisis, FBA has continuously acted in the direction of avoiding additional negative consequences and enabling of recovery of the economy. Therein, it recognised a need for prolongation of measures that, among other things, refer to approval of relaxations to private individuals and legal entities whose

²⁷ FB&H Official Gazette Nos. 22/20 and 37/20

income, i.e. repayment sources, are still reduced as a result of the effects of the pandemic, thus making it difficult or impossible or would becoming impossible to settle debts towards MCOs. In August 2020, FBA has adopted the Decision on Temporary Measures of Leasing Companies and Microcredit Organisations to Ensure Recovery from Negative Economic Consequences Caused by „COVID-19“²⁸. This Decision determines temporary measures related to approval of relaxations to MCO customers for purpose of overcoming difficulties they are facing and making it easier for them to duly settle their debts towards these non-deposit financial institutions. Also, the same Decision defines special rules for credit risk management that MCOs apply in case of approval of such special measures to customers.

As of 30/09/2020, an amount of BAM 47 million or 8.8% of total loans was captured by some of active special measures. Total amount of the PI loan portfolio subjected to special measures equals BAM 42.2 million or 8.2 of the PI loan portfolio, while corporate customers covered by special measures participate in the portfolio with an amount of BAM 4.8 million or 33% of the corporate loan portfolio.

Key Indicators of Microcredit Portfolio Quality

The risk portfolio indicator for more than 30 days in default (PAR>30 days) as of 30/09/2020 amounts to 1.38% at the level the microcredit sector and it increased by 0.52 percentage points compared to December 31, 2019, as largely caused by the pandemic. This risk indicator of the microloan portfolio at the sector level is within the prescribed standard (below 5%).

At the microcredit sector level, the rate of write offs of microloans as of 30/09/2020 amounted to 1.25%, which is within FBA standards (below 3%). Compared to 31.12.2019, this rate rose by 0.38 percentage points.

Weighted NIR and EIR on micro loans

Over the period from 01/01/2020 to 30/09/2020, MCOs seated in the FB&H had disbursed a total of BAM 337 million of microloans, which is by BAM 20.2 million or 5.6% lower than in the same period last year. Over the observed period, MCOs seated in the FB&H had average weighted NIR on total microloans of 19.30% and EIR of 24.15%, whereas NIR on short term microloans was 20.41% and on long term ones 19.13% and EIR on short term microloans was 30.61% and on long term ones 23.15%. Average weighted EIR on total microloans disbursed by MCOs seated in the FB&H posted a slight decrease in the period from 01/01/2020 to 30/09/2020 by 0.12 percentage points vs. the same period in 2019, whereas average weighted EIR on short term microloans posted a drop by 0.61 percentage points and on long term microloans a drop by 0.09 percentage points.

Annex 11 provides an overview of average weighted NIR and EIR by maturity and purpose related to microloans disbursed in the period from 01/01/2020 to 30/09/2020 by MCOs seated in the FB&H. In the FB&H MCOs, the position of short term non-purpose loans – basic needs shows a major difference between NIR (20.83%) and EIR (36.47%) resulting from a microcredit product of one MCC that does not arrange NIR, but charges high one-off fee that gets reflected in the EIR calculation.

Annex 11a. provides a comparative overview of average weighted NIR and EIR on disbursed microloans (short term, long term and total) in the period from 2016 to 2020.

²⁸ FB&H Official Gazette No. 60/20

2.1.2.4. Financial Performance of the FB&H Microcredit Sector

According to reporting data for MCOs, in the period from 01/01/2020 to 30/09/2020, total financial performance at the level of the FB&H microcredit sector (before taxes) was positive and amounted to BAM 9.6 million, down by BAM 6.9 million or 42.1% compared to the same period in 2019. The reason for this rests with major increase of provisioning costs for loans and other losses and other operating expenses.

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

- BAM 000 -

Table 41: Aggregate income statement of the microcredit sector

No.	Description	For the period 01.01. - 30.09.2019				For the period 01.01. - 30.09.2020				Index (9/5)
		MCF	MCC	Total	%	MCF	MCC	Total	%	
1	2	3	4	5=(3+4)	6	7	8	9=(7+8)	10	11
1. INCOME										
1.1.	Interest income and similar income	54,627	19,476	74,103	90.3	56,570	19,364	75,934	92.6	102
1.2.	Operating income	7,702	214	7,916	9.7	5,188	214	5,402	6.6	68
1.3.	Other operating income	0	0	0	0.0	581	57	638	0.8	-
2.	Total income (1.1.+1.2.+1.3.)	62,329	19,690	82,019	100	62,339	19,635	81,974	100	100
3. EXPENSES										
3.1.	Interest expenses and similar expenses	6,104	3,091	9,195	14.0	5,865	4,289	10,154	14.0	110
3.2.	Operating expenses	40,900	11,038	51,938	79.3	41,139	11,823	52,962	73.2	102
3.3.	Other operating expenses	307	45	352	0.6	504	311	815	1.1	232
3.4.	Cost of reserves for loan and other losses	2,836	1,151	3,987	6.1	4,213	4,245	8,458	11.7	212
4.	Total expenses (3.1.+3.2.+3.3.+3.4.)	50,147	15,325	65,472	100	51,721	20,668	72,389	100	111
5.	Profit/loss and excess/shortfall of income over expenses before taxation (2.-4.)	12,182	4,365	16,547	-	10,618	-1,033	9,585	-	58
6.	Income tax and excess income over expenses	0	533	533	-	1,069	201	1,270	-	238
7.	Net profit/loss and net excess/shortfall of income over expenses (5.-6.)	12,182	3,832	16,014	-	9,549	-1,234	8,315	-	52

Over the period from 01/01/2020 to 30/09/2020, MCFs reported excess of income over expenses (before taxes), which is by BAM 1.5 million, i.e. 12.8% lower compared to the same period the year before. In analytical terms, as of 30/09/2020, four MCFs posted a shortage of income over expenses, while other MCFs posted excess income over expenses. In the reporting period, total income of MCFs stood at BAM 62.3 million, thus being the same as in the same period last year, whereas interest and similar income (as dominant item of total income of MCFs) went up by BAM 1.9 million or 3.5%. Over the period from 01/01/2020 to 30/09/2020, total expenses of MCFs amounted BAM 51.7 million, up by BAM 1.6 million or 3.1% vs. the same period last year. Operating expenses (as dominant item of total expenses) of MCFs rose slightly by 0.6%, while costs of provisions for loan and other losses of MCFs rose by BAM 1.4 million or 48.52% due to difficult operating conditions caused by the pandemic.

In the period from 01/01/2020 to 30/09/2020, MCCs have posted a loss figure. Therein, during the reporting period, two MCCs posted profit, while one MCC posted a loss. In the said period, MCCs posted BAM 19.6 million of total income, down by slight 0.3% against the same period the year before. Over the observed period, interest and similar income of MCCs, as a dominant item of total income, have dropped slightly by 0.6% compared to the same period in 2019. In the period from 01/01/2020 to 30/09/2020, total expenses stood at BAM 20.6 million, up by BAM 5.3 million or 34.8% compared to the same period in 2019. Operating expenses of MCCs, as dominant item of total expenses, have climbed by BAM 0.8 million or 7.1%, while costs of reserves for loan

and other losses of MCCs rose by BAM 3.1 million or 268.8%, as impacted by the major increase of provisioning costs as a result of the pandemic. This refers to two MCCs with 98.4% share in total assets of MCCs.

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

Efficiency and Sustainability Indicators for the FB&H Microcredit Sector

Operational efficacy of business operations of the FB&H microcredit sector as of 30/09/2020 amounted to 18.39%, which is within the prescribed range for the indicator of up to 45%.

According to reporting data at the FB&H microcredit sector as of 30/09/2020, the return on assets adjusted for inflation, market price of capital and donations (AROA) was positive at 2.09%. The indicator of operational sustainability of the FB&H microcredit sector (which is used as a general standard and which represents a ratio of total income from regular operations (minus written off receivables and other operating income) and total expenses) amounts to 113.24%.

2.1.3. MICROCREDIT SECTOR RECOMMENDATIONS

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

- compliance of MCOs' business operations with laws and regulations, with the aim of full implementation of the Law on MCOs and applicable regulations in respect of achievement of the prescribed objectives of micro lending in terms of improving the financial position of microloan users, contributing to increase of employment, supporting entrepreneurship development, increasing transparency of operations, protecting rights of financial service users, especially in the context of approval of temporary measures to micro loan users whose credit standing has worsened due to the pandemic;
- timely and adequate undertaking of activities in MCOs according to the corrective measures imposed to eliminate irregularities and weaknesses in business operations.

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

- performance of micro lending activities to improve the financial position of users, increase employment and support entrepreneurial development, starting from legally prescribed micro lending goals with consistent application of legal provisions for the protection of financial service users, including aligning interest rates policies on microloans with the prescribed micro lending goals, thus contributing to stability and sustainability of the FB&H microcredit sector;
- enabling customers impacted by the pandemic to postpone payment of their obligations, restructure their debts or ensure some other relief for purpose of their recovery from the consequences of the pandemic, along with taking all other measures to manage credit risk;
- maintaining and enhancing sound risk management practices for risks to which MCOs are or might be exposed, efficiency of internal control systems and independent internal audit function;
- resource optimizing and applying the principles of responsible micro lending, i.e. sound practices in business operations with MCF assets;
- harmonization, i.e. improvement of operational efficiency and operational sustainability indicators;

- regular, up-to-date and accurate submission of data to CBB&H for the CLR management purposes;
- improving business transparency, etc.

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

2.2. LEASING SECTOR

2.2.1. FB&H LEASING SECTOR STRUCTURE

2.2.1.1. Number of Leasing Companies

The FBA license for leasing operations was, as of 30/09/2020, held by five leasing companies in the FB&H and there were no changes compared to 31/12/2019. Annex 14 provides basic information on leasing companies which, as of 30/09/2020, represented the leasing sector in the FB&H.

2.2.1.2. Ownership Structure

The ownership structure of leasing companies in the FB&H, according to data as of 30/09/2020, is as follows: two leasing companies are in 100% ownership of non-resident legal persons, one leasing company is majority-owned by a non-resident legal person, while two leasing companies are in 100% ownership of resident legal persons.

2.2.1.3. Staff Structure

As at 30/09/2020, there was a total of 111 employees in the leasing sector in the FB&H, which is 1% less than at the end of the previous year.

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

No.	Qualifications	31.12.2019		30.09.2020		Index (5/3)
		No. of employees	% share	No. of employees	% share	
1	2	3	4	5	6	7
1.	University qualifications	78	69.6	83	74.8	106
2.	Two-year post-secondary school qualifications	5	4.5	4	3.6	80
3.	Secondary school qualifications	20	17.9	14	12.6	70
4.	Other	9	8.0	10	9.0	111
	Total	112	100	111	100	99

Efficiency of employees in the course of performance assessment of leasing companies is based on the ratio of assets and number of employees. According to indicators as at 30/09/2020, at the

level of the leasing sector in the FB&H, each employee corresponded to BAM 3.1 million in assets. This is by BAM 0.2 million or 6.3% more than as at 31/12/2019.

2.2.2. FINANCIAL INDICATORS OF PERFORMANCE

2.2.2.1. Balance Sheet

Total assets of the FB&H leasing sector as at 30/09/2020 amounted to BAM 340.6 million and are higher by BAM 17.4 million, i.e. 5.4% compared to December 31, 2019. Two leasing companies, viewed on the basis of asset size, are responsible for 74% of total assets of the FB&H leasing sector.

Annex 15 provides an aggregate balance sheet of leasing companies in the FB&H as per reporting data of 30/09/2020, while Annex 16 provides an overview of basic indicators of leasing companies in the FB&H as of 30/09/2020.

In the structure of total assets of the FB&H leasing sector, the most significant share is the share of net receivables under financial leasing, which amount to BAM 255.7 million, i.e. 75% of total assets. Compared to December 31, 2019, net receivables under financial leasing are higher by BAM 5.7 million, i.e. 2.4%, while gross receivables under financial leasing are higher by BAM 14.6 million, i.e. 6%, while gross receivables under financial leasing went up by BAM 11.4 million or 4.2%. As of 30/09/2020, one bank that performs also financial leasing deals posted net receivables under financial leasing of altogether BAM 54.6 million, thus indicating that net receivables under financial leasing at the leasing system level were equal to BAM 310.3 million and were by BAM 5.2 million or 1.7% higher than end of the previous year. Over the same period, reserves for losses based on financial leasing receivables dropped by BAM 0.2 million or 6.6%.

In the structure of receivables under financial leasing at the level of the leasing sector in the FB&H (if observed by the leasing objects), contracts approved for financing of passenger vehicles and vehicles for performing business activities participate with 84.4%, contracts for equipment financing participate with 14.8%, while 0.8% relates to contracts under which real estate is financed. If viewed by lessees, 88% refers to contracts with legal entities, while the increase of financial leasing receivables was noted in the segment of legal entities and entrepreneurs (by 6.8% and 22.3% respectively).

The following tables provide the structure of receivables under financial leasing at the level of the FB&H leasing sector (receivables before reduction for loss provisions) as of 30/09/2020 and a comparative overview of the structure of receivables as of December 31, 2019 and as of September 30, 2020:

- BAM 000 -

No.	Description	Short-term receivables	Long-term receivables	Due receivables	Total receivables	Share in %
1	2	3	4	5	6	7
1.	By leasing object					
1.1.	Passenger vehicles	39,474	82,604	2,369	124,447	48.2
1.2.	Vehicles for performing business activity (cargo and passenger vehicles)	34,390	56,640	2,384	93,414	36.2
1.3.	Machines and equipment	12,547	25,330	424	38,301	14.8
1.4.	Real estate	253	1,704	17	1,974	0.8
1.5.	Other	12	16	0	28	0.0
	Total	86,676	166,294	5,194	258,164	100
2.	By lessee					
2.1.	Corporate	77,265	145,942	3,991	227,198	88.0

2.2.	Entrepreneurs	2,664	4,769	133	7,566	2.9
2.3.	Retail	4,963	13,644	1,053	19,660	7.6
2.4.	Other	1,784	1,939	17	3,740	1.5
	Total	86,676	166,294	5,194	258,164	100

-BAM 000 -

Table 44: Structure of financial leasing receivables – comparative overview

No.	Description	31.12.2019	30.09.2020	Index (4/3)
1	2	3	4	5
1.	By leasing object			
1.1.	Passenger vehicles	111,444	124,447	112
1.2.	Vehicles for performing business activity (cargo and passenger vehicles)	93,450	93,414	100
1.3.	Machines and equipment	36,588	38,301	105
1.4.	Real estate	2,240	1,974	88
1.5.	Other	21	28	133
	Total	243,743	258,164	106
2.	By lessee			
2.1.	Corporate	212,667	227,198	107
2.2.	Entrepreneurs	6,184	7,566	122
2.3.	Retail	20,057	19,660	98
2.4.	Other	4,835	3,740	77
	Total	243,743	258,164	106

Net receivables under loans as of 30/09/2020 amount to BAM 5.3 million, i.e. 1.6% of total assets of the FB&H leasing sector. Compared to December 31, 2019, net receivables under loans decreased by BAM 47 ths or 0.9%. Receivables under loans in the composition of total assets of leasing companies decreased due to the continuous decrease in receivables under loans, as the provisions of the LoL prohibit the leasing companies to conclude new loan agreements, that would remain recorded in the balance sheets of leasing companies in the FB&H until the contractual terms for which they were approved expire. The reported amount of net receivables under loans relates to receivables of one leasing company, holding in its portfolio significant amounts of receivables under loans of subsidiaries, through which real estate construction projects had been financed prior to entry into effect of the LoL.

The balance sheet position of cash and cash equivalents as of 30/09/2020 amounted to BAM 3.8 million (constituting 1.1% of total assets), which was by BAM 1.7 million, i.e. 31.7 lower compared to December 31, 2019. Placements to banks (posted by two leasing companies) as of 30/09/2020 amounted to BAM 11.7 million, comprising 3.5% of total assets the FB&H leasing sector, which was by BAM 1.8 million or 13.3% less compared to December 31, 2019. Out of the total amount of these placements, 83% relates to term deposits held by one leasing company with commercial banks.

Net value of fixed assets financed through operational leasing as of 30/09/2020 amounts to BAM 55.6 million and has increased by BAM 6.4 million, i.e. 13% compared to December 31, 2019. Individually viewed, two leasing companies reported an increase of net value of fixed assets financed through operational leasing of BAM 7.6 million, while one leasing company reported a decrease of BAM 1.2 million. Two leasing companies did not post any values on this balance sheet item.

The structure of net balance sheet assets positions of the leasing sector in the FB&H can be analysed in the table below:

Table 45: Structure of net balance sheet assets positions

No.	Description	31.12.2019	% share	30.09.2020	% share	Index (5/3)
1	2	3	4	5	6	7
1.	Financial leasing	241,078	74.5	255,674	75.0	106
2.	Operational leasing	49,166	15.2	55,583	16.3	113
3.	Loan	5,331	1.6	5,284	1.6	99
4.	Other assets	27,712	8.7	24,126	7.1	87
	Total	323,287	100	340,667	100	105

2.2.2.2. Capital and Liabilities

Total capital of the FB&H leasing sector as of 30/09/2020 amounted to BAM 29.1 million, thus constituting 8.6% of total liabilities of the FB&H leasing sector. Compared to December 31, 2019, the aforementioned position increased slightly by BAM 0.1 million or 0.3%. Observed individually, two leasing companies saw an increase of total capital compared to 31/12/2019 of BAM 1.4 million, while three leasing companies saw a decrease of total capital by BAM 1.3 million.

Total liabilities of the leasing sector in the FB&H amounted to BAM 311.5 million as at 30/09/2020, thus representing 91.4% of total liabilities of leasing companies in the FB&H. Compared to December 31, 2019, total liabilities at the sector level rose by BAM 17.3 million or 5.8%.

Liabilities of leasing companies in the FB&H under loans taken as of 30/09/2020 stood at BAM 302.7 million, thus posing a dominant source in the structure of total liabilities of the FB&H leasing sector since they account for 88.9% of total liabilities. Compared to 31/12/2019, the position of loan obligations is higher by BAM 16.5 million, i.e. 5.7%. If observed by contractual maturity, the entire amount of liabilities based on loans refers to long term loans.

2.2.2.3. Assets and Asset Quality

According to reporting data at the level of the FB&H leasing sector, reported reserves for losses under financial leasing as of 30/09/2020 amount to BAM 2.5 million and are lower compared to December 31, 2019 by BAM 0.2 million or 6.6%. Out of the total amount of posted loss reserves, 68.7% relates to two leasing companies. If observed individually, two leasing companies posted a decrease of reserves for loan losses of altogether BAM 1.2 million vs. the end of the previous year and three leasing companies posted an increase of loan loss reserves of altogether by BAM 1 million.

In the structure of receivables under financial leasing as of 30/09/2020, the total of BAM 5.2 million of overdue receivables were reported, which is by BAM 2.1 million or 70.8% higher compared to December 31, 2019, which was largely caused by an increase of this item with one leasing company.

The table below provides a detailed overview of financial leasing reserves as of 30/09/2020:

Table 46: Overview of financial leasing reserves

No.	Days past due	Rate of reserv. for finan. leasing (movables)	Rate of reserv. for finan. leasing (immovables)	Amount of receivables for movables	Amount of receivables for immovables	Basis - movables	Basis - immovables	Reserves		
								For movables	For immovables	Excess calculated and allocated reserves

1	2	3	4	5	6	7	8	9=7*3	10=8*4	11	12=9+10+11
1.	0-60	0.50%	0.50%	246,554	1,870	42,453	732	212	4	378	594
2.	60-90	10%	10%	6,431	132	1,114	98	111	10	16	137
3.	90-180	50%	50%	1,475	0	384	0	192	0	94	286
4.	preko 180	100%	75%	1,702	0	1,473	0	1,473	0	0	1,473
5.	preko 360	100%	100%	0	0	0	0	0	0	0	0
Total				256,162	2,002	45,424	830	1,988	14	488	2,490

The total amount of written off receivables under financial leasing and loans as of 30/09/2020 amounted to BAM 24.3 million BAM and is higher compared to December 31, 2019, by BAM 0.8 million or 3.4%.

The appraised market value of foreclosed leasing objects, due to termination of leasing contracts with lessees as of 30/09/2020 at the level of the FB&H leasing sector, amounted to BAM 1.4 million, down by BAM 59 ths or 4% compared to 31.12.2019. There was a total of 81 foreclosed objects, with a posted increase of the number of foreclosed objects by 3 objects or 3.8%. Out of the total reported amount of appraised market value of foreclosed items in the FB&H leasing sector as of 30/09/2020, 59.7% refers to passenger vehicles and business vehicles, while 1.3% relates to machinery and equipment. In addition, 39% relates to real estate (commercial facilities) for which leasing companies assumed possession for reasons of non-compliance with contractual liabilities on the part of lessees. The total amount of the above position relates to one leasing company.

Viewed from the level of the FB&H leasing system as of 30/09/2020, the market value of foreclosed leasing items amounted to BAM 6.6 million and it decreased by BAM 1.2 million or 15.3% compared to December 31, 2019. Out of the above amount of foreclosed leasing items, items foreclosed by the bank that is performing leasing activities correspond to BAM 5.2 million, i.e. 78.6% of the total market value of foreclosed items reported at the level of the leasing system.

Until 30/09/2020, BAM 42.5 million or 16.5% of the total financing amount was captured by some of the active special measures. The total financing amount in the legal entities segment that is subjected to special measures equals BAM 41.9 million or 18.4% of the LE financing amount, while special measures in the PI segment refer to an amount of BAM 0.6 million or 3.2% of the financing amount in the PI segment.

2.2.2.4. Profitability

According to the reporting data of leasing companies, across the FB&H leasing sector in the period from January 1 – September 30, 2020, a profit of BAM 1.7 million was reported, which represents an increase by BAM 0.3 million or 20.2% compared to the same period the year before. This increase of the business result of the leasing sector mostly results from an improved business result of two leasing companies of BAM 2-4 million (that posted a major loss over the same period the year before). Despite the major improvement of the business result, these two leasing companies still operate with a loss, while the other three leasing companies recognised a positive financial result, but accompanied with a profit drop by BAM 2.1 million compared to the same period the year before.

The aggregate income statement for leasing companies in the FB&H for the period 01/01/2020 to 30/09/2020 is provided in the Annex 17.

Total income of the FB&H leasing sector for the period 01/01/2020 to 30/09/2020 amounted to BAM 25.9 million, up by BAM 1.8 million or 7.3% compared to the same period of the previous year.

The level and structure of total income with the comparative data for the same period of the preceding financial year are shown in the following table:

- BAM 000 -

Table 47: Structure of total income

No.	Structure of total income	01.01.-30.09.2019		01.01.-30.09.2020		Index (5/3)
		Amount	% share	Amount	% share	
1	2	3	4	5	6	7
1.	Interest income and similar income					
1.1.	Interest under financial leasing	299	1.2	291	1.1	97
1.2.	Interest on placements to banks	8,740	36.1	7,682	29.6	88
1.3.	Other interest income	1,184	4.9	1,482	5.7	125
	Total	10,223	42.2	9,455	36.4	92
2.	Operating income					
2.1.	Operating lease charges	10,866	44.9	12,859	49.5	118
2.2.	Service fees	1	0.0	1	0.0	100
2.3.	Other operating income	3,126	12.9	3,678	14.1	118
	Total	13,993	57.8	16,538	63.6	118
3.	Income from release of reserves for losses	0	0.0	0	0.0	-
	Total income (1+2+3)	24,216	100	25,993	100	107

The FB&H leasing sector's interest income in the January 1 – September 30, 2020 period amounted to BAM 9.4 million, thus constituting 36.4% of total income of the leasing sector. It decreased by BAM 0.4 million, i.e. 5.4%, compared to the same period last year. The most significant position in interest income is interest income from financial leasing in the total amount of BAM 5.1 million and it is by BAM 0.5 million, i.e. 8.2%, lower compared to the same period of the preceding financial year.

Operating income amounted to BAM 16.5 million with a share of 63.6% in total income of the leasing sector. Compared to the same period last year, it is higher by BAM 2.5 million, i.e. 18.2%, mostly due to an increase of the operational lease fee as a dominant item of operating income (by BAM 2 million or 18.3%, thus arriving to an amount of BAM 12.8 million).

Total expenses for the period 01/01/2020 to 30/09/2020 amounted to BAM 24.2 million and, compared to the same period of the preceding financial year. The level and structure of total expenses with comparative data for the same period over the previous business year, are shown in the following table:

- BAM 000 -

Table 48: Structure of total expenses

No.	Structure of total expenses	01.01.-30.09.2019		01.01.-30.09.2020		Index (5/3)
		Amount	% share	Amount	% share	
1	2	3	4	5	6	7
1.	Interest expenses and similar income					
1.1.	Interest on borrowed funds	3,162	14.0	3,114	12.9	98
1.2.	Fees for processing loans	75	0.3	77	0.3	103
1.3.	Other interest expenses	9	0.0	2	0.0	22
	Total	3,246	14.3	3,193	13.2	98
2.	Operating expenses					
2.1.	Salary and contribution costs	3,955	17.4	3,724	15.3	94
2.2.	Business premises costs	7,217	31.7	8,651	35.7	120
2.3.	Other costs	6,697	29.4	7,219	29.8	108
	Total	17,869	78.5	19,594	80.8	110

3.	Costs of reserves	1,641	7,2	1,451	6.0	88
4.	Profit tax	0	0,0	0	0.0	-
	Total expenses (1+2+3)	22,756	100	24,238	100	107

In the period from 01/01/2020 to 30/09/2020, interest expenses of the leasing sector amounted to BAM 3.2 million and represented 13.2% of total expenses of the leasing sector. This is lower by BAM 53 ths or 1.6% vs. the same period of the previous financial year. Interest expenses under loans taken (as their dominant item) posted a slight drop by BAM 48 ths or 1.5%.

Over the observed period, total operating expenses of the leasing sector stood at BAM 19.6 million with a share in total expenses of the leasing sector of 80.8%. This is higher by BAM 1.7 million or 9.6% compared to the same period of the year before, whereas their structure reflects reduced costs of salaries and contributions by 5.8%, increased costs of business premises by 19.9% and other costs by 7.8%. Total costs of loss reserves stood at BAM 1.4 million, constituting 6% of total expenses of the leasing sector. They saw a decrease by BAM 0.2 million or 11.6%.

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

The value of newly concluded contracts for financial and operational leasing executed at the level of the leasing system in January 1 – September 30, 2020, amounts to BAM 127.9 million and is lower by BAM 27.2 million or 17.5%, compared to the same period of the preceding financial year. Thereof, BAM 117.2 million or 91.6% of the total value of newly concluded contracts at the leasing system level refers to the leasing sector (consisting of five leasing companies).

The number of newly concluded leasing contracts at the leasing system level in the same period was 2,721, which was by 1,489 contracts or 35.4% lower compared to the same period last year. Thereof, 2,626 contracts or 96.5% of the total number of newly concluded contracts at the leasing system level refers to the leasing sector. The average value of contracts at the level of the leasing system concluded in the first nine months of 2020 amounted to BAM 47 ths and it is higher by 27.7% compared to the same period last year, when it amounted to BAM 36.8 ths. Therein, the average value of contracts at the leasing sector level was BAM 44.6 ths, which is 27.1% more than in the same period in 2019 when it stood at BAM 35.1 ths.

Out of the total generated value of newly concluded contracts in the first nine months of 2020, the amount of BAM 101.5 million, i.e. 79.4% relates to financial leasing contracts and BAM 26.4 million or 20.6% to operational leasing contracts.

The following table shows a comparative overview of the realized volume of newly concluded contracts in the period from 01/01/2020 to 30/09/2020 and in the same period of the preceding financial year, as well as the comparative overview of the number of concluded contracts in the same period:

- BAM 000 -

No.	Description	01.01.-30.09.2019						01.01.-30.09.2020					
		Financial leasing		Operational leasing		Total		Financial leasing		Operational leasing		Total	
		Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
1	2	3	4	5	6	7=3+5	8=4+6	9	10	11	12	13=9+11	14=10+12
1.	Vehicles	3,362	108,334	608	22,802	3,970	131,136	1,927	83,887	681	26,266	2,608	110,153
2.	Equipment	240	24,050	0	0	240	24,050	110	17,635	3	148	113	17,783
3.	Real estate	0	0	0	0	0	0	0	0	0	0	0	0
4.	Other	0	0	0	0	0	0	0	0	0	0	0	0
	Total	3,602	132,384	608	22,802	4,210	155,186	2,037	101,522	684	26,414	2,721	127,936

The total amount of new financing in the first nine months of 2020 was achieved by three leasing companies and one bank, which performs financial leasing activities (the legal successor of a leasing company that merged with that bank).

The structure of new placements is, according to type of lessee, dominated by placements to legal persons, which represent 91% of the total amount of financing in the first nine months of 2020. One of key reasons for this rests with the fact that financing through leasing for natural persons is less favorable compared to loans because of liability to pay VAT on interest, which is an additional cost for clients that are not VAT taxpayers.

Weighted NIR and EIR

Total average NIR for financial leasing contracts concluded in the period from 01/01/2020 to 30/09/2020 was 4.12.% for short term contracts and 3.95% for long term contracts, while EIR for short term contracts was 8.06% and 7.01% for long term contracts during the same period. Total average weighted NIR was 3.95% and EIR was 7.02%. Compared to the same period in 2019 when total average weighted NIR was 5.87% and EIR 9.24%, there is an evident decrease of NIR by 1.92 percentage points and EIR by 2.22 percentage points.

Annex 18 provides an overview of average weighted NIR and EIR on financial leasing contracts concluded in the period from 01/01/2020 to 30/09/2020 (by maturity, leasing object and lessee).

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

Annex 18a provides a comparative overview of average weighted NIR and EIR on financial leasing contracts concluded in the past five years (by maturity and lessee). Difference between posted NIR and EIR is a result of VAT on interest being a mandatory part of the financial leasing contract and being paid by a lessee in advance, as well as creation of a financial leasing contract with surrender value plus additional costs of leasing arrangement being included in the EIR calculation.

2.2.3. LEASING SECTOR RECOMMENDATIONS

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

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

- support to improvement of the business environment for operations of the FB&H leasing sector etc.

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

- compliance of business operations with the prescribed regulatory requirements, especially in the context of approval of temporary measures to lessees whose credit standing has worsened due to the COVID-19 pandemic;
- promoting safe, stable and sustainable leasing business;
- capital strengthening and defining the parameters of capital protection and capital adequacy, strengthening the internal control system and internal audit function;
- improving the risk management system arising from the leasing business and the environment, identifying risks in a timely manner and taking measures to control and mitigate those risks;
- ensuring reliability and integrity of data and information provided to the FBA, the CBB&H and other supervisory institutions and bodies, ensuring accuracy, validity and comprehensiveness of accounting and non-accounting records, compliance with business policies, activity programs and plans, laws and other regulations and documents, as well as protection of property of companies and preventive action and prevention of fraud and errors;
- consistent implementation of regulations defining protection of financial service users, etc.

2.3. FACTORING BUSINESS

2.3.1. Participants in the FB&H Factoring Market

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

As of 30/09/2020, factoring deals were performed by four commercial banks, of which three banks are members of international banking groups seated in EU-member countries and one bank in majority domestic ownership.

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

In the period from 01/01/2020 to 30/09/2020, entities providing factoring services in the FB&H have concluded 311 factoring contracts, all of which referring to domestic factoring. Compared to reporting data for the same period last year, the number of factoring contracts has risen by 67 contracts or 27.4%.

In the period from 01/01/2020 to 30/09/2020, there were three concluded contracts on factoring without recourse right and where were no contracts on reverse (supplier) factoring or contracts on foreign factoring over this reporting period.

In the period from 01/01/2020 to 30/09/2020, the total redeemed monetary claims and settled payables of buyers towards suppliers was BAM 83.8 million. Compared to the same period of the previous year, this represents a decrease by BAM 55.3 million or 39.8%.

The values of redeemed monetary claims and settled payables of buyers to towards suppliers in the FB&H (with comparative data and trends in reporting periods) are shown in the following table:

- BAM 000 -

Table 50: Redeemed monetary claims and settled payables of buyers to suppliers in the FB&H - by type of factoring and domicile status

Type of factoring/ domicile status	Volume of redeemed monetary claims and settled payables of buyers towards suppliers												Index (12/10)
	Factoring companies				Banks				Total				
	01.01. - 30.09.2019		01.01. - 30.09.2020		01.01. - 30.09.2019		01.01. - 30.09.2020		01.01. - 30.09.2019		01.01. - 30.09.2020		
	Amou nt	Share (in %)	Amount	Share (in %)	Amount	Share (in %)	Amount	Share (in %)	Amount	Share (in %)	Amount	Share (in %)	
1	2	3	4	5	6	7	8	9	10	11	12	13	14
Factoring with right to recourse	0	0,0	0	0	63,383	45.8	34,984	41.8	63,383	45.5	34,984	41.8	55
Factoring without right to recourse	659	100.0	0	0	73,039	52.7	48,785	58.2	73,698	53.0	48,785	58.2	66
Reversed (supplier) factoring	0	0,0	0	0	2,057	1.5	0	0.0	2,057	1.5	0	0.0	-
	659	100	0	0	138,479	100	83,769	100	139,138	100	83,769	100	60
Domestic factoring	659	100.0	0	0	138,479	100.0	83,769	100.0	139,138	100.0	83,769	100.0	60
Foreign factoring	0	0	0	0	0	0.0	0	0.0	0	0.0	0	0.0	-
Total	659	100	0	0	138,479	100	83,769	100	139,138	100	83,769	100	60

Total value of redeemed monetary claims and settled payables of buyers towards suppliers refers entirely to domestic factoring. According to factoring types, BAM 48.8 million or 58.2% refers to the factoring without recourse right and BAM 35 million or 41.8% to the factoring with recourse right.

According to contractual maturity, the highest share in the total volume (amount) of redeemed monetary claims and settled payables to suppliers in the period from 01/01/2020 to 30/09/2020 of BAM 64 million or 76.3% corresponds to redeemed monetary claims with contractual maturity of 60 days, followed by the share of BAM 8 million or 9.6% with contractual maturity of 61-90 days and BAM 11.8 million or 14.1% with contractual maturity of 91-180 days. Looking into the sector structure of buyers in the first nine months of 2020, a total of BAM 50.8 million of monetary claims was redeemed from public companies, thus constituting 60.6% of total turnover of the factoring business, while BAM 31.4 million or 37.5% was redeemed from private companies and enterprises, while BAM 1.6 million or 1.9% of monetary claims was redeemed from government institutions. During the same period, none of the banks provided the reverse (supplier) factoring, while in the same period last year the turnover in this segment was BAM 2 million.

In the period from 01/01/2020 to 30/09/2020, total advances paid to suppliers equaled BAM 82 million; thereof BAM 48.8 million or 59.5% refers to factoring without recourse right and BAM 33.2 million or 40.5% to factoring with recourse right. In the segment of private enterprises and companies (sellers of claims), the suppliers received an amount of BAM 81.3 million or 99.2% of total paid advances.

On the basis of redeemed monetary claims as of 30/09/2020, banks claimed the total of BAM 15.5 million, fully in domestic factoring, of which BAM 8.7 million or 55.8% relates to factoring without right to recourse, while BAM 6.8 million or 44.2 relates to factoring with right to recourse. There were no claims regarding reverse (supplier) recourse. The structure of the

mentioned amount of redeemed claims by contractual maturities is the following: with contractual maturity of up to 60 days – 57.3%, of 61 to 90 days – 19.4%, of 91 to 180 days – 23.3%, while there were no redeemed receivables with contractual maturity over 180 days in this reporting period.

Total income of the factoring service providers in the FB&H for January 1 – September 30, 2020 amounted to BAM 0.8 million (income from interest, fees and administrative fees), down by BAM 0.9 million or 54.4% compared to the same period the year before. In the structure of the reported total income from interest, fees and administrative fees, 53.7% refers to factoring without right to recourse and 46.3% to factoring with right to recourse.

According to reporting data as of 30/09/2020, the biggest interest rate on paid advances in the FB&H factoring market (i.e. the rate effective as of the last day of the reporting period of the 3rd quarter of 2020) was 6.00%, while discount interest rate was 4.00% and both rates have been calculated in relation to domestic factoring. Banks performing factoring deals have been calculating factoring charges, while only one bank also collected administrative fee for factoring services.

2.3.3. RECOMMENDATIONS FOR THE FACTORING BUSINESS

Factoring business in the first nine months of 2020 was conducted solely through the function of financing. There was neither any recorded provision of services of securing collection and receivables management service, nor performance of activities related to factoring, which confirms that this activity is still beginning to develop in the FB&H market within the legislative and institutional frameworks defined under the LoF and the FBA regulations governing factoring operations in more detail. Considering that the need for short term financing and management of cash receivables, as well as securing receivables, are all becoming increasingly significant in the real sector, it can be expected in the coming period that factoring, as one of the reliable tools for solving liquidity problems in the FB&H, will certainly be in use as an effective instrument for accelerating cash flows in much larger volume than insofar.

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

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

- continuous supervision of the factoring system in the FB&H via off-site and on-site supervision aimed at preserving financial stability in the FB&H;
- providing technical assistance in implementation of laws and regulations by factoring companies and banks performing factoring operations, as well as cooperation with supervisory and control institutions, to include also cooperation with CBB&H regarding the structure and quality of data in CLR referring to factoring exposures;
- supporting improvements to the business environment in the context of the FB&H factoring system, as well as supporting establishment of confidence in factoring service providers, etc.

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

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

CONCLUSION

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

During the first nine months of 2020, effects were noted regarding the initial implementation of the Decision on Credit Risk Management and Determination of Expected Credit Losses that were aimed towards strengthening the risk management quality and standardizing credit risk management in line with IFRS 9. Accordingly, there is an evident reduction of balance sheet exposures at the FB&H banking sector level, as well as increase of ECL coverage rate. Also, the first effects caused by the pandemic also became evident via reduction of lending activities of banks and the loan portfolio.

Despite uncertainties caused by the pandemic and based on the reported key business indicators of the FB&H banking sector as of 30/09/2020, it could be inferred that it is stable, as ensured via high levels of liquidity and capital and high NPL coverage with provisions for expected loan losses. Crucially important is the quality of the overall management system in banks, adequate and efficient functioning of the risk management system and adequate capital coverage of risk in business operations through meeting the prescribed requirements for calculating regulatory capital. Further measures to be taken by the regulator will be aimed towards efficient management of capital, liquidity and risk management support.

Analysing the MCO reporting data in the FB&H as of 30/09/2020 and the comparative trends of business indicators, it can be concluded that the FB&H microcredit sector business operations (observed against end of the previous year) are characterized by an increase in total assets, gross microloan portfolio, loan obligations and total capital. Compared to the same period last year, placement of microloans in the period from 01/01/2020 to 30/09/2020 saw a downward trend. Business operations have continued with a positive financial performance, being much lower than the one presented in the same period last year.

As of 30/09/2020, at the level of the leasing system in the FB&H, an increase was reported in the volume of assets, net receivables based on financial leasing, loan obligations and capital of leasing companies compared to 31/12/2019, while the number and value of newly concluded leasing contracts posted a decrease against the same period last year. Over the reporting period, FB&H leasing sector posted an operating profit, thus being higher than in the same period the year before.

Factoring business as possible instrument of short term financing and cash flow management was performed in the first nine months of 2020 solely via its financing function, whereas no collection service and receivables management service was posted or any deals related to factoring. This area is still beginning to develop in the FB&H. Its faster development calls for a legal reform being a limiting factor in its certain elements.

ANNEXES – BANKING SECTOR – data as of 30/09/2020

Annex 1 - Basic information on FB&H banks

No.	Bank	Web address	Number of employees	Management Chairperson
1.	ADDIKO BANK DD SARAJEVO	www.addiko.ba	368	Sanela Pašić
2.	ASA BANKA DD SARAJEVO	www.asabanka.ba	212	Samir Mustafić
3.	BOSNA BANK INTERNATIONAL DD SARAJEVO	www.bbi.ba	458	Amer Bukvić
4.	INTESA SANPAOLO BANKA DD BOSNA I HERCEGOVINA SARAJEVO	www.intesasanpaolobanka.ba	548	Almir Krkalić
5.	KOMERCIJALNO-INVESTICIONA BANKA DD V. KLADUŠA	www.kib-banka.com.ba	80	Hasan Porčić
6.	NLB BANKA DD SARAJEVO	www.nlb.ba	443	Lidija Žigić
7.	PRIVREDNA BANKA SARAJEVO DD SARAJEVO	www.pbs.ba	174	Hamid Pršeš
8.	PROCREDIT BANK DD SARAJEVO	www.procreditbank.ba	153	Amir Salkanović
9.	RAIFFEISEN BANK DD BiH SARAJEVO	www.raiffeisenbank.ba	1,297	Karlheinz Dohnigg
10.	SBERBANK BH DD SARAJEVO	www.sberbank.ba	442	Jasmin Spahić
11.	SPARKASSE BANK DD BOSNA I HERCEGOVINA SARAJEVO	www.sparkasse.ba	517	Sanel Kusturica
12.	UNICREDIT BANK DD MOSTAR	www.unicreditbank.ba	1,227	Amina Mahmutović
13.	UNION BANKA DD SARAJEVO	www.unionbank.ba	188	Vedran Hadžiahmetović
14.	VAKUFСКА BANKA DD SARAJEVO	www.vakuba.ba	122	Edina Vuk
15.	ZIRAATBANK BH DD SARAJEVO	www.ziraatbosnia.com	305	Yusuf Dilaver
TOTAL			6,534	

Annex 2 - FB&H banks' balance sheet according to FBA scheme (active sub-balance sheet)

- BAM 000 -

No.	Description	Amount as of 31.12.2019	%	Amount as of 30.09.2020	%	Index (5/3)
1	2	3	4	5	6	7
ASSETS						
1.	Cash and deposit accounts with deposit institutions	7,641,570	31.6	7,194,881	30.2	94
	1.a. Cash and non-interest bearing deposit accounts	3,321,750	13.7	3,489,665	14.7	105
	1.b. Interest bearing deposit accounts	4,319,820	17.9	3,705,216	15.5	86
2.	Securities at fair value through profit or loss and at fair value in other comprehensive income	1,297,075	5.4	1,608,748	6.8	124
3.	Placements to other banks	149,197	0.6	101,482	0.4	68
4.	Loans, leasing type receivables and past-due receivables	15,220,759	62.8	15,113,127	63.5	99
	4.a. Loans	14,198,216	58.6	14,235,162	59.8	100
	4.b. Leasing type receivables	68,407	0.3	59,130	0.3	86
	4.c. Due receivables on loans and leasing type receivables	954,136	3.9	818,835	3.4	86
5.	Securities at amortized cost	159,246	0.7	172,961	0.7	109
6.	Business premises and other fixed assets	550,887	2.3	506,940	2.1	92
7.	Other real-estate	49,797	0.2	45,981	0.2	92
8.	Investments in subsidiaries and affiliates	15,944	0.1	15,944	0.1	100
9.	Other assets	321,220	1.3	283,541	1.2	88
10.	MINUS: Impairments	1,195,128	4.9	1,236,846	5.2	103
	10.a. Impairments of items in position 4 of Assets	1,120,940	4.6	1,182,082	5.0	105
	10.b. Impairments of assets items, except for position 4 of Assets	74,188	0.3	54,764	0.2	74
11.	TOTAL ASSETS	24,210,567	100	23,806,759	100	98
LIABILITIES						
12.	Deposits	19,414,294	80.2	19,177,471	80.6	99
	12.a. Interest-bearing deposits	14,181,299	58.6	13,477,149	56.6	95
	12.b. Non interest-bearing deposits	5,232,995	21.6	5,700,322	24.0	109
13.	Borrowings –due liabilities	150	0.0	150	0.0	100
	13.a. Balance of overdue liabilities	0	0.0	0	0.0	-
	13.b. Balance of not settled, called for payment off-balance sheet liabilities	150	0.0	150	0.0	100
14.	Borrowings from other banks	0	0.0	0	0.0	-
15.	Liabilities to government	0	0.0	0	0.0	-
16.	Liabilities on loans and other borrowings	856,626	3.5	802,677	3.4	94
	16.a. with residual maturity up to one year	199,989	0.8	213,658	0.9	107
	16.b. with residual maturity over one year	656,637	2.7	589,019	2.5	90
17.	Subordinated debts and subordinated bonds	189,055	0.8	191,276	0.8	101
18.	Other liabilities	619,088	2.6	602,730	2.5	97
19.	TOTAL LIABILITIES	21,079,213	87.1	20,774,304	87.3	99
CAPITAL						
20.	Permanent priority shares	365	0.0	365	0.0	100
21.	Common shares	1,299,335	5.4	1,299,335	5.4	100
22.	Issue premiums	137,290	0.6	137,290	0.6	100
	22.a. on permanent priority shares	88	0.0	88	0.0	100
	22.b. on common shares	137,202	0.6	137,202	0.6	100
23.	Undistributed profit and capital reserves	1,393,271	5.8	1,444,273	6.1	104
24.	Exchange rate differences	0	0.0	0	0.0	-
25.	Other capital	262,125	1.1	151,192	0.6	58
26.	Loan loss reserves created from profits	38,968	0.2	0	0	-
27.	TOTAL CAPITAL: (20 to 25)	3,131,354	12.9	3,032,455	12.7	97
28.	TOTAL LIABILITIES AND CAPITAL: (19 + 27)	24,210,567	100	23,806,759	100	98
PASSIVE AND NEUTRAL SUB-BALANCE SHEET		712,764		708,440		99
TOTAL		24,923,331		24,515,199		98

Annex 3 - Overview of assets, loans and deposits of FB&H banks

- BAM 000 -

No.	Bank	Assets		Loans		Deposits	
		Amount	%	Amount	%	Amount	%
1.	ADDIKO BANK DD SARAJEVO	992,679	4.2	597,000	4.0	766,038	4.0
2.	ASA BANKA DD SARAJEVO	644,300	2.7	402,337	2.7	570,352	3.0
3.	BOSNA BANK INTERNATIONAL DD SARAJEVO	1,244,590	5.2	817,611	5.4	977,225	5.1
4.	INTESA SANPAOLO BANKA DD BOSNA I HERCEGOVINA SARAJEVO	2,254,989	9.5	1,594,939	10.6	1,703,151	8.9
5.	KOMERCIJALNO-INVESTICIONA BANKA DD V. KLADUŠA	102,380	0.4	52,664	0.4	71,037	0.4
6.	NLB BANKA DD SARAJEVO	1,255,758	5.3	823,382	5.4	1,030,462	5.4
7.	PRIVREDNA BANKA SARAJEVO DD SARAJEVO	560,233	2.3	306,677	2.0	469,415	2.5
8.	PROCREDIT BANK DD SARAJEVO	571,863	2.4	454,508	3.0	286,936	1.5
9.	RAIFFEISEN BANK DD BiH SARAJEVO	4,703,236	19.8	2,667,060	17.6	3,850,133	20.1
10.	SBERBANK BH DD SARAJEVO	1,549,549	6.5	1,035,800	6.9	1,328,744	6.9
11.	SPARKASSE BANK DD BOSNA I HERCEGOVINA SARAJEVO	1,667,935	7.0	1,155,727	7.6	1,387,479	7.2
12.	UNICREDIT BANK DD MOSTAR	6,069,453	25.5	3,861,108	25.5	4,937,867	25.7
13.	UNION BANKA DD SARAJEVO	884,476	3.7	289,032	1.9	773,880	4.0
14.	VAKUFСКА BANKA DD SARAJEVO	282,926	1.2	185,957	1.2	249,722	1.3
15.	ZIRAATBANK BH DD SARAJEVO	1,022,392	4.3	869,325	5.8	775,030	4.0
TOTAL		23,806,759	100	15,113,127	100	19,177,471	100

Annex 4 - Sector Structure of Loans in the FB&H and ECL

- BAM 000 -

Description	Credit risk grade 1	Credit risk grade 2	Credit risk grade 3	Total gross exposure by all credit risk grades	ECL for the credit risk grade 1	ECL for the credit risk grade 2	ECL for the credit risk grade 3
1	2	3	4	5	6	7	8
1. Total corporate loans (1.1. to 1.21.)	6,209,837	954,993	609,676	7,774,506	87,613	109,049	475,541
1.1. A Agriculture, forestry and fishing	84,580	17,511	28,522	130,613	1,187	1,752	21,998
1.2. B Mining and quarrying	81,953	24,729	244	106,926	1,019	1,452	391
1.3. C Processing industry	1,397,415	290,602	194,368	1,882,385	21,832	33,245	157,678
1.4. D Production and supply of electricity, gas, fumes and air conditioning	219,634	11,317	3,475	234,426	3,377	1,971	2,933
1.5. E Water supply, waste water drainage, commercial waste disposal and environmental recovery	31,420	2,718	886	35,024	552	1,039	818
1.6. F Construction	364,986	42,487	45,915	453,388	5,147	4,087	38,219
1.7. G Wholesale and retail trade; repair of motor vehicles and motorcycles	2,256,898	288,242	214,118	2,759,258	27,717	17,723	158,768
1.8. H Transport and warehousing	220,163	48,160	19,761	288,084	2,626	3,199	15,339
1.9. I Accommodation and catering (hotels and hospitalist business)	150,767	71,706	34,237	256,710	6,798	12,955	21,588
1.10. J Information and communication	119,841	9,097	15,021	143,959	1,680	871	8,843
1.11. K Financial and insurance business	629,324	7,126	160	636,610	3,766	390	145
1.12. L Real estate business	102,820	50,448	25,956	179,224	1,087	3,347	22,846
1.13. M Professional, scientific and technical activities	135,489	55,392	14,338	205,219	2,217	20,014	12,443
1.14. N Administrat. and auxiliary services	35,014	10,637	2,696	48,347	1,390	1,860	3,150
1.15. O Public administration and defence; social insurance	249,984	5,600	0	255,584	4,234	445	0
1.16. P Education	9,712	490	4,125	14,327	164	35	559
1.17. Q Health care and social welfare	66,734	16,793	584	84,111	811	1,825	565
1.18. R Art, entertainment and recreation	7,199	728	1,321	9,248	1,520	2,593	5,744
1.19. S Other services	45,903	1,210	2,765	49,878	426	246	2,331
1.20. T Activities of households as employers; activities of households manufacturing different goods and rendering different services for their own needs	0	0	1,184	1,184	63	0	1,183
1.21. U activities of extraterritorial organisations and bodies	1	0	0	1	0	0	0
2. Total Retail (2.1 + 2.2 + 2.3)	6,506,257	379,475	452,889	7,338,621	76,595	58,562	374,722
2.1. General consumption	5,163,094	321,781	391,366	5,876,241	66,696	51,319	325,402
2.2. Housing construction	1,267,386	44,927	53,376	1,365,689	8,875	5,898	42,066
2.3. Entrepreneurs	75,777	12,767	8,147	96,691	1,024	1,345	7,254
3. Total loans (1. + 2.)	12,716,094	1,334,468	1,062,565	15,113,127	164,208	167,611	850,263

Annex 5 - FB&H banks' income statement according to FBA's scheme

- BAM 000 -

No.	Description	30.09.2019	%	30.09.2020	%	Index (5/3)
1	2	3	4	5	6	7
1.	INTEREST INCOME AND EXPENSES					
a)	Interest income and similar income					
1)	Interest-bearing deposit accounts with deposit institutions	4,075	0.5	2,169	0.3	53
2)	Placements to other banks	3,160	0.4	2,082	0.3	66
3)	Loans and leasing operations	486,425	60.6	468,473	60.6	96
4)	Securities held to maturity	3,234	0.4	3,026	0.4	94
5)	Equity securities	0	0.0	0	0.0	-
6)	Receivables on paid off-balance sheet liabilities	1	0.4	1	0.0	100
7)	Other interest income and similar income	52,393	6.5	47,929	6.2	91
8)	TOTAL INTEREST INCOME AND SIMILAR INCOME	549,288	68.4	523,680	67.8	95
b)	Interest expenses and similar expenses					
1)	Deposits	70,777	8.8	68,728	8.9	97
2)	Borrowings from other banks	0	0.0	0	0.0	-
3)	Borrowings taken – past-due liabilities	0	0.0	0	0.0	-
4)	Liabilities on loans and other borrowings taken	6,878	0.9	6,092	0.8	89
5)	Subordinated debts and subordinated bonds	5,581	0.7	5,519	0.7	99
6)	Other interest expenses and similar expenses	12,686	1.5	18,068	2.3	142
7)	TOTAL INTEREST EXPENSES AND SIMILAR EXPENSES	95,922	11.9	98,407	12.7	103
c)	NET INTEREST AND SIMILAR INCOME	453,366	56.5	425,273	55.1	94
2.	OPERATING INCOME					
a)	Income from foreign exchange operations	47,758	5.9	40,427	5.2	85
b)	Loan fees	7,928	1.0	7,372	1.0	93
c)	Off-balance sheet operation fees	16,961	2.1	17,363	2.2	102
d)	Service fees	239,957	29.9	226,216	29.3	94
e)	Income from trading operations	1,319	0.2	1,434	0.2	109
f)	Other operating income	35,673	4.4	54,266	7.0	152
g)	TOTAL OPERATING INCOME a) through f)	349,596	43.5	347,078	44.9	99
	TOTAL INCOME(1c + 2g)	802,962	100	772,351	100	96
3.	NON-INTEREST EXPENSES					
a)	Operating and direct expenses					
1)	Risk asset impairment costs, provisions for contingent liabilities and other value adjustments	58,147	7.3	133,504	17.3	230
2)	Other operating and direct costs	103,937	12.9	100,312	13.0	97
3)	TOTAL OPERATING AND DIRECT EXPENSES 1) + 2)	162,084	20.2	233,816	30.3	144
b)	Operating expenses					
1)	Salary and contribution costs	194,329	24.2	192,141	24.9	99
2)	Business premises costs, other fixed assets and overheads	114,495	14.3	118,273	15.3	103
3)	Other operating costs	79,412	9.9	76,533	9.9	96
4)	TOTAL OPERATING EXPENSES 1) through 3)	388,236	48.4	386,947	50.1	100
c)	TOTAL NON-INTEREST EXPENSES	550,320	68.6	620,763	80.4	113
	TOTAL EXPENSES (1b7+3c)	646,242		719,170		111
4.	PROFIT BEFORE TAXATION	253,289	31.5	167,046	21.6	66
5.	LOSS	647	0.1	15,458	2.0	2389
6.	TAXES	1,896	0.2	1,059	0.1	56
7.	PROFIT ON INCREASE IN DEFERRED TAX ASSETS AND DECREASE IN DEFERRED TAX LIABILITIES	208	0.0	724	0.1	348
8.	LOSS ON DECREASE IN DEFERRED TAX ASSETS AND INCREASE IN DEFERRED TAX LIABILITIES	30	0.0	61	0.0	203
9.	NET PROFIT (4-6+7-8 or 7-5-6-8)	251,571	31.3	166,670	21.6	66
10.	NET LOSS (4-6-7+8 or 6+8-4-7)	647	0.1	15,478	2.0	2392
11.	FINANCIAL PERFORMANCE (9-10)	250,924		151,192		60

Annex 6 - Weighted average NIR and EIR on loans and deposits by periods

Weighted average NIR and EIR on loans by periods

- % -

No.	Description	30.09.2016		30.09.2017		30.09.2018		30.09.2019		30.09.2020	
		NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	2	3	4	5	6	7	8	9	10	11	12
1.	Weighted interest rates on short-term loans	4.14	4.58	3.25	3.53	2.71	3.00	2.35	2.71	2.24	2.51
1.1.	Corporate	4.10	4.45	3.19	3.39	2.64	2.87	2.30	2.60	2.19	2.40
1.2.	Retail	7.89	13.61	8.32	15.35	7.62	14.85	7.22	13.53	8.37	15.36
2.	Weighted interest rates on long-term loans	6.23	7.33	5.49	6.56	4.74	5.73	4.64	5.59	4.57	5.46
2.1.	Corporate	4.98	5.29	4.16	4.46	3.69	4.00	3.47	3.74	3.62	3.88
2.2.	Retail	7.25	8.99	6.42	8.02	5.59	7.15	5.40	6.77	5.44	6.89
3.	Total weighted interest rates	5.07	5.81	4.22	4.84	3.61	4.22	3.32	3.93	3.14	3.65
3.1.	Corporate	4.33	4.68	3.42	3.65	2.92	3.17	2.56	2.85	2.51	2.73
3.2.	Retail	7.28	9.14	6.46	8.18	5.64	7.31	5.43	6.91	5.50	7.05

Average Weighted NIR and EIR on deposits by periods

- % -

No.	Description	30.09.2016		30.09.2017		30.09.2018		30.09.2019		30.09.2020	
		NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	2	3	4	5	6	7	8	9	10	11	12
1.	Weighted interest rates on short-term deposits	0.36	0.37	0.39	0.39	0.33	0.32	0.33	0.32	0.35	0.34
1.1.	Up to three months	0.28	0.28	0.36	0.36	0.37	0.34	0.33	0.32	0.16	0.15
1.2.	Up to one year	0.71	0.73	0.53	0.54	0.28	0.28	0.33	0.32	0.47	0.47
2.	Weighted interest rates on long-term deposits	1.80	1.82	1.36	1.38	1.10	1.12	1.26	1.20	0.99	1.00
2.1.	Up to three years	1.60	1.63	1.24	1.26	0.93	0.95	1.13	1.04	0.81	0.81
2.2.	Over three years	2.36	2.37	1.79	1.83	1.38	1.39	1.59	1.60	1.32	1.34
3.	Total weighted interest rates on deposits	0.94	0.95	0.72	0.72	0.59	0.59	0.79	0.76	0.67	0.67

ANNEXES - MICROCREDIT SECTOR – data as of 30/09/2020

Annex 7 - Basic information on FB&H MCOs

No.	MCO Name	Web address	Director	Licence issuance date	Number of employees
1.	MKD „CREDO CENTAR“ d.o.o. Mostar	-	Mirko Ljubić	12.09.2019	9
2.	MKD "EKI" d.o.o. Sarajevo	www.eki.ba	Almir Sultanović	04.02.2008	221
3.	MKF "EKI" Sarajevo	www.eki.ba	Esad Uzunić	20.08.2007	113
4.	MKD „IUTECREDIT BH“ d.o.o. Sarajevo	www.iutecredit.ba	Vilma Tunjić Juzbašić	28.02.2019	35
5.	MKF "LIDER" Sarajevo	www.lider.ba	Džavid Sejfović	04.02.2008	72
6.	"LOK MKF" Sarajevo	www.lok.ba	Elma Čardaklija - Bašić	04.02.2008	69
7.	MKF "MELAHA" Sarajevo	www.melaha.ba	Jakob Finci	09.10.2007	6
8.	MKF "MI-BOSPO" Tuzla	www.mi-bospo.org	Safet Husić	09.07.2007	190
9.	MKF "MIKRA" Sarajevo	www.mikra.ba	Sanin Čampara	19.03.2008	154
10.	MKF "MIKRO ALDI" Goražde	www.mikroaldi.org	Omar Softić	20.08.2007	35
11.	"PARTNER MKF" Tuzla	www.partner.ba	Senad Sinanović	20.08.2007	285
12.	"PRVA ISLAMSKA MKF" Sarajevo	www.mfi.ba	Edina Hadžimurtezić	10.12.2007	8
13.	MKF "SANI" Zenica	-	Sulejman Haračić	09.10.2007	3
14.	MKF "SUNRISE" Sarajevo	www.microsunrise.ba	Samir Bajrović	20.08.2007	176
TOTAL					1,376

Annex 8 - MCFs' aggregate balance sheet

- BAM 000 -

No.	Description	Amount as of 31.12.2019	%	Amount as of 30.09.2020	%	Index (5/3)
1	2	3	4	5	6	7
ASSETS						
1.	Cash (1a+1b)	35,594	7.6	36,649	7.6	103
1a)	Cash and non-interest bearing deposit accounts	22,842	4.9	24,739	5.1	108
1b)	Interest-bearing deposit accounts	12,752	2.7	11,910	2.5	93
2.	Placements to banks	2,150	0.5	1,640	0.3	76
3.	Loans	370,298		386,420		104
3a)	Loan loss reserves	2,759		4,038		146
3b)	Net loans (3-3a)	367,539	78.2	382,382	78.9	104
4.	Business premises and other fixed assets	28,231	6.0	27,602	5.7	98
5.	Long-term investments	33,061	7.0	33,061	6.8	100
6.	Other assets	3,415	0.7	3,497	0.7	102
7.	Minus: reserves on other asset items, except for loans	3		3		100
8.	TOTAL ASSETS	469,987	100	484,828	100	103
LIABILITIES						
9a)	Liabilities on short-term loans taken out	45,676	9.7	21,652	4.4	47
9b)	Liabilities on long-term loans taken out	150,186	32.0	180,514	37.2	120
9c)	Liabilities based on interest due	907	0.2	1,290	0.3	142
10.	Other liabilities	24,218	5.1	22,555	4.7	93
11.	Total liabilities	220,987	47.0	226,011	46.6	102
12.	Donated capital	48,076		48,076		100
13.	Tier 1 capital	3,868		3,868		100
14.	Surplus of income over expenses	252,273		262,238		104
14a)	for previous years	237,483		252,282		106
14b)	for current year	14,790		9,956		67
15.	Shortfall of income over expenses	55,335		55,472		100
15a)	for previous years	55,236		55,250		100
15b)	for current year	99		222		224
16.	Other reserves	118		107		91
17.	TOTAL CAPITAL	249,000	53.0	258,817	53.4	104
18.	TOTAL LIABILITIES	469,987	100	484,828	100	103
OFF-BALANCE SHEET RECORDS						
19.	Written-off loans	149,854		144,400		96
20.	Approved, but undrawn loan funds of creditors	11,649		14,944		128
21.	Commission operations	222		219		99
22.	Court disputes, orders by competent authorities posing contingent liability for MCO, but that have not yet been posted in balance sheet records, etc.	396		394		99
23.	Other (all other off-balance sheet items not covered above)	195,691		36,589		19

Annex 9 - MCCs' aggregate balance sheet

- BAM 000 -

No.	Description	Iznos na dan 31.12.2019	%	Iznos na dan 30.09.2020	%	Index (5/3)
1	2	3	4	5	6	7
ASSETS						
1.	Cash (1a+1b)	13,281	8.3	9,512	5.9	72
1a)	Cash and non-interest bearing deposit accounts	12,781	8.0	9,262	5.7	72
1b)	Interest-bearing deposit accounts	500	0.3	250	0.2	50
2.	Placements to banks	0	0.0	0	0.0	-
3.	Loans	140,707		149,937		107
3a)	Loan loss reserves	1,411		3,105		220
3b)	Net loans (3-3a)	139,296	87.3	146,832	90.3	105
4.	Business premises and other fixed assets	5,747	3.6	4,749	2.9	83
5.	Long-term investments	0	0.0	0	0.0	-
6.	Other assets	1,304	0.8	1,406	0.9	108
7.	Minus: reserves on other asset items, except for loans	0		0		-
8.	TOTAL ASSETS	159,628	100	162,499	100	102
LIABILITIES						
9a)	Liabilities on short-term loans taken out	56,995	35.7	450	0.3	1
9b)	Liabilities on long-term loans taken out	48,888	30.6	104,827	64.5	214
9c)	Liabilities based on interest due	914	0.6	919	0.5	101
10.	Other liabilities	7,517	4.7	7,397	4.6	98
11.	TOTAL LIABILITIES	114,314	71.6	113,593	69.9	99
12.	Donated capital	0		0		-
13.	Tier 1 capital	31,600		33,100		105
14.	Issue premium	0		0		-
15.	Unallocated profit (15a+15b)	9,186		8,896		97
15a)	Previous year	5,976		10,124		169
15b)	Current year	3,210		-1,228		-38
16.	Legal reserves	2,528		3,568		141
17.	Other reserves	2,000		3,342		167
18.	TOTAL CAPITAL	45,314	28.4	48,906	30.1	108
19.	TOTAL LIABILITIES	159,628	100	162,499	100	102
OFF-BALANCE SHEET RECORDS						
20.	Written-off loans	2,738		5,343		195
21.	Approved, but undrawn loan funds of creditors	38,649		14,248		37
22.	Commission operations	0		0		-
23.	Court disputes, orders by competent authorities posing contingent liability for MCO, but that have not yet been posted in balance sheet records, etc.	0		0		-
24.	Other (all other off-balance sheet items not covered above)	21,268		16,273		77

Annex 10 - Overview of key indicators of MCOs in the FB&H

No.	Name	- BAM 000 -			
		Assets	Gross portfolio	Capital	Placements in the period 01.01.-30.09.2020
1.	MKD „CREDO CENTAR“ d.o.o. Mostar	2,592	2,580	2,585	2,585
2.	MKD "EKI" d.o.o. Sarajevo	154,475	141,031	72,073	72,073
3.	MKF "EKI" Sarajevo	92,603	46,866	35,063	35,063
4.	MKD „IUTECREDIT BH“ d.o.o. Sarajevo	5,432	4,838	6,061	6,061
5.	MKF "LIDER" Sarajevo	24,772	22,938	14,441	14,441
6.	"LOK MKF" Sarajevo	9,505	7,047	4,849	4,849
7.	MKF "MELAHA" Sarajevo	1,168	801	468	468
8.	MKF "MI-BOSPO" Tuzla	77,421	69,282	48,861	48,861
9.	MKF "MIKRA" Sarajevo	49,067	38,682	28,509	28,509
10.	MKF "MIKRO ALDI" Goražde	8,981	7,906	4,780	4,780
11.	"PARTNER MKF" Tuzla	161,781	142,330	80,228	80,228
12.	"PRVA ISLAMSKA MKF" Sarajevo	2,338	1,563	1,541	1,541
13.	MKF "SANI" Zenica	189	171	100	100
14.	MKF "SUNRISE" Sarajevo	57,003	44,610	37,449	37,449
TOTAL		647,327	530,645	307,723	337,008

Annex 11 - Overview of average weighted NIR and EIR for MCOs

No.	Description	MCOs seated in the FB&H - period 01.01.-30.09.2020 -			
		Number of concluded contracts	Microloans disbursement (in BAM 000)	Weighted NIR (average) %	Weighted EIR (average) %
1	2	3		4	5
1.	Short term microloans for:	33,577	45,351	20.41	30.61
1.1.	service activities	2,407	4,726	20.67	27.11
1.2.	trade	557	1,365	20.46	27.34
1.3.	agriculture	5,017	7,948	20.13	26.06
1.4.	manufacturing	300	661	19.21	25.29
1.5.	housing needs	1,898	3,537	20.31	26.11
1.6.	general-basic needs	18,210	21,014	20.83	36.47
1.7.	other	5,188	6,100	19.13	22.81
2.	Long term microloans for:	63,639	291,658	19.13	23.15
2.1.	service activities	11,444	57,221	18.66	21.34
2.2.	trade	1,841	8,791	18.72	21.78
2.3.	agriculture	17,781	92,071	17.97	20.68
2.4.	manufacturing	1,792	9,837	18.05	20.42
2.5.	housing needs	10,228	59,927	19.24	22.35
2.6.	general-basic needs	12,700	41,097	22.53	27.38
2.7.	other	7,853	22,714	18.93	33.60
3.	Total microloans	97,216	337,009	19.30	24.15

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

- % -

Average weighted NIR on:	01.01.-30.09.2016	01.01.-30.09.2017	01.01.-30.09.2018	01.01.-30.09.2019	01.01.-30.09.2020
Short-term microloans	17.27	19.74	20.94	21.00	20.41
Long-term microloans	20.75	20.43	19.70	19.31	19.13
Total microloans	20.08	20.31	19.88	19.56	19.30
Average weighted EIR on:	01.01.-30.09.2016	01.01.-30.09.2017	01.01.-30.09.2018	01.01.-30.09.2019	01.01.-30.09.2020
Short-term microloans	26.16	28.37	28.20	31.22	30.61
Long-term microloans	24.66	24.25	23.39	23.06	23.15
Total microloans	24.94	24.91	24.12	24.27	24.15

Annex 12 - MCFs aggregate income statement

- BAM 000 -

No.	Description	For the period 01.01. - 30.09.2019	Share	For the period 01.01. - 30.09.2020	Share	Index (5/3)
1	2	3	4	5	6	7
	INTEREST INCOME AND EXPENSES					
1.	Interest and similar income	54,627	87.6	56,570	90.8	104
2.	Interest and similar expenses	6,104	12.2	5,865	11.3	96
3.	Net interest and similar income (1. - 2.)	48,523		50,705		104
	OPERATING INCOME AND EXPENSES					
4.	Operating income	7,702	12.4	5,188	8.3	67
5.	Operating expenses	40,900	81.5	41,139	79.5	101
	OTHER OPERATING INCOME AND EXPENSES					
6.	Other operating income	0	0.0	581	0.9	-
7.	Other operating expenses	307	0.6	504	1.0	164
8.	Costs of provisions for loan and other losses	2,836	5.7	4,213	8.2	149
9.	Surplus/shortfall of income over expenses before taxes (3.+4.-5.+6.-7.-8.)	12,182		10,618		87
10.	Tax on surplus income over expenses	0		1,069		-
11.	Net surplus/shortfall of income over expenses (9.-10.)	12,182		9,549		78

Annex 13 - MCCs aggregate income statement

- BAM 000 -

No.	Description	For the period 01.01. - 30.09.2019	%	For the period 01.01. - 30.09.2020	%	Index (5/3)
1	2	3	4	5	6	7
	INTEREST INCOME AND EXPENSES					
1.	Interest and similar income	19,476	98.9	19,364	98.6	99
2.	Interest and similar expenses	3,091	20.2	4,289	20.8	139
3.	Net interest and similar income (1. - 2.)	16,385		15,075		92
	OPERATING INCOME AND EXPENSES					
4.	Operating income	214	1.1	214	1.1	100
5.	Operating expenses	11,038	72.0	11,823	57.2	107
	OTHER OPERATING INCOME AND EXPENSES					
6.	Other operating income	0	0.0	57	0.3	
7.	Other operating expenses	45	0.3	311	1.5	691
8.	Costs of provisions for loan and other losses	1,151	7.5	4,245	20.5	369
9.	Profit/loss before taxes (3.+4.-5.+6.-7.-8.)	4,365		-1,033		-24
10.	Income tax	533		201		38
11.	Net profit/loss (9.-10.)	3,832		-1,234		-32

ANNEXES – LEASING SECTOR (data as of 30/09/2020)

Annex 14 - Basic information on leasing companies in the FB&H

No.	Leasing company name	Web address	Director	License issuance date	No. of employees
1.	MOGO d.o.o. Sarajevo	www.mogo.ba	Sanja Štefatić Jovorić	01.06.2018	13
2.	PORSCHE LEASING d.o.o.	www.porscheleasing.ba	Dejan Stupar	28.05.2015	21
3.	RAIFFEISEN LEASING d.o.o. Sarajevo	www.rlhb.ba	Maja Jurčević	19.01.2010	41
4.	SPARKASSE LEASING d.o.o. Sarajevo	www.s-leasing.ba	Elma Hošo	11.02.2010	24
5.	VANTAGE BUSINESS LEASING d.o.o Sarajevo	www.vbleasing.ba	Aleksandar Milašinović	12.01.2010	12
TOTAL					111

Annex 15 - Leasing companies' aggregate balance sheet²⁹

- BAM 000 -

No.	Description	31.12.2019	% share	30.09.2020	% share	Index (5/3)
1	2	3	4	5	6	7
	ASSETS					
1.	Cash and cash equivalents	5,530	1.7	3,777	1.1	68
2.	Placements to banks	13,572	4.2	11,766	3.5	87
3.	Financial leasing type receivables, net (3a-3b-3c-3d)	241,078	74.5	255,674	75.0	106
3a)	Financial leasing type receivables, gross	269,053	83.2	280,517	82.3	104
3b)	Loss reserves	2,665	0.8	2,490	0.7	93
3c)	Deferred interest income	25,095	7.8	22,117	6.5	88
3d)	Deferred fee income	215	0.1	236	0.1	110
4.	Receivables from subsidiaries	2	0.0	2	0.0	100
5.	Tangible and intangible assets, net (5a+5b-5c-5d)	50,371	15.6	57,289	16.8	114
5a)	Tangible and intangible assets –own funds	4,810	1.5	4,898	1.4	102
5b)	Tangible and intangible assets –of operational leasing	65,083	20.1	73,083	21.4	112
5c)	Impairment -own resources	3,605	1.1	3,192	0.9	89
5d)	Impairment-operating leasing	15,917	4.9	17,500	5.1	110
6.	Long-term investments	248	0.1	246	0.1	99
7.	Other assets (7a+7b)	12,486	3.9	11,913	3.5	95
7a)	Loans, net (7a1-7a2)	5,331	1.6	5,284	1.6	99
7a1)	Loans (past-due receivables+outstanding principal)	5,334	1.6	5,287	1.6	99
7a2)	Loan reserves	3	0.0	3	0.0	100
7b)	Inventory	1,474	0.5	1,415	0.4	96
7c)	Other assets	5,681	1.8	5,214	1.5	92
	TOTAL ASSETS	323,287	100	340,667	100	105
	LIABILITIES					
8.	Liabilities on loans, net (8a+8b-8c)	286,281	88.5	302,761	88.9	106
8a)	Liabilities on short-term loans	0	0.0	1,956	0.6	-
8b)	Liabilities on long-term loans	286,526	88.6	301,004	88.4	105
8c)	Advanced costs and fees	245	0.1	199	0.1	81
9.	Other liabilities	7,936	2.5	8,733	2.5	110
	TOTAL LIABILITIES	294,217	91.0	311,494	91.4	106
10.	Tier 1 capital	23,472	7.3	16,718	4.9	71
11.	Reserves	7,950	2.4	10,213	3.0	128
12.	Accumulated profit/loss	-2,352	-0.7	2,242	0.7	-95
	TOTAL CAPITAL	29,070	9.0	29,173	8.6	100
	TOTAL LIABILITIES	323,287	100	340,667	100	105
	Written off receivables (opening balance)	21,749		23,468		108
	New write off (+)	6,471		1,585		24
	Recovery (-)	1,039		149		14
	Permanent write off (-)	3,713		634		17
	Written off receivables (closing balance)	23,468		24,270		103
	Other off-balance sheet records	84,300		67,138		80

²⁹ Leasing sector data for 2019 have been adjusted by an amount of BAM 407 ths with one leasing company that changed its 2019 financial statements as instructed by an external auditor.

Annex 16 - Basic indicators of leasing companies in the FB&H

- BAM 000 -

No.	Name	Balance sheet total	Financial leasing receivables	Net balance of funds granted under operational leasing	Total capital	Placements in the period 01.01.-30.09.2020
1.	MOGO d.o.o. Sarajevo	3,238	2,289	0	1,209	0
2.	PORSCHE LEASING d.o.o.	132,329	86,607	41,711	4,518	56,640
3.	RAIFFEISEN LEASING d.o.o. Sarajevo	119,827	89,896	10,552	13,137	29,367
4.	SPARKASSE LEASING d.o.o. Sarajevo	82,121	76,877	3,320	7,328	31,174
5.	VANTAGE BUSINESS LEASING d.o.o Sarajevo	3,152	5	0	2,981	0
TOTAL		340,667	255,674	55,583	29,173	117,181

Annex 17 - Leasing companies' aggregate income statement

- BAM 000 -

No.	Description	01.01.- 30.09.2019	% share	01.01.- 30.09.2020	% share	Index (7/3)
1	2	3	4	5	6	7
	Financial income and expenses					
1.	Interest income	10,223	42.2	9,455	36.4	92
1a)	Interest on financial leasing	299	1.2	291	1.1	97
1b)	Interest on placements to banks	8,740	36.1	7,682	29.6	88
1c)	Fees (for leasing application processing, etc.)	602	2.5	627	2.4	104
1d)	Other interest income	582	2.4	855	3.3	147
2.	Interest expenses	3,246	14.3	3,193	13.1	98
2a)	Interest on borrowed funds	3,162	14.0	3,114	12.8	98
2b)	Loan processing fees	75	0.3	77	0.3	103
2c)	Other interest expenses	9	0.0	2	0.0	22
3.	Net interest income	6,977	28.8	6,262	24.1	90
	Operating income and expenses					
4.	Operating income	13,993	57.8	16,538	63.6	118
4a)	Service fees	1	0.0	1	0.0	100
4b)	Operating lease fee	10,866	44.9	12,859	49.5	118
4c)	Income from sale of leasing object	131	0.5	0	0.0	0
4d)	Other operating income	2,995	12.4	3,678	14.1	123
4d)1	Income from recovered written off receivables	718	3.0	281	1.1	39
4d)2	Income from collection letters	23	0.1	8	0.0	35
4d)3	Other	2,254	9.3	3,389	13.0	150
5.	Operating expenses	17,869	78.5	19,594	80.9	110
5a)	Salary and contribution costs	3,955	17.4	3,724	15.4	94
5b)	Business premises costs	7,217	31.7	8,651	35.7	120
5c)	Other costs	6,697	29.4	7,219	29.8	108
6.	Costs of loss reserves	1,641	7.2	1,451	6.0	88
7.	Profit before tax	1,460		1,755		120
8.	Corporate income tax	0	0.0	0	0.0	-
9.	Net profit/loss	1,460		1,755		120

Annex 18 - Overview of weighted NIR and EIR for financial leasing contracts

No.	Description	For the period 01.01.-30.09.2020			
		Number of contracts	Financing amount (BAM 000)	Weighted NIR %	Weighted EIR %
1	2	3	4	5	6
1.	Short-term leasing contract by leasing objects:	20	485	4.12	8.06
a.	Passenger vehicles	16	231	4.19	7.61
b.	Vehicles for performing business activity (cargo and passenger vehicles)	4	254	4.05	8.47
c.	Machines and equipment	0	0	0.00	0.00
d.	Real estate	0	0	0.00	0.00
e.	Other	0	0	0.00	0.00
1.1.	Short-term leasing contract by lessees:	20	485	4.12	8.06
a.	Corporate	20	485	4.12	8.06
b.	Entrepreneurs	0	0	0.00	0.00
c.	Retail	0	0	0.00	0.00
2.	Long-term leasing contract by leasing objects:	2,017	101,037	3.95	7.01
a.	Passenger vehicles	1,161	50,878	4.09	7.81
b.	Vehicles for performing business activity (cargo and passenger vehicles)	746	32,524	3.97	7.01
c.	Machines and equipment	110	17,635	3.52	4.74
d.	Real estate	0	0	0.00	0.00
e.	Other	0	0	0.00	0.00
2.1.	Long-term leasing contract by lessees:	2,017	101,037	3.95	7.01
a.	Corporate	1,729	91,374	3.86	6.16
b.	Entrepreneurs	76	2,833	4.69	7.60
c.	Retail	212	6,830	4.81	18.17
	Total (1+2)	2,037	101,522	3.95	7.02

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

- % -

No.	Description	30.09.2016		30.09.2017		30.09.2018		30.09.2019		30.09.2020	
		NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	2	3	4	5	6	7	8	9	10	11	12
1.	Short-term leasing contracts:	3.74	7.04	3.56	6.21	4.47	11.00	6.80	13.76	4.12	8.06
1.1.	Corporate	3.59	5.56	3.51	5.79	4.26	7.83	3.22	6.12	4.12	8.06
1.2.	Entrepreneurs	5.95	11.70	0	0	0	0	0	0	0	0
1.3.	Retail	5.88	45.53	6.52	30.21	7.41	56.30	33.04	69.75	0	0
2.	Long-term leasing contracts:	5.12	8.16	4.66	7.13	4.24	6.62	5.86	9.20	3.95	7.01
2.1.	Corporate	5.11	7.37	4.61	6.62	4.16	5.94	4.06	5.95	3.86	6.16
2.2.	Entrepreneurs	6.39	8.81	5.89	9.30	5.09	7.27	5.00	7.33	4.69	7.60
2.3.	Retail	5.01	20.78	5.23	17.85	5.51	19.84	22.31	38.96	4.81	18.17
	Total	5.10	8.15	4.65	7.12	4.24	6.67	5.87	9.24	3.95	7.02



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

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

**Zmaja od Bosne 47b
71000 Sarajevo, Bosnia and Herzegovina
Tel. +387 33 72 14 00
Fax +387 33 66 88 11
Web site: www.fba.ba
e-mail: agencija@fba.ba**