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AGENCIJA ZA BANKARSTVO
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INFORMATION

ON THE BANKING SYSTEM ENTITIES OF THE FEDERATION OF
BOSNIA AND HERZEGOVINA AS OF 31.12.2018
(FINAL NON-REVISED DATA)

PUBLISHER

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BANKING AGENCY OF THE FEDERATION OF BOSNIA AND HERZEGOVINA

Abbreviations and terms:

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

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INTRODUCTION

The FBA was established in 1996 as an independent and autonomous institution, which exercises its competences in accordance to the provisions laid down by the LoBA, the international standards, principles of supervision and professional rules.

MB performs general supervision on the FBA operations and undertake measures for effective performance of the activities from the FBA's scope in accordance to its competences prescribed by the law and for its performances it is responsible to the Parliament of the FBiH.

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

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

In accordance with the aforementioned, the Information on the Banking System Entities (BSEs) with situation as of 31.12.2018, has complied on the basis of the reference sources, made of final non-revised reporting data which BSEs submit to the FBA in the prescribed formats and deadlines, as well as other data and information submitted by BSEs to the FBA which are used in the regular supervision of the BSEs.

Considering that as a part of new banking regulation, a new reporting framework for banks (COREP) came on force, year of 2018 has agreed to be a period of parallel reporting according to the previous regulatory framework and COREP reporting, in the Q1 2018 banks from the FBiH submitted its first COREP reports to the FBA, in 2018 it has been continued with validation and analyse of new reporting forms. The Information provides banks business indicators as per non-revised reporting data as of 31.12.2018, based on reporting data banks submitted to the FBA using the previous regulatory framework. In the segment of capital and liquidity of the banking sector in the FBiH, it provides also indicators as per new regulatory requirements and new reporting framework for banks (COREP) which are subject to validation in the banking supervision in the FBiH.

Data expressed in the Information as a percentage, are normally shown with one decimal place, with the exception of data on NIR and EIR level with the BSEs in the FBiH and other data where relevant.

In the field of operations and supervision of the banking sector in the FBiH in 2018, following the period of adjustment with the BL, new regulations adopted in 2017 have entered into force, so that banks started applying new regulatory requirements and reporting to the FBA in accordance with the new standardised reporting framework. This was followed by intensive FBA activities in terms of interpretation of the regulatory requirements application prescribed by FBA's regulations (decisions, instructions, and guidelines). In connection with these extensive and complex processes, the FBA continued activities on strengthening of institutional capacities, with the objective of full implementation of the new regulatory framework, in particular in terms of the SREP, recovery and resolution planning, as well as the establishment of a framework for supervisory stress testing. A particularly important segment relates to the continuation of the FBA regulatory activities referred to the establishment of a framework for the IFRS 9 application and monitoring of its implementation in the banks, which is in relation to regulatory requirements for bank assets classification.

Within prescribed competences for supervision of non-deposit financial institutions in the FBiH, in 2018 it has continued with improvement of the existing regulatory framework for their operations and supervision. In the segment of factoring operations it is expected that use of factoring services in the following period will be in the function of resolving liquidity problems of the real sector that will contribute to acceleration of cash-flows to a greater extent than heretofore.

As for the content, the Information is divided into three parts. The first part covers the analyse of the banking sector of the FBiH, in terms of the banking supervision, its structure, business financial indicators, banks compliance with regulations in performing payment operations and AML/CTF standards. The second part relates to detailed analyse of the non-deposit financial institutions, their compliance with AML/CTF standards, where as separate segments microcredit sector, leasing sector and factoring sector in the FBiH are presented, including recommendations for each. In the part of Information which relates to the supervision of the leasing companies in the FBiH, terms leasing system and leasing sector are used, where leasing system assume aggregated data on leasing sector (data on leasing companies in the FBiH which operates under the license issued by the FBA) and data presented in the reports of banks in the FBiH which in their portfolio holds receivables based on financial leasing. Part of the Information related to supervision of the factoring sectors, provides data related to the banks which performs factoring operations and factoring company, which has concluded its first factoring contracts in the Q4 2018. The third part of the Information relates to the segment of protection of rights and interests of natural persons – users of financial services with BSEs, with corresponding recommendations.

An integral part of the Information is also the overview of legal framework for operations and supervision of the BSEs, which is presented in the Annex 1 – Legal framework for the FBA and BSEs operations in the FBiH. Thereof, depends on the need, the Information provides information on the FBA regulatory activities for BSEs during 2018, i.e. the segments important for the supervision.

SUMMARY

Key Business Performance Indicators of the Banking Sector in the FBiH

As of 31.12.2018, 15 commercial banks operated in the FBiH, with 549 organisational units in which 6 739 persons were employed.

Total net assets at the level of the banking sector in the FBiH amount to BAM 22.1 billion as of 31.12.2018 and is up by BAM 1.9 billion or 9.3% compared to 31.12.2017

Loans, with a share of 64.8% in the structure of total assets, recorded an increase in the amount of BAM 1.1 billion or 8.7% compared to the end of the previous year, thus amounting BAM 14.3 billion as of 31.12.2018. Within a sectoral lending, as of 31.12.2018 there was a decrease in the share of lending to private companies, government institutions and non-banking institutions. Compared to the end of 2017, increase of share is evident in lending to the bank institutions, public companies and non-banking financial institutions.

Loans granted to private companies recorded an increase in the amount of BAM 651.1 million or 9.6%, thus reaching the amount of BAM 7.5 billion as of 31.12.2018 and holding a 52.2% share in total loans. In the same period, retail loans recorded an increase in the amount of BAM 495.3 million or 7.8% growth rate, with a share of 47.8% in total loans, amounting to BAM 6.8 billion as of 31.12.2018.

The share of NPLs decreased from 9.7% to 8.5% mainly as a result of credit growth and activities conducted on collection. The share of non-performing corporate loans in relation to total corporate loans amounts to 10.6%, and the share of non-performing retail loans in relation to total retail loans is 6.2%.

Cash funds amount to BAM 6.6 billion or 29.8% of the total assets and are up by BAM 0.8 billion or 13.7% compared to the end of 2017.

Investments in securities amount to BAM 1.3 billion as of 31.12.2018, holding 5.9% share in assets.

Deposits reached the amount of BAM 17.6 billion, having recorded an increase in the amount of BAM 1.8 billion or 11.3% and they remain the most significant source of funding, with a 79.7% share in total liabilities. Savings deposits, as the most significant and largest segment of the deposit and financial potential of banks, increased by BAM 553.8 million or 6.7%, amounting to BAM 8.8 billion.

Loan funds amount to BAM 862.9 million and hold 3.9% share in the total liabilities, being up by 3.3% compared to the end of 2017.

As of 31.12.2018, total capital amounts to BAM 3 billion, with share capital accounting for BAM 1.3 billion thereof having recorded growth of 6.0% compared to 2017. The share of total capital in sources at the level of the banking sector amounts to 13.4%. Regulatory capital amounts to BAM 2.5 billion and it is increased by BAM 220.3 million or 9.5% compared to the end of 2017, with a slight change in the structure. Core capital is increased by BAM 238.6 million or 10.8%, while additional capital is up by BAM 12.2 million or 4%. According to the new regulatory requirements, the regulatory capital of the banking system of the FBiH decreased by BAM 62.5 million or 2.5% due to different methodology of regulatory capital calculation in relation to the previous regulations.

As of 31.12.2018, the capital adequacy ratio of the banking sector in the FBiH accounts for 17.5% and is higher than the legally prescribed minimum of 12%. It is by 2.0 percentage points higher compared to the end of 2017, and it is as the result of application of changed regulatory framework, business result of banks and other adjustments related to IFRS application. At the level of banking sector in the FBiH the others capital ratios are also higher than the required minimum (Common Equity Tier 1 and Tier 1 capital ratios).

As of 31.12.2018, the financial leverage ratio at the level of the banking sector of the FBiH amounts to 10.1% (regulatory minimum 6%) and is up compared to the end of the previous year (9.6%).

The liquidity of the banking sector is assessed to be satisfactory, given the share of liquid assets in the total assets and the maturity adjustment of financial assets and financial liabilities

As of 31.12.2018, according to the final non-revised data at the level of a banking sector in the FBiH, a positive financial result – profit in the amount of BAM 255.4 million was recorded, which is up by BAM 15.4 million or 6.4% compared to the same period of the previous year.

Key Business Performance Indicators of the Microcredit Sector in the FBiH

As of 31.12.2018, a 12 MCOs operated in the FBiH, 11 of which are MCFs and one of which is an MCC. There are 1 461 persons employed in the microcredit sector, that is 62 employees or 4.4% more, compared to 31.12.2017

Total assets of the microcredit sector amount to BAM 580.4 million, and it is BAM 53.4 million or 10.1% increase compared to 31.12.2017. The growth of total assets of MCCs amounts to BAM 39.6 million or 36.9% compared to the end of the previous year, and the growth of total assets of MCFs amounted to BAM 13.8 million or 3.3%.

A net total microloans amount to BAM 454 million which presents 78.2% of the total assets of the microcredit sector in the FBiH and it is up by BAM 46.1 million or 11.3% compared to the end of the previous year. The growth of net loans in MCCs amounted to BAM 53 million or 65.6%, while at the level of MCF decrease was presented in the total amount of BAM 6.9 million or 2.1% compared to 31.12.2017.

MCOs loan commitments amount to BAM 279.7 million, holding a share of 48.2% in the total liabilities and having increase of BAM 33.7 million or 13.7% compared to 31.12.2017, which is mainly result of the MCC debt growth from which the growth of microcredit portfolio was financed.

The total capital amounts to BAM 272.9 million or 47.0% of the total liabilities and it is up by BAM 17.8 million or 7.0% compared to the end of 2017, wherein amount of BAM 5.3 million or 29.6% referred to the increase of the total MCC capital, and amount of BAM 12.5 million or 70.4% to MCFs.

At the level of the microcredit sector, a positive financial result in the amount of BAM 20.9 million was recorded, which is up by BAM 2.4 million or 12.7% compared to the same period of the previous year.

MCC presented net profit in the amount of BAM 5.3 million that compared to the same period of the previous business year presents a material rise, since that as of 31.12.2017 net profit amounted to BAM 0.3 million, thus it presents rise by BAM 5.0 million. MCFs presented excess

of income over expenditure in the total amount of BAM 15.6 million that compared to 31.12.2017 presents a decrease in the amount of BAM 2.6 million or 14.4%. Operational efficiency of the microcredit sector in the FBiH accounts for 19.4% as of 31.12.2018 that is within prescribed indicator of up to 45%.

On the basis of business indicators for microcredit sector of the FBiH, based on the analyse of reports submitted by MCOs as of 31.12.2018 and its comparison with 31.12.2017, it can be concluded that operations of the sector are characterised by the growth of total assets, microcredit portfolio, number of employees, total capital, positive financial result, with unchanged indicators of placements quality for the period observed.

Key Business Performance Indicators of the leasing sector in the FBiH

As of 31.12.2018, the leasing system in the FBiH comprises of seven leasing companies and one commercial bank which performs financial leasing operations. Compared to the same period of 2017, in Q2 2018 the FBA issued operating license to newly establish leasing company which 100% is owned by non-resident legal person. As of 31.12.2018 the leasing sector of the FBiH employ 124 persons, out of it 118 staff engaged on a permanent basis which compared to 31.12.2017 presents increase by 14 persons or 13.5%.

In 2018 at the level of leasing system in the FBiH is evident increase in the scope of operations compared to the same period of the previous business year, in terms of the newly concluded contracts (by 28.7%) and the value of newly concluded contracts (by 32.2%).

As of 31.12.2018 the total assets of the leasing sector in the FBiH amounts to BAM 297.2 million and it has increased by BAM 37.0 million or 14.2% compared to 31.12.2017. Over the same period net receivables based on financial leasing, as the most important item in the structure of the total assets, amounts to BAM 214.7 million or 72.2% of the total assets and compared to 31.12.2017 rise by 22.0%.

As of 31.12.2018 in the structure of the total liabilities of the leasing sector in the FBiH, the largest item are liabilities by loans taken in the amount of BAM 252.4 million which are fully on long-term basis and accounts for 84.9% of the total liabilities, raised by 20.7% compared to 31.12.2017.

As of 31.12.2018 the total capital of the leasing sector in the FBiH amounts to BAM 36.8 million, which is 12.4% of the total liabilities of the leasing sector of the FBiH, compared to 31.12.2017 it decreased by total amount of BAM 4.0 million or 9.9%. Three leasing companies, including newly established leasing company, reported an increase of total capital, while four leasing companies reported decrease of the total capital.

Over the period 01.01.-31.12.2018 at the level of the leasing sector in the FBiH net profit in the amount of BAM 3.3 million was reported, which compared to the same period of the previous business year decreased by the amount of BAM 1.7 million or 34.0%. The four leasing companies reported positive financial result in the total amount of BAM 5.7 million, three leasing company's negative financial result in the total amount of BAM 2.4 million, wherein BAM one million or 41.8% refers to one leasing company.

As of 31.12.2018, the total income of the leasing sector in the FBiH amounts to BAM 32.5 million and compared to 31.12.2017 decreased by BAM 1.0 million or 3.0%, wherein total interest and similar income lower by the amount of BAM 3.0 million or 21.2%, and operational income raise by the amount of BAM 1.9 million or 9.8%.

As of total expenditures amount to BAM 29.2 million and compared to the same period of the previous year lower by the amount of BAM 0.7 million or 2.4%.

Key indicators of the factoring sector in the FBiH

Over the first three quarters of the 2018, factoring services in the FBiH were mainly performed by four banks (three of them members of the international banking groups having seat in the EU member countries, and one bank with majority domestic ownership), by concluding contracts on purchase of cash claims, mainly in domestic factoring, which include right to recourse and without right to recourse, i.e. contracted and without contracted advance payment for purchased cash claim. Over the last quarter of the 2018, factoring company was active as well and concluded some factoring contracts.

As of 31.12.2018 at the level of factoring system of the FBiH, the total volume of the purchased cash claims amount to BAM 131.2 million, out of it BAM 130.5 million or 99.5% relates to portfolio in banks, and BAM 0.7 million or 0.5% to the Company. In addition to factoring operations with right of recourse and without right to recourse in domestic factoring, which was a dominant factoring type, in the last quarter of 2018 factoring operations extended to reverse (supply) factoring as a special type of factoring, which is realized by one bank.

It is evident decrease of total value of purchased claims in 2018, which accounts for only 37.4% in relation to the total value of purchased claims in the same period of the previous year, and decreased appeared on the foreign factoring side, since that in 2018 bank which had concluded contracts in foreign factoring over 2017, has not concluded such contracts over the same period in 2018. On domestic factoring side, the higher volume has achieved by 58.9% or in absolute amount of BAM 48.6 million. In terms of the maturity, in 2018 the largest share in the total value of purchased cash claims of 67.4% account for purchased cash claims with maturity from 91 to 180 days. Compared to 2017, there is evident change of the maturity structure with purchased cash claims. As for sectoral structure, the largest share account for public companies, since that their claims value account for 50.9% of the total value at the level of factoring system in the FBiH in 2018, followed by private companies and enterprises with a share of 47.5%.

Over the period 01.01. - 31.12.2018 the total reported income of the factoring service providers in the FBiH amounts to BAM 1.7 million, out of it income generated by banks account for 99.5% of the total reported income of the factoring system in the FBiH. In the structure of the reported total income, 43.5% related to factoring with right of recourse including interest income, factoring fees and administrative fees, while 56.5% interest income, factoring fees and administrative fees refers to factoring without right to recourse. Compared to 31.12.2017 the total income of factoring services providers decreased, with changes in their structure by factoring type, residence and type of income.

1. BANKING SECTOR

1.1. BANKING SUPERVISION

The FBA activities in the area of banking supervision and drafting banking regulations, in 2018 were focused on preserving stability, security, liquidity and capitalization of the banking sector in the FBiH.

Supervision of the banking sector operations in the FBiH over the 2018 has been carried out through continues supervision of all banks in the system, and in particular banks of importance for banking sector in the FBiH. Also, it was continued with supervision of risk management arisen from IS and outsourcing of certain bank activities, which in the 2018 included supervision of significant service providers, and targeted inspections in the segment of protection of users of financial services.

In 2018 the activities have continued on adopting regulations in the process of harmonisation banking regulation with the BL, particularly in the bank resolution segment.

Annex 1 shows the legal framework for operations of the FBA and banks, as well as other BSEs. Draft for new regulatory requirements related to credit risk management and determination of expected credit losses has been prepared in accordance to ISFR implementation.

Following a public discussion with the banking sector via ABBH, Decision on internal capital adequacy assessment process (ICAAP) and internal liquidity adequacy assessment process (ILAAP) was published in March 2019, afterward it was planned adoption of the implementing acts, i.e. Guidelines on reporting to the Banking Agency of the Federation of Bosnia and Herzegovina on ICAAP and ILAAP application in banks, including Report on ICAAP and ILAAP application and Instructions how to fill it out. In 2018, validation of the first Reports on ICAAP application has completed with situation as of 31.12.2017, with a technical support provided by FINRA project and submission of the supervisory letters to banks on review and assessment of the Reports.

In 2018 the FBA stepped up significantly its cooperation with the WB related to the banking sector strengthening project, same as with the USAID FINRA Project that provided important technical support for strengthening the FBA capacities for more effective banking supervision, as in preparation and implementation of new regulatory and supervisory framework for banks. Activities continued on introduction of new supervisory approach – SREP, through long-term project which is technically supported by the WB, with the objective to conduct first SREP assessment of banks in 2020. Within FINRA project the activities started on development of methodology for supervisory stress tests.

Also, in 2018 the activities continued on fulfilment of the FSAP Mission recommendations in accordance with the Action Plan, created after the financial system assessment (FSAP) in 2014 in BiH, with technical support from the IMF, in the field of cooperation and coordination of banking supervision with the CBBH and BARS, as well as harmonization of joint methodology to determine systemically important banks (CBBH, AOD, BARS and FBA).

FBA focused its activities on strengthening and improving cooperation , as with domestic as well with international financial institutions, regional and other organisations, same as strengthening bilateral and multilateral cooperation with banking regulators from the country, region and abroad, on the basis of the existing and new memorandums on cooperation and exchange of information.

In 2018 the FBA took participation on supervisory colleagues for banks having seat of banking groups in the EU countries and cooperation has established in regard to possible joint inspections or exchange of information and findings, in accordance to signed MoU. In 2018 this type of cooperation has been extended to groups supervised by the ECB due to their importance. Within bilateral relations, cooperation and exchange of information has continued with the supervisory institutions of the countries where is the seat of the banking groups whose members are banks seated in the FBiH.

Having in mind importance of the banks members of the international groups for the banking system of the FBiH and financial stability, improvement of cooperation with supervisors of parent group in the segment of exchange of information, joint actions, interaction with banking groups and strengthening preparedness for crisis situations will be continued in the following period as well.

1.2. THE STRUCTURE OF BANKING SECTOR IN THE FBiH

1.2.1. Status, Number and Branching

As of 31.12.2018, there were 15 commercial banks holding a banking licence in the FBiH. The number of banks is the same as of 31.12.2017. A special law regulates the establishment and operations of the Development Bank of the Federation of BiH Sarajevo, which is the legal successor of the Investment Bank of the Federation of BiH d.d. Sarajevo since 01.07.2008 and its supervision is performed in accordance to the Regulation on criteria and methods of supervision of the activities of the Development Bank of the FBiH, thus information relating to its operations are not included in the Information.

The Annex 2 provides an overview of the main banks data in the FBiH as of 31.12.2018.

In 2018 there was no significant branching of the banks organisational units. Banks have reorganised networks of organisational units by changing the organisational form, membership or address of their existing organisational units, but also closing of some organisational units and all that with the aim of business optimization.

With the aforementioned changes, banks from the FBiH (throughout the entire territory of BiH) had a total of 549 organisational units as of 31.12.2018, which is decrease of 0.7% compared to 31.12.2017. There are 491 organisational units of banks at the territory of the FBiH. Six banks from the FBiH had 49 organisational units in RS, and eight banks had a nine organisational units in BD.

The number of organisational units of banks from RS in the FBiH is 25 that is increased compared to the end of 2017 (22). Those are three banks which have organisational units in the FBiH.

As of 31.12.2018, all banks had licences for interbank transactions within the domestic payment system, and also all 15 commercial banks in the FBiH had covered deposits.

1.2.2. Ownership Structure and Market Share

The ownership structure of banks ¹ in the FBiH as of 31.12.2018, assessed on the basis of available information and self-reviews conducted in the banks, is the following:

- Private or mostly private ownership - 14 banks,
- State or mostly state ownership ² - one bank.

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

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

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

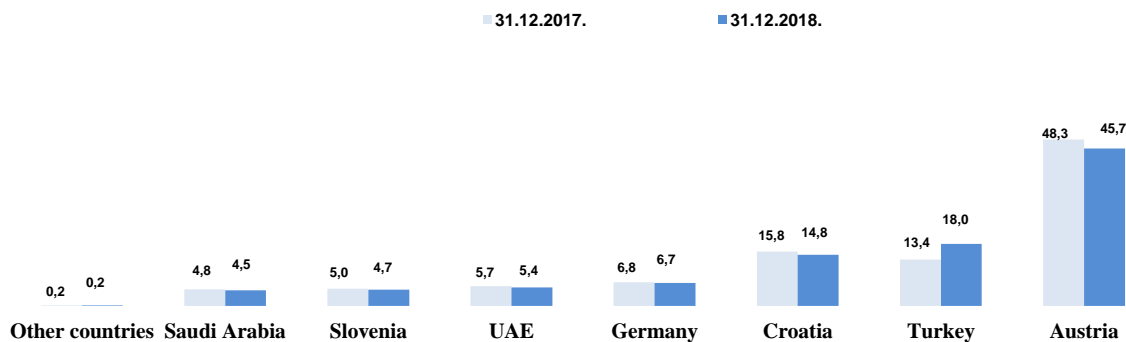
The following table shows the changes in the ownership structure of banks over the last five years.

Changes over years	State-owned	Private banks	Total
31.12.2013	1	16	17
In 2014 no changes			
31.12.2014.	1	16	17
In 2015 no changes			
31.12.2015.	1	16	17
Changes in 2016			
-status change of acquisitions		-2	-2
31.12.2016.	1	14	15
In 2017 no changes			
31.12.2017.	1	14	15
In 2018 no changes			
31.12.2018.	1	14	15

When the structure of foreign capital by country analysed, as of 31.12.2018, there is change compared to the end of 2017, mainly due to the increased share of shareholders from Republic of Turkey (increase of 4.6 percentage points), due to the significant recapitalisation of the bank in the FBiH.

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

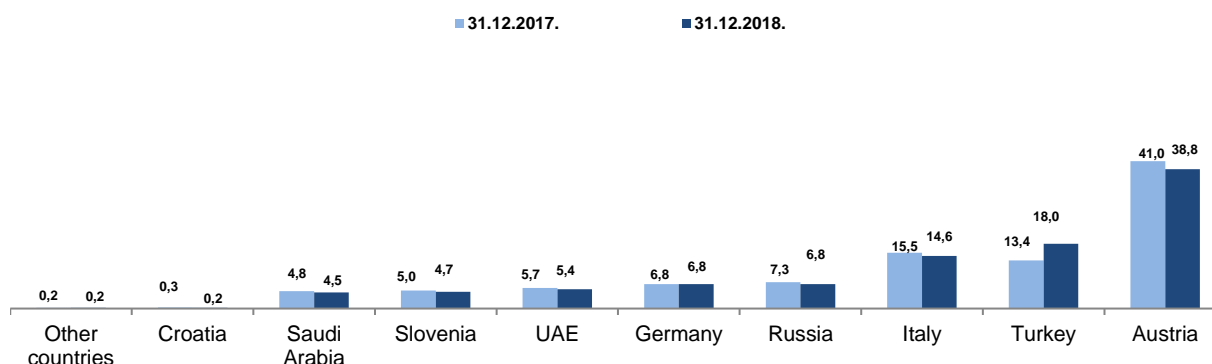
Graph 1: Structure of foreign capital by country



If capital relations taken into account, the structure of foreign capital can be observed using the criterion of the home country of the parent bank or banking group having majority ownership (direct or indirect via group members) of the bank in the FBiH. According to this criterion, there is a change in the structure of foreign capital by country - seat of the group, as of 31.12.2018 compared to the end of 2017. The changes mainly relate to increase of relative share with the banking groups and banks from the Republic of Turkey.

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

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



The ownership structure also may be observed from the aspect of the value of total capital, as presented in the following table:

-In 000 BAM-

Table 2: Ownership structure by Total Capital

Banks	31.12.2016.		31.12.2017.		31.12.2018.		Index	
1	2	3	4	5	6	7	8	9
State-owned banks	52.499	1,9%	53.507	1,9%	61.488	2,1%	102	115
Private banks	2.655.621	98,1%	2.811.542	98,1%	2.908.717	97,9%	106	103
Total	2.708.120	100%	2.865.049	100%	2.970.205	100%	106	104

In 2018, the total capital at the level of banking sector increased by 3.7% compared to the end of 2017 and amounts to BAM 3 billion. Increase of the total capital by BAM 150.2 million is the net effect of increase on the basis of present financial result in the amount of BAM 255.4 million and recapitalization with three banks in the amount of BAM 73.9 million, but also due to decrease on the basis of first IFRS 9 application - Financial Instruments⁴ in the amount of BAM 90.6 million and its transfer to payment of dividends from profit for 2017, in the amount of BAM 124.3 million with two banks, and the amount of BAM 9.2 million on the basis of reduction of the value of securities, classified at fair value through other comprehensive income.

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

-in 000 BAM-

Table 3: Ownership Structure by Share of State-Owned, Private and Foreign Capital

Share Capital	31.12.2016.		31.12.2017.		31.12.2018.		Index	
1	2	3	4	5	6	7	8	9
State-owned capital	31.647	2,6%	31.619	2,6%	41.619	3,2%	100	132
Private capital (residents)	137.557	11,3%	142.109	11,6%	139.637	10,7%	103	98
Foreign capital (non-residents)	1.046.673	86,1%	1.052.061	85,8%	1.118.443	86,1%	101	106
Total	1.215.877	100%	1.225.789	100%	1.299.699	100%	101	106

In 2018, the share capital increased compared to the end of 2017, due to recapitalization of three banks in the amount of BAM 73.9 million, which in the structure of ownership resulted by increase of state-owned share by 0.6 percentage points and by increase of foreign capital share

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

⁴ As of 01.01.2018, IFRS 9 has replaced IAS 39.

by 0.3 percentage points. In the case of two banks, recapitalization was from external sources, and with one bank there was a conversion of subordinated debt to the share capital of bank.

As of 31.12.2018, market share of banks with majority foreign capital accounts for 90.2%, majority private capital 6.3%, and majority state-owned capital 3.5%.

The table below provides an overview of the market shares of banks by ownership type (majority capital):

-u %-

Table 4: Market Shares of Banks by Ownership Type (Majority of Capital)									
Banks	31.12.2016.			31.12.2017.			31.12.2018.		
	No. of banks	Share in total capital.	Share in total assets	No. of banks	Share in total capital.	Share in total assets	No. of banks	Share in total capital.	Share in total assets
1	2	3	4	5	6	7	8	9	10
Banks with majority state-owned capital	1	1,9	2,8	1	1,9	3,2	1	2,1	3,5
Banks with majority private capital of residents	4	6,6	6,4	4	6,4	6,3	4	5,9	6,3
Banks with majority foreign capital	10	91,5	90,8	10	91,7	90,5	10	92,0	90,2
Total	15	100	100	15	100	100	15	100	100

1.2.3. Structure of Human Resources

As of 31.12.2018, at the level of the banking sector there were 6 739 employees, 2,9% of which were employed in banks with majority state-owned capital and 97,1% of which were employed in banks with majority private capital.

The overview of employees and qualification structure of the employees at the level of the banking sector in the FBiH are presented in the table 5 and table 6:

Table 5: Employees in Banks in the FBiH								
B a n k s	31.12.2016.		No. of employees 31.12.2017.		31.12.2018.		Index	
	1	2	3	4	5	6	(3/2)	(4/3)
State-owned banks	192	2,9%	192	2,9%	195	2,9%	100	102
Private banks	6.423	97,1%	6.463	97,1%	6.544	97,1%	101	101
Total	6.615	100%	6.655	100%	6.739	100%	101	101
No. of banks	15		15		15			

Table 6: Qualification Structure of Employees in Banks in the FBiH								
Level of qualifications	31.12.2016.		No. of employees 31.12.2017.		31.12.2018.		Index	
1	2	3	4	5	6	7	(4/2)	(6/4)
University degree	3.821	57,8%	3.970	59,7%	4.102	60,9%	104	103
Two-year post-secondary school qualification	555	8,4%	525	7,9%	520	7,7%	95	99
Secondary School	2.226	33,7%	2.149	32,3%	2.108	31,3%	97	98
Other	13	0,2%	11	0,2%	9	0,1%	85	82
Total	6.615	100%	6.655	100%	6.739	100%	101	101

Compared to the end of 2017, number of employees in the banking sector of the FBiH increased by 1.3 or 84 employees in 2018, while in the qualification structure growth trend of employees with university degree continued (of 3.3%), which also holds a largest share of 60.9% compared to the total number of employees in the banking sector in the FBiH.

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

The following tables provide an overview of assets per employee by group of banks, according to the criterion of ownership and amount of assets:

-in 000 BAM-

Table 7: Assets per Employee									
Banks	No. of employees	31.12.2016.		No. of employees	31.12.2017.		No. of employees	31.12.2018.	
		Assets	Assets per Employee		Assets	Assets per Employee		Assets	Assets per Employee
State-owned	192	520.387	2.710	192	654.373	3.408	195	775.490	3.977
Private	6.423	17.861.647	2.781	6.463	19.555.478	3.026	6.544	21.318.271	3.258
Total	6.615	18.382.034	2.779	6.655	20.209.851	3.037	6.739	22.093.761	3.278

Table 8: Assets per Employee by Group of Banks			
Assets	31.12.2016.	31.12.2017.	31.12.2018.
		No. of banks	
Up to BAM 1 million	0	0	0
BAM 1-2 million	5	2	2
BAM 2-3 million	7	7	6
Over BAM 3 million	2	6	7
Total	14	15	15

Analytical indicators for individual banks range from BAM 1.4 million to BAM 4.8 million of assets per employee. There are four banks where this ratio is better than the banking sector average, while this ratio exceeds the amount of BAM 3.1 million with two the largest banks in the sector.

1.3. FINANCIAL PERFORMANCE INDICATORS

1.3.1. Balance Sheet

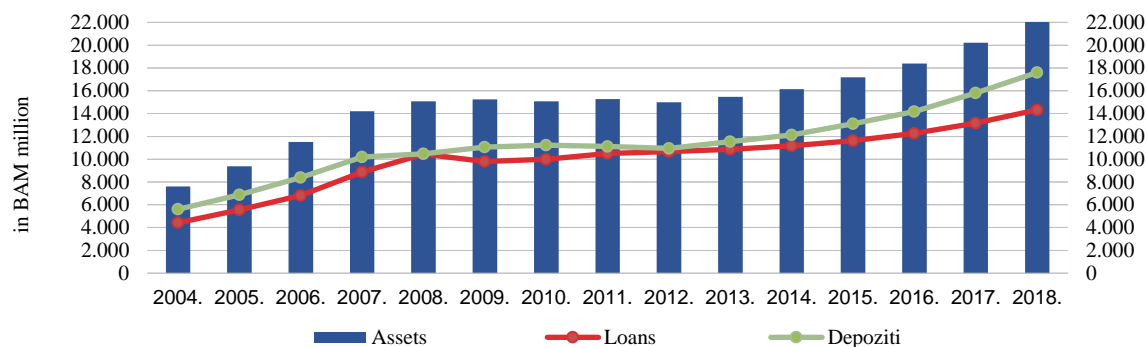
The presented financial performance indicators for banks in the FBiH and analysis of the banking sector include indicators from active sub-balance of one bank with majority state-owned capital⁵, that is in accordance with the provisions of the Law on Opening Balance Sheet of Companies and Banks in the FBiH, where the banks with majority state-owned capital are required to report to the FBA on the basis of the “total” balance sheet divided into: liabilities, neutral items and active sub-balance.

In that regard, the data are presented in the Annex 3 of this Information – Balance sheet of Banks in the FBiH According to the FBA Model (Active Sub-Balance).

In 2014, 2015, 2016 and 2017 the growth rate of the total assets were as follows: 4.6%, 6.3%, 7.1% and 9.9%, having a continued growth trend in 2018 of 9.3% or BAM 1.9 billion, thus having the total assets of the banking system amounted to BAM 22.1 billion at the end of 2018.

⁵ Banks in majority state ownership post the „total“ balance sheet, meaning liabilities and neutral items, which the state will take over once the privatization process gets finalized, now amounting to BAM 708 million.

Graph 3: Balance Sheet of banks in the FBiH (assets, loans and deposits)

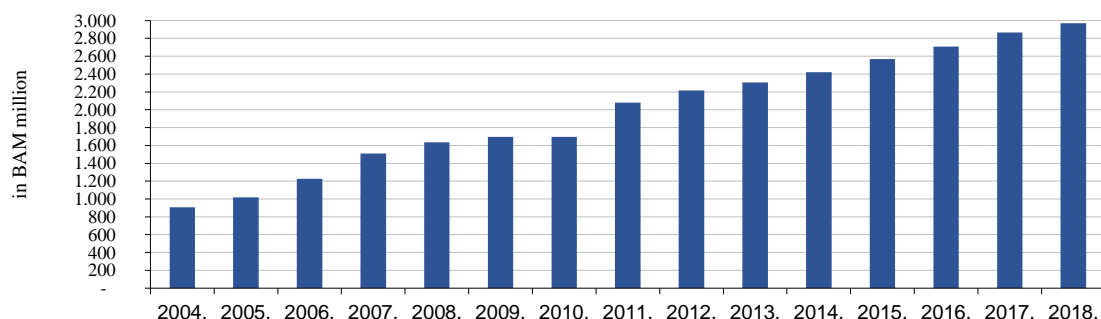


The main generator of the growth of the balance sheet total is deposit growth of 11.3% or BAM 1.8 billion, the total capital by 3.7% or BAM 105.2 million. At the end of 2018, deposits amounted to BAM 17.6 billion or 79.7%, the total capital BAM 3.0 billion or 13.4%, and credit liabilities BAM 0.9 billion or 3.9%.

The trend of growth of the total loans is continued. On the banks assets side, the most significant position are loans holding a share of 64.8%, and within the loan structure two sectors are dominant, retail (47.8%) and corporates (46.3%). Cash funds, holding a share of 29.8% and growth rate of 13.7% in 2018 amounted to BAM 6.6 billion as of 31.12.2018.

The total capital of banks over the past five years have been recording a continued growth with a range from 4% and 6%, while the share in liabilities ranged from 13% and 15%.

Graph 4: Total Capital of Banks in the FBiH



The Annex 4 shows an overview of assets, loans, deposits, capital and profit of banks in the FBiH as of 31.12.2018.

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

-000 BAM-

Description	31.12.2016.		31.12.2017.		31.12.2018.		Index	
	Amount	Share %	Amount	Share %	Amount	Share %		
1	2	3	4	5	6	7	8=(4/2)	9=(6/4)
ASSETS:								
Cash Funds	5.204.564	28,3	5.794.664	28,7	6.591.117	29,8	111	114
Securities	1.226.163	6,7	1.228.432	6,1	1.304.626	5,9	100	106
Placements to other banks	96.569	0,5	350.980	1,7	270.604	1,2	363	77
Loans	12.270.228	66,8	13.178.860	65,2	14.325.634	64,8	107	109
Value adjustment	1.193.721	6,5	1.166.804	5,8	1.190.760	5,4	98	102
Net loans (loans minus value adjust.)	11.076.507	60,3	12.012.056	59,4	13.134.874	59,5	108	109

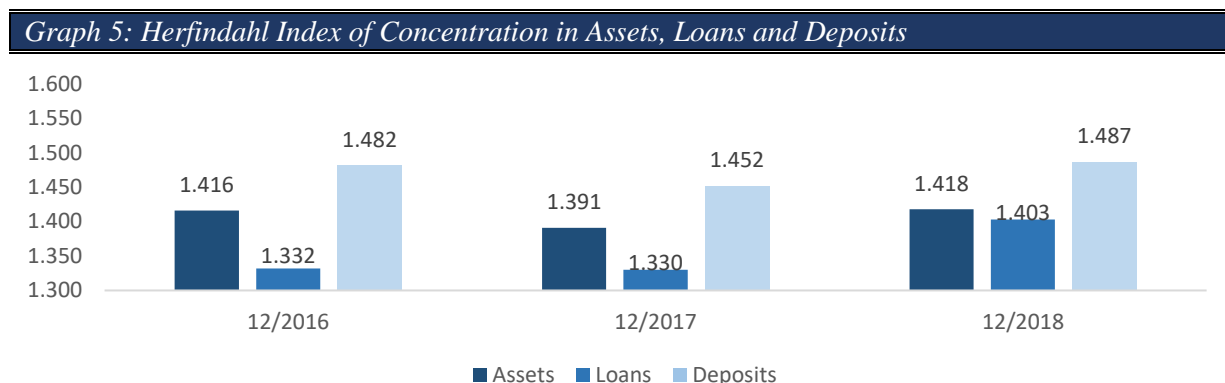
Business premises and other fixed assets	530.977	2,9	529.941	2,6	531.767	2,4	100	100
Other assets	247.254	1,3	293.778	1,5	260.773	1,2	119	89
TOTAL ASSETS	18.382.034	100	20.209.851	100	22.093.761	100	110	109
LIABILITIES:								
Deposits	14.176.274	77,1	15.814.723	78,3	17.604.487	79,7	112	111
Borrowings from other banks	0	0	0	0	0	0	0	0
Loan commitments	848.001	4,6	835.667	4,1	862.931	3,9	99	103
Other liabilities	649.639	3,5	694.412	3,4	656.138	3,0	107	94
CAPITAL								
Capital	2.708.120	14,7	2.865.049	14,2	2.970.205	13,4	106	104
TOTAL LIABILITY (LIABILITIES AND CAPITAL)	18.382.034	100	20.209.851	100	22.093.761	100	110	109

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

-000 BAM-

<i>Table 10: Bank Assets by the ownership structure</i>											
Banks	31.12.2016.			31.12.2017.			31.12.2018.			Index	
	No. of banks	Assets (000 BAM)	Share %	No. of banks	Assets (000 BAM)	Share %	No. of banks	Assets (000 BAM)	Share %		
1	2	3		4	5		6	7		8=(5/3)	9=(7/5)
State-owned	1	520.387	2,8%	1	654.373	3,2%	1	775.490	3,5%	126	119
Private	14	17.861.647	97,2%	14	19.555.478	96,8%	14	21.318.271	96,5%	109	109
Total	15	18.382.034	100%	15	20.209.851	100%	15	22.093.761	100%	110	109

The concentration indicator used for the three key segments of banking operations: assets, loans and deposits is the value of Herfindahl index⁶. Its overview by period is provided in the graph below:



At the end of 2018, the Herfindahl index in all three relevant categories (assets, loans and deposits) was increased compared to the end of 2017, so that it amounted to 1 418 (+27) units for assets (+50), 1 403 (+73) units for loans and 1 487 (+35) units for deposits as of 31.12.2018, thus indicating a moderate concentration⁷.

The second concentration indicator for the banking sector is the ratio of market concentrations, i.e. the concentration ratio⁸ (hereinafter: CR), which shows the total share of the largest institutions in the sector in selected relevant categories: assets, loans and deposits. At the end of 2018, the total share of the five largest banks in the sector – CR5 is slightly increased in all

⁶ This index is also called Hirschmann-Herfindahl index or HHI and is calculated according to this formula: $\sum_{j=1}^n S_{ji}^2$ ($=$. It represents a sum of squares of percentage shares of specific elements (e.g. assets, deposits, loans) of all market participants in the system. It should be noted that this index does not grow linearly and that the value of e.g. 3 000 does not mean that the concentration in the system is 30%. Hypothetically, if there were just one bank in the entire system, the HHI would be 10 000 at most.

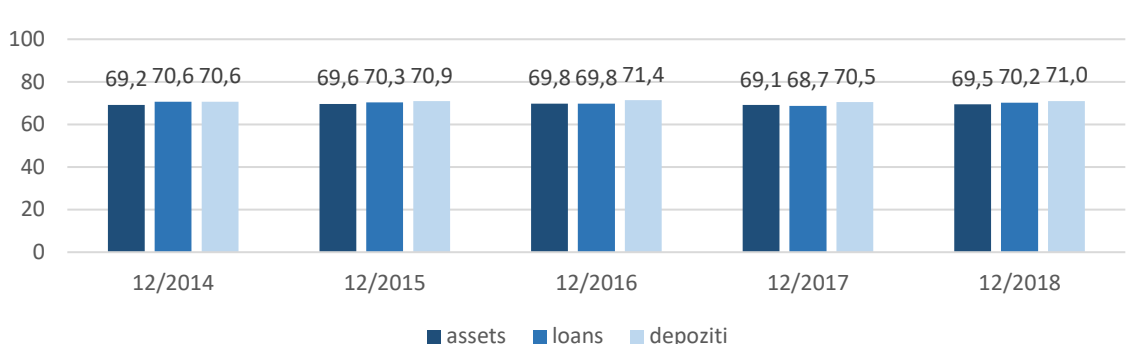
⁷ If the value of the HHI is below 1 000, this shows no presence of the concentration on the market, while an index value between 1 000 and 1 800 shows moderate concentration, and a HHI value above 1 800 shows high concentration on the market.

⁸ Concentration ratio (CR), is determined by number of banks included in calculation.

relevant categories compared to the end of 2017, and for market share amounts 69.5% (+0,4 percentage points), loans 70.2% (+1.5 percentage points) and deposits 71.0% (+ 0.5 percentage points) as of 31.12.2018. The two largest banks in the sector accounts for 47% of the market (assets 47.0%, loans 45.5% and deposits 48.6%).

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

Graph 6: Concentration ratio of the five largest banks - CR5: assets, loans and deposits



The banking sector may also be analysed on the basis of the group affiliations criterion, set up on the basis of asset size⁹. As of 31.12.2018 and compared to the end of 2017 there was a change in the structure, i.e. in the share of banking groups in relation to the total assets of the banking sector of the FBiH.

In terms of the asset size, three banks were identified in the sector with a share of 56.4%, thus presenting a group I of banks with the asset over BAM 2 billion. Compared to the end of 2017, the share is increased with the group I of banks by 9.9 percentage points, due to shift of one bank from group II to this group of banks. The share of group II of banks is 27.5% and compared to the end of 2017 it is decreased by 5.3 percentage points as a net effect due to shift of one bank from this group to the group I and one bank shift to from group III to group I of banks.

The group III is consisted of three banks, with the total share of 9.8% and it is decreased compared to the end of 2017 (2.4 percentage points), as a net effect due to shift of one bank from group IV to this group of banks and shift of one bank from this group to group II of banks. The share of group IV (four banks, with assets between BAM 100 and 500 million) of 6.3% is decreased (-1.7 percentage points), due to shift of one bank from this group to III group of banks (assets up to BAM 100 million) and shift of one bank from group V to this group of banks. As of 31.12. 2018 no banks had assets below BAM 100 million.

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

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Table 11: Share of the Group of Banks in Total Assets by Period

Assets size	31.12.2016.			31.12.2017.			31.12.2018.		
	Amount	Share %	No of banks	Amount	Share %	No of banks	Amount	Share %	No of banks
I (over BAM 2 billion)	8.681.651	47,2	2	9.404.805	46,5	2	12.456.111	56,4	3
II (BAM 1-2 billion)	4.142.732	22,5	3	6.626.507	32,8	5	6.075.157	27,5	5
III (BAM 0,5-1 billion)	4.015.627	21,8	5	2.465.564	12,2	3	2.168.293	9,8	3
IV (BAM 0,1-0,5 billion)	1.449.350	7,9	4	1.613.136	8	4	1.394.200	6,3	4
V (below BAM 0,1 billion)	92.674	0,5	1	99.839	0,5	1	0	0,0	0
Total	18.382.034	100	15	20.209.851	100	15	22.093.761	100	15

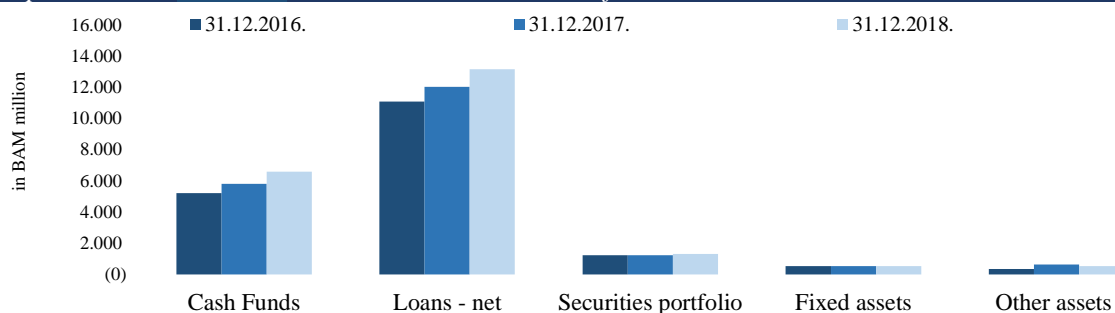
⁹ Banks are divided into five groups depends on the asset size

Within the assets structure of the banks' balance sheets, the share of net loans represents the largest assets item (59.5%), followed by the cash funds (29.8%), securities (5.9%), fixed assets (2.4%) and other assets (placements to other banks and other assets) with a share of 1.2%.

The total gross loans amount to BAM 14.3 billion and have increase of 8.7% compared to the end of 2017.

The following graph presents the structure of the key balance sheet items of bank assets:

Graph 7: Assets Structure within the Balance Sheet of Banks



Within the liabilities structure of the banks' balance sheets, deposits have the largest share (79.7%), followed by capital (13.4%), loan commitments (3.9%), and other liabilities (3.0%).

Within the liabilities structure of the banks' balance sheets, deposits still represent a dominant source of funding for banks in the FBiH, and amounted to BAM 17.6 billion as of 31.12.2018 recording a growth of 11.3% compared to the end of 2017. The growth of total capital of 3.7% is also evident amounting to BAM 3 billion, as of 31.12.2018, as well as growth of loan commitments which amount to BAM 862.9 million. In terms of other liabilities there was a decrease of 5.5% compared to the end of 2017, amounting to BAM 656.1 million as of 31.12.2018

In terms of other liabilities there was a decrease of 5.5% compared to the end of 2017, which amounts to BAM 656.1 million as of 31.12.2018.

The graph below shows the structure of the key balance sheet items of bank liabilities:

Graph 8: Liabilities Structure within the Balance Sheet of Banks



Cash funds at the level of the banking sector amount to BAM 6.6 billion and record the growth of BAM 0.8 billion or 13.7% compared to the end of 2017.

An overview of cash funds at the level of the banking sector is provided in the table below:

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Table 12: Cash Funds of Banks								
Cash Funds	31.12.2016.		31.12.2017.		31.12.2018.		Index	
	Amount	Share %	Amount	Share %	Amount	Share %	(4/2)	(6/4)
1	2	3	4	5	6	7	8	9
Cash	754.059	14,5	800.215	13,8	910.481	13,8	106	114
Reserve account with CBBH	3.295.391	63,3	3.823.980	66,0	4.002.281	60,7	116	105
Accounts at deposit institutions in BiH	9.101	0,2	41.411	0,7	38.746	0,6	455	94
Accounts at deposit institutions abroad.	1.145.886	22,0	1.127.877	19,5	1.639.544	24,9	98	145
Cash funds in the process of collection	127	0,0	1.181	0,0	65	0,0	0	6
Total	5.204.564	100	5.794.664	100	6.591.117	100	111	114

At the end of 2018, banks' cash funds in the CBBH reserves account were up by BAM 178.3 million or by 4.7% and amounted to BAM 4.9 billion or 60.7% of total cash funds, as of 31.12.2018. Banks' funds in accounts of deposit institutions abroad were up by BAM 511.7 million or 45.4% and amounted to BAM 1.6 billion or 24.9% of total cash funds. Banks held cash funds in the amount of BAM 910.5 million in vaults and treasuries as of 31.12.2018, which accounts for 13.8% of total cash funds. These changes prompted a change in the currency structure of cash funds, compared to the end of 2017, since the share of local currency over the period observed has been decreased from 76.6% to 71.3%, while simultaneously a share of funds in foreign currency increased from 23.4 to 28.7%.

As of 31.12.2018 securities portfolio amounted to BAM 1.3 billion, which is by 6.2% more compared to the end of 2017, with a share in assets of 5.9%. The tables below provide shows portfolio by type of instrument and issuer:

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Table 13: Investments in Securities by Type of Instrument								
Investment in securities	31.12.2016.		31.12.2017.		31.12.2018.		Index	
	Amount	Share %	Amount	Share %	Amount	Share %	4/2	6/4
1	2	3	4	5	6	7	8	9
Equity securities	1.637	0,1	1.773	0,1	5.281	0,4	108	298
Debt securities:	1.224.526	99,9	1.226.659	99,9	1.299.345	99,6	100	106
- BiH securities of all levels of government in BiH	824.300	67,2	751.163	61,2	619.536	47,5	91	82
- Government securities (other countries)	278.386	22,7	400.855	32,6	533.666	40,9	144	133
- Corporate bonds ¹⁰	121.840	10,0	74.641	6,1	146.143	11,2	61	196
Total	1.226.163	100,0	1.228.432	100	1.304.626	100	100	106

The most important item are securities of the entity governments, particularly securities issued by the FBiH¹¹ in the total amount of BAM 436.2 million, as well as securities issued by RS in the amount of BAM 175.4 million. It is evident trend of decreased investment into debt securities issued by the FBiH (treasury bills and bonds) and increased investment into securities issued by RS.

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Table 14: Securities of the Entity Governments of BiH								
Investments in Securities	31.12.2016.		31.12.2017.		31.12.2018.		Index	
	Amount	Share %	Amount	Share %	Amount	Share %	4/2	6/4
1	2	3	4	5	6	7	8	9
Debt securities issued by the FBiH:	676.832	82,1	587.687	78,9	436.164	73,2	87	74
- Treasury bills	118.031	14,3	99.949	13,4	35.179	6,1	85	35

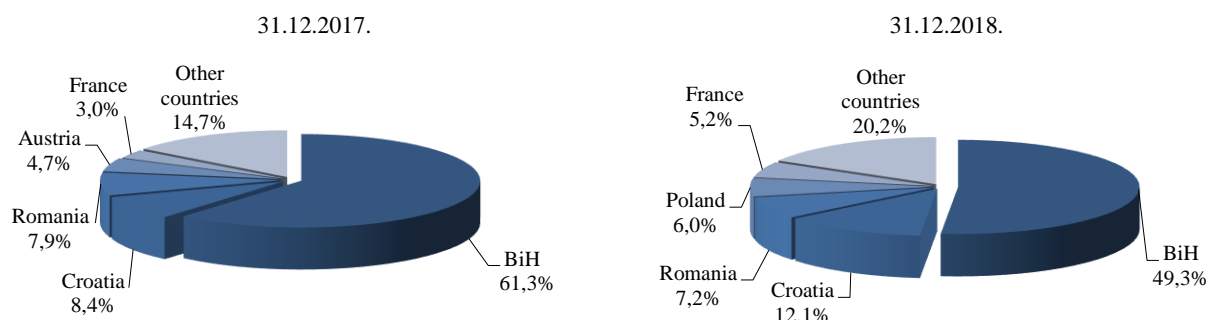
¹⁰ The largest part, almost 80%, relates to bonds of EU banks, and remaining part to bonds of companies from EU and BiH

¹¹ Any type of securities issued by the FBiH

- Bonds	558.801	67,8	487.738	65,5	400.985	67,1	87	82
Debt securities issued by RS:	147.124	17,9	157.353	21,1	175.395	26,8	107	111
- Treasury bills	56.758	6,9	65.848	8,8	0	0,0	116	0
- Bonds	90.366	11,0	91.505	12,3	175.395	26,8	101	192
Total	823.956	100,0	745.040	100	611.559	100	90	82

If the total investments in securities were analysed according to exposure by country, the largest share of 49.3% refers to issuers from BiH, followed by Croatia with share of 12.1%, Romania 7.2%, Poland 6.0 %, France 5.2%, etc.

Graph 9: Structure of Investments in Securities According to the Criterion of the Issuing Country



1.3.2. Liabilities

At the end of 2018 the share of deposits as the most significant source of funding for banks increased to 79.7% (+1.4 percentage points), while the share of loan commitments, the second-largest source, amounted to 3.9% (-0.2 percentage points).

In 2018, deposits had trend of increase in the amount of BAM 1.8 billion or 11.3%, amounting to BAM 17.6 billion as of 31.12.2018.

The second-largest source, in terms of total amount, are loan funds, but with a significantly lower amount of BAM 862.9 million and share of 3.9%, which record growth trend of BAM 27.3 million compared to the end of 2017. If subordinated loans in the amount of BAM 124.2 million, were added to loan commitments, total loan funds would hold a share of 4.5% in total sources of funding

As of 31.12.2018 banks held the largest commitments towards the following creditors, which account for almost 88.0% of total loan commitments: the EIB, TC Ziraat Bankasi a.s, Procredit Holding AG, the EFSE, Procredit Bank AG Frankfurt and Nova Ljubljanska banka dd Ljubljana. According to data submitted by banks, out of the total deposit amount at the end of the period observed, 5.4% relates to deposits collected in organisational units of banks from the FBiH, which operates in RS and the Brčko District.

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

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Table 15: Deposit structure by sector								
Sectors	31.12.2016.		31.12.2017.		31.12.2018.		Index	
	Amount	Share %	Amount	Share %	Amount	Share %	(4/2)	(6/4)
1	2	3	4	5	6	7	8	9
Government institutions	1.200.513	8,5	1.482.708	9,4	1.778.835	10,1	124	120
Public companies	1.036.461	7,3	1.310.610	8,3	1.538.501	8,7	126	117
Private companies and enterprises	2.191.328	15,5	2.612.441	16,5	2.834.717	16,1	119	109

Banking institutions	647.901	4,6	847.965	5,4	1.215.334	6,9	131	143
Non-banking financial institutions.	603.757	4,3	655.360	4,1	746.690	4,3	109	114
Retail	8.154.484	57,5	8.500.668	53,8	9.071.061	51,5	104	107
Other	341.830	2,4	404.971	2,6	419.349	2,4	118	104
Total	14.176.274	100	15.814.723	100	17.604.487	100	112	104

At the end of 2018 changes were recorded in the deposit structure by sector, as a result of an increase of deposits within all sectors, and mostly with deposits of banking institutions, government institutions and public companies.

Retail deposits, as the most important deposit source, with share of 51.5%, at the end of 2018, recorded an increase in the amount of BAM 570.4 million or 6.7%, amounting to BAM 9.1 billion as of 31.12.2018.

The second-largest source in terms of amount and share, although significantly lower than the retail sector, are deposits of private companies, which increased by BAM 222.3 million or 8.5% and amounted to BAM 2.8 billion or 16.1% as of 31.12.2018

Deposits of government institutions hold a share of 10.1% and recorded a growth of BAM 296.1 million or 20.0%, amounting to the total of BAM 1.8 billion, as of 31.12.2018, while deposits of public companies with share of 8.7% also recorded a growth of BAM 227.9 million or 17.4%, amounting to the total of BAM 1.5 billion as of 31.12.2018.

Deposits of banking institutions with share of 6.9% (BAM 1.2 billion) recorded a growth of BAM 367.4 million or 43.3%, while deposits of non-banking financial institutions which share is 4.3% (BAM 0.7 billion) recorded a growth of BAM 9.3 million or 13.9%. Financial support of the banking group is present with respect to eight banks in the FBiH, wherein roughly 81% of the total deposits of banking institutions correlates to financial support to those eight banks from a banking group. Other sectors, with a low share in the total deposits, recorded a growth of BAM 14.4 million or 3.6%.

The currency structure of deposits as of 31.12.2018 has been changed compared to the end of 2017. Deposits in BAM increased by BAM 1.2 billion or 3.7%, while those in foreign currency recorded an increase in the amount of BAM 544.3 million or 8.1. Compared to the end of 2017 the currency structure of deposits changed for 1.2 percentage points, i.e. the share of deposits in domestic currency increased to 58.7%, and the share of deposits in foreign currency decreased to 41.3%.

The structure of deposits by domicile status of depositors, at the end 2018, has been changed as well, since the resident funds in the amount of BAM 16.1 billion holds a share of 91.4% (-1.5 percentage points), and non-residents deposits amounted to BAM 1.5 billion, which is 8.6% of the total deposits. Changes in the structure are the result of an increase in resident deposits (BAM 1.4 billion or 9.6%) and increase in non-residents deposits (BAM 378.6 million or 33.6%).

The long-standing trend of increase in savings deposits, as the most significant segment of the deposit and financial potential of banks, has been continued in 2018, considering that the increase was BAM 553.8 million or 6.7%, and they amounted to BAM 8.8 billion as of 31.12. 2018.

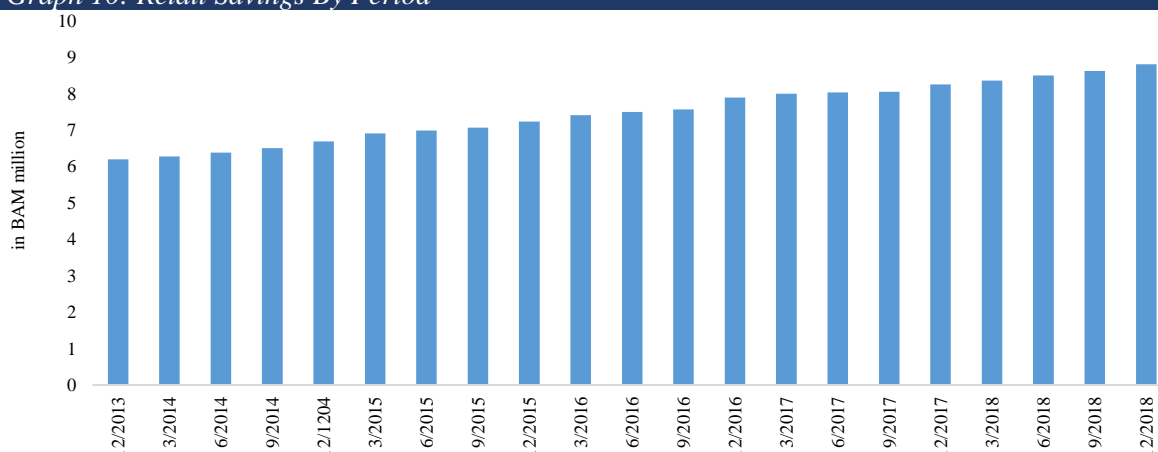
The trend of retail savings is shown in the table and graph below:

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Table 16: Retail savings by period

Banks	Amount			Index	
	31.12.2016.	31.12.2017.	31.12.2018.	(3/2)	(4/3)
1	2	3	4	5	6
State-owned	86.481	83.530	91.645	97	110
Private	7.086.725	8.166.750	8.712.454	115	107
Total	7.173.206	8.250.280	8.804.099	115	107

Graph 10: Retail Savings By Period



The two largest banks hold 54.9% of savings, while five banks hold individual shares of less than 2.0%, which amounts to 5.7% of total savings at the sector level. Out of the total amount of savings, 46.3% refers to saving deposits in domestic currency and 53.7% to savings deposits in foreign currency.

Compared to the end of 2017, the maturity structure of savings deposits has changed due to an increase in short-term deposits by 11.6% or BAM 516.5 million, which resulted by increase of their share to 56.5% (+2.4 percentage points), as it can be seen in the table below:

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Table 17: Maturity structure of retail saving deposits by period

	31.12.2016.		31.12.2017.		31.12.2018.		Index	
	Amount	Share %	Amount	Share %	Amount	Share %	(3/2)	(4/3)
1	2	3	4	5	6	7	8	9
Short-term savings deposits	4.071.231	51,6%	4.460.734	54,1%	4.977.201	56,5%	110	112
Long-term savings deposits	3.821.975	48,4%	3.789.546	45,9%	3.826.898	43,5%	99	101
Total	7.893.206	100%	8.250.280	100%	8.804.099	100%	105	107

Long-standing continuous growth and positive trends in the savings segment of banks in the FBiH, are the result of, on the one hand, enhanced safety and stability of the overall banking sector, for which is of key importance the existence of functional, effective and efficient banking supervision implemented by the FBA, and, on the other hand, the existence of the deposit insurance system, the primary objective of which is increased stability of the banking, i.e. financial sector and the protection of savers. These savings trends should be also observed in the context of lack of alternative investment possibilities in BiH.

1.3.3. Capital and Capital Adequacy

In the process of harmonisation the FBA regulations with a new legislation, a new Decision on Calculation of Capital in Banks entered into force at the end of 2017. During 2018, a parallel reporting method is in force until the fully adjustment of banks, thus further analysis is done

according to the earlier regulatory reporting method in terms of the structure of the regulatory capital.

At the end of 2018, the total capital of banks amounted to BAM 3.0 billion having a growth rate of 3.7% compared to the end of 2017 (more details provided under subheading 1.2.2. – Structure of the ownership and market share).

According to the new regulations the regulatory capital of banks in the FBiH decreased by BAM 62.5 million or 2.5% as a consequence of changed principal for calculation of general value adjustments for credit risk in accordance to standardised approach (as per new approach 1.25% of capital requirement for credit risk, and in previous 1.25% of the total assets risk), as due to treatment of Common Equity Tier 1 of the financial sector entities if a bank has some significant investment, which according to the new approach present deductible item from regulatory capital.

Annex 5 provides the report on position of banks capital in the FBiH according to the new unified framework for regulatory reporting of banks in the FBiH (COREP), which presents a new methodology in calculation of regulatory capital.

Situation in the banking sector of the FBiH as of the end of 2018, in terms of the structure of risk exposure, indicators of capital adequacy and financial leverage ratio, is provided in accordance to new regulatory requirements.

The total amount of risk exposure as per new methodology, and in accordance to the Decision on calculation of capital in banks, presents a sum of risk weighted exposure for credit, market, operational risk, settlement risk/free delivery and risk connected to large exposures stemming from items in trade book.

As of 31.12.2018, the total exposure of the banking sector of the FBiH amounted to BAM 14 billion, and the structure is presented in the table below:

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Table 18: Structure of Risk Exposure			
No.	Description	Amount	Share %
1.	Risk weighted exposures for credit risk	12.296.292	86,7
2.	Exposures to settlement risk/free delivery	0	0
3.	Exposures to market risk (position and currency)	223.778	1,6
4.	Exposures to operational risk	1.657.561	11,7
5.	Amount of exposures connected to large exposures stemming from items in trade book	14.177.630	100

According to new regulations, the total amount of risk exposures at the level of banking sector in the FBiH decreased by BAM 2.2 billion or 13.4% compared to the previous regulations.

The major impact on decrease of the total risk exposure amount has had:

- Different risk-weights for exposures to credit risk, in particular for small and medium enterprises and retail up to BAM 250 thousands and covered exposures (lower regulatory requirement);
- Different capital requirement for operational risk (higher regulatory requirement);
- According to new regulations, additional capital requirement for currency risk (in the segment of market risk).

Compared to the previous regulatory requirements, in addition to credit and operational risk, banks shall allocate capital requirements for market risk as well. As of 31.12.2018, banks had the largest exposure to credit risk, which is dominant in the banking sector in the FBiH.

The structure of the regulatory capital as per previous regulatory reporting model is presented in the table below:

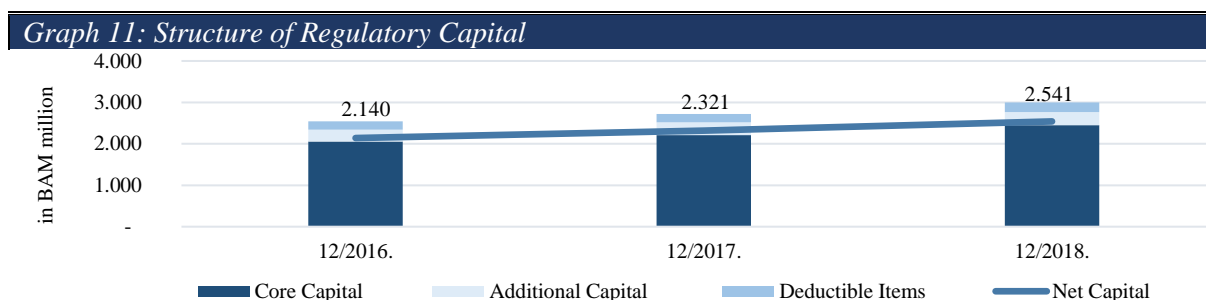
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Table 19: Regulatory Capital								
Description	31.12.2016.	Share %	31.12.2017.	Share %	31.12.2018.	Share %	Index	
1	2		3		4		5=(3/2)	6=(4/3)
1.a. Core Capital before reduction	2.167.814		2.321.458		2.592.621		107	112
1.1. Share capital – common and permanent non-cumulative shares.	1.215.668		1.225.580		1.299.491		101	106
1.2. Issue premiums	138.786		137.290		137.290		99	100
1.3. Reserves and retained profit	813.360		958.588		1.155.840		118	121
1.b. Deductible items	112.297		108.151		140.764		96	130
1.1. Uncovered losses from previous years	16.690		47.879		40.872		287	85
1.2. Current year loss	42.314		7.288		34743		17	477
1.3. Treasury shares	3.034		81		229		3	283
1.4. Intangible assets	47.315		49.963		56.116		106	112
1.5. Deferred tax assets	1.881		1.494		1.679		79	112
1.6. Negative revalorised reserves	1.063		1.446		7.125		136	493
1. Core Capital (1a-1b)	2.055.517	87,8%	2.213.307	87,8%	2.451.857	88,5%	108	111
2. Additional Capital	284.917	12,2%	306.237	12,2%	318.443	11,5%	107	104
2.1. Share capital –permanent cumulative shares.	209		209		209		100	100
2.2. General loan loss provisions	170.420		186.830		204.652		110	110
2.3. Positive revalorised reserves	9.741		13.037		16.812		134	129
2.4. Amount of audited profit	0		0		0		0	0
2.5. Subordinated debt	103.122		104.733		95.340		102	91
2.6. Hybrid items and other instruments	1.425		1.428		1.430		100	100
3. Capital (1 + 2)	2.340.434	100%	2.519.544	100%	2.770.300	100%	108	110
4. Capital Deductible items	200.035		198.380		228.816		99	115
4.1. Bank's shares in capital of other legal entities above 5% of core capital.	0		0		0		0	0
4.2. Loan loss provisions shortfall at regulatory request	200.035		198.380		228.816		99	115
4.3. Other deductible items	0		0		0		0	0
5. Net Capital (3- 4)	2.140.399		2.321.164		2.541.484		108	109

As of 2018, the regulatory capital of the banking sector amounted to BAM 2.5 billion and increased by BAM 220.3 million or 9.5% compared to the end of 2017, with a slight change in the structure, the core capital 88.5% (at the end of 2017 – 87.8%) and additional capital 11.5% (at the end of 2017 – 12.2%). The core capital increased by BAM 238.6 million or 10.8%, while the additional capital increased by BAM 12.2 million or 4.0%.

Changes in the regulatory capital are mainly caused by the allocation of profit from 2017 (into the core capital BAM 140.00 million), transfer of loan loss provisions from profit to core capital according to the decision of the assemblies of two banks in the total amount of BAM 134.8 million, recapitalization with three banks in the amount of BAM 73.9 million, as well as due to the effects of first application of IFRS 9 in the amount of BAM 90.6 million, increase of current losses by BAM 27.5 million and net effects of change of the regulatory capital on other basis, decrease in the amount of BAM 10.3 million. The missing LLP under the regulatory requirement as a deductible item from capital as of 31.12.2018 amounted to BAM 228.8 million, which is increase of BAM 30.4 million or 15.3% compared to the end of 2017.

The graph below shows the structure of regulatory capital as per previous regulatory reporting model:



Over the last years the capital adequacy of banking sector is continuously above 15% which is satisfactory capitalization at the level of sector. Banks kept the major part of profit retained in the previous years in capital. In the previous period few banks improved level of capitalization on the basis of recapitalization.

Decision on calculation of capital in bank lays down bank shall satisfy capital requirements in terms of 6.75% Common Equity Tier 1 ratio, a 9 % core Tier 1 ratio and 12% Regulatory capital ratio. Also, a bank shall maintain capital conservation buffer in a form of Common Equity Tier 1 in the amount of 2.5% of the total amount of risk exposure. Indicators of capital adequacy of banking sector in the FBiH are presented in the table below, as of 31.12.2018:

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No.	Description	% amount of surplus or deficit of required minimum
1.	Common Equity Tier 1	16,6%
2.	Surplus (+) / deficit (-) Common Equity Tier 1	1.394.434
3.	Tier 1 Capital ratio	16,6%
4.	Surplus (+) / deficit (-) of the core capital	1.075.438
5.	Regulatory Capital ratio	17,5%
6.	Surplus (+) / deficit (-) of the regulatory capital	777.668

The capital adequacy ratio of the banking sector as of 31.12.2018 amounts to 17.5% which is still quite above the legal minimum 12%. As of 31.12.2018, 11 banks have regulatory capital ratio below the average of banking sector, and four banks have higher than the average of banking sector. Also, at the level of banking sector other capital ratios are higher than the regulatory minimum (Common Equity Tier 1 capital and Tier 1 capital ratios).

As a consequence of new regulation implementation, capital adequacy ratio at the level of banking sector of the FBiH increased by 2.0 percentage points (according to old methodology of capital adequacy calculation it would be 15.5%).

Decision on calculation of capital in a bank provided for by a new calculation methodology and regulatory framework to monitor financial leverage amount. Banks shall ensure and maintain a financial leverage ratio, as ratio between the total Tier 1 capital and total exposure in the amount of at least 6%. The table below provides financial leverage situation of banking sector in the FBiH as of 31.12.2018:

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No.	Exposure values	Total
1.	Exposures of Financial leverage ratio- pursuant to Article 37. paragraph (4) of the Decision on calculation of capital	23.162.270
2.	Tier 1 capital – pursuant to Article 37, paragraph (3) Decision on calculation of capital	2.351.425
3.	Financial Leverage Ratio – pursuant to Article 37.paragraph (2) of the Decision on calculation of capital	10,1%

As of 31.12.2018 the financial leverage ratio at the level of banking sector is 10.1%, where the eight banks have financial leverage above, and seven banks below the average of the banking sector in the FBiH. Individually observed by banks, a financial leverage ratio was in range from 7.3% do 23.9%. In accordance to previous methodology, as of 31.12.2018, a financial leverage ratio at the level of banking sector would be 9.4%.

By supervising the operations and financial situation of banks in the FBiH in accordance with its legal competences and for the purpose of improving the safety of both individual banks and the banking sector as a whole, the FBA instructed banks to take appropriate measures to strengthen their capital base and ensure capital adequacy in terms of the level and profile of the existing and potential exposure to all risks inherent to banking operations, primarily credit risk, as the dominant risk banks are exposed to in their business operations .

The priority task continues to be the maintenance of a strong and adequate capital base of the banking sector in accordance with the risk profile of the banks' operations, with a focus on significant banks in the sector, as well as on banks whose total business operations are under of enhanced supervision of the FBA.

1.3.4. Asset and Asset Quality

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

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

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

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<i>Table 22: Assets (BS and off-BS), LLP According to the Regulator and Value Adjustments According to IFRS</i>					
Opis	31.12.2016.	31.12.2017.	31.12.2018.	Index	
1	2	3	4	5=(3/2)	6=(4/3)
1. Risk-weighted assets ¹²	15.678.467	17.224.329	18.468.934	110	107
2. Calculated regulatory reserves for loan losses	1.533.712	1.492.475	1.479.654	97	99
3. Value adjustment and reserves for off-balance sheet items	1.294.471	1.262.277	1.311.031	98	104
4. Required regulatory reserves formed from profit for assessed losses	405.019	402.640	404.539	99	100
5. Formed regulatory reserves from profit for assessed losses	315.734	315.734	181.480	100	57
6. Shortfall of regulatory reserves formed from profit for assessed losses	200.035	198.771	228.816	99	115
7. Non-risk weighted items	7.175.607	7.699.195	8.874.083	107	115
8. Total asset (1+7)	22.854.074	24.923.524	27.343.017	109	110

¹²Excluded the amount of placements and potential liabilities in the amount of BAM 265 million secured by the cash deposit

Total assets with off-balance sheet items (assets)¹³ of banks in the FBiH, as of 31.12.2018 amounted to BAM 27.3 billion and is up by BAM 2.4 billion or 9.7% compared to the end of 2017. Risk-weighted assets amount to BAM 18.5 billion and is up by BAM 1.2 billion or 7.2% compared to the end of 2017. Non-risk weighted items amount to BAM 8.9 billion or 32.4% of total assets with off-balance sheet items and up for BAM 1.2 billion or 15.3% compared to the end of 2017.

Total calculated LLP based on regulatory requirements amount to BAM 1.5 billion, being down by BAM 12.8 million or 0.9%, while formed value adjustments for balance sheet assets and provisions for losses amount to BAM 1.3 billion and are up by BAM 48.8 million or 3.9% compared to the end of 2017.

Required regulatory reserves¹⁴ amount to BAM 405 million and down by BAM 1.9 million or 0.4%. Formed regulatory reserves from profit in the amount of BAM 181.5 million are down by BAM 134.3 million or 42.5% compared to the end of 2017 the shortfall of regulatory reserves¹⁵ as of 31.12.2018, amounts to BAM 228.8 million which is an increase of BAM 30.0 million or 15.1% compared to the end of 2017.

The following table shows an overview of total assets, gross balance sheet assets, risk-weighted and non-risk weighted assets items at the level of the banking sector:

-in 000 BAM-

<i>Table 23: Total Assets, Gross Balance Sheet Assets, Risk-Weighted and Non-Risk Weighted Assets Items</i>								
Description	31.12.2016.		31.12.2017.		31.12.2018.		Index	
	Amount	Structure %	Amount	Structure %	Amount	Structure %		
1	2	3	4	5	6	7	8=(4/2)	9=(6/4)
Loans	10.850.532	84,2	11.910.826	83,5	12.762.366	83,8	110	107
Interests	69.237	0,5	66.894	0,5	91.669	0,6	97	137
Past due receivables	1.164.973	9,0	1.036.949	7,3	992.177	6,5	89	96
Receivables on paid guarantees	26.537	0,2	31.080	0,2	30.127	0,2	117	97
Other facilities	138.995	1,1	400.584	2,8	511.914	3,4	288	128
Other assets	638.228	5,0	814.496	5,7	835.125	5,5	128	103
1. Risk-weighted balance sheet assets	12.888.502	100	14.260.829	100	15.223.378	100	111	107
2. Non-risk weighted balance sheet assets	6.745.740		7.172.606		8.140.552		106	113
3. Gross balance sheet assets (1+2)	19.634.242		21.433.435		23.363.930		109	109
4. Risk-weighted off-bs items	2.789.965		2.963.500		3.245.556		106	110
5. Non-risk weighted off-bs items	429.867		526.589		733.531		123	139
6. Total off-bs items (4+5)	3.219.832		3.490.089		3.979.087		108	114
7. Risk-weighted assets with off-bs item (1+4)	15.678.467		17.224.329		18.468.934		110	107
8. Non-risk weighted items (2+5)	7.175.607		7.699.195		8.874.083		107	115
9. Assets with off-bs items (3+6)	22.854.074		24.923.524		27.343.017		109	110

Gross balance sheet assets¹⁶ amount to BAM 23.4 billion and is up by BAM 1.9 billion or 9.0% compared to the end of 2017. Risk-weighted balance sheet assets amount to BAM 15.2 billion that 65.2% of gross balance sheet assets with an increase of BAM 962.5 or 6.8%. Non-risk weighted balance sheet assets amount to BAM 8.1 billion and is up by BAM 968.0 million or 13.5%.

Off-balance sheet risk-weighted items amount to BAM 3.2 billion and are up by the amount of BAM 282.1 million or 9.5% compared to the end of 2017 while non-risk weighted items amount to BAM 733.5 million, having increase in the amount of BAM 206.9 million or 39.3%.

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

¹⁴ Required regulatory reserves represent a positive difference between calculated loan loss provisions and value adjustments (calculated loan loss provisions are higher than value adjustments).

¹⁵ Shortfall of regulatory reserves represents a positive difference between required and formed loan loss provisions

¹⁶ The loan amount of BAM 205 million covered by cash deposit is excluded (included in non-risk weighted assets).

In 2018 there was a credit growth in the amount of BAM1.1 billion or 8.7% compared to 31.12.2017. As of 31.12.2018 the loans amounted to BAM 14.3 billion. Trend and change in the share of individual sectors in the total loan structure is shown in the table below:

-in 000 BAM-

Table 24: : Loan Structure by Sector								
Sectors	31.12.2016.		31.12.2017.		31.12.2018.		Index	
	Amount	Share %	Amount	Share %	Amount	Share %		
1	2	3	4	5	6	7	8=(4/2)	9=(6/4)
Government institutions	265.892	2,2	245.102	1,9	216.596	1,5	92	88
Public companies	226.891	1,8	210.461	1,6	321.493	2,3	93	153
Private companies and enterprises.	5.756.280	46,9	6.295.558	47,8	6.625.641	46,3	109	105
Banking institutions	58	0,0	12	0,0	217.706	1,5	21	1814217
Non-banking financial institutions	40.365	0,3	58.992	0,4	75.804	0,5	146	128
Retail	5.972.074	48,7	6.358.707	48,2	6.853.979	47,8	106	108
Other	8.668	0,1	10.028	0,1	14.415	0,1	116	144
Total	12.270.228	100	13.178.860	100	14.325.634	100	107	109

The growth rate of loans to private companies amounted to BAM 330.1 million or 5.2% (in 2017. an increase of BAM 539.3 million or 9.4%), while at the same time their share is slightly decreased from 47.8% to 46.3%, thus the loans of this sector amounted to BAM 6.6 billion as of 31.12.2018. The increase in loans to the retail sector amounted to BAM 495.3 million or 7.8% (in 2017 an increase of BAM 386.6 million or 6.5%), while a share decreased from 48.2% to 47.8% compared to the end of 2017 and amounted to BAM 6.9 billion as of 31.12.2018. In regard to loan structure by sector, as of 31.12.2018, there was a significant increase of loans to banking institutions in the amount of BAM 217.7 million compared to the end of 2017 (BAM 12 thousands) what is its amount for the period observed.

According to information submitted by the banks as of 31.12.2018 the retail loan structure by purpose is almost the same as at the end of 2017: consumer loans hold a share of 81.3%, housing loans hold a share of 17.2%, while the remaining 1.5% refers to loans to small crafts, small businesses and agriculture. The three largest banks in the sector have passed on 61.0% of the total approved retail loans, and 51.2% of the total approved loans to private companies.

In the currency structure of loans, the largest share of 50.3% or BAM 7.2 billion refers to currency clause loans (EUR: BAM 7.2 billion or 99.6%, CHF: BAM 26.4 million or 0.4%), local currency loans 47.7% or BAM 6.8 billion, while the smallest share of 2.0% or BAM 290 million refers to foreign currency loans (the amount of BAM 287.8 million or 99.6% refers to EUR). The total amount of loans with a currency clause in CHF of BAM 26.4 million holds a share of 0.2% share in the total loan portfolio and the total amount refers to one bank in the sector.

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

-in 000 BAM-

Table 25: Asset Classification, GCR and PLL											
Classification category	31.12.2016.			31.12.2017.			31.12.2018.			Index	
	Classified assets	Share %	GCR PLL	Classified assets	Share %	GCR PLL	Classified assets	Share %	GCR PLL		
1	2	3	4	5	6	7	8	9	10	11=(5/2)	12=(8/5)
A	13.166.182	84,0	263.324	14.834.609	86,1	296.693	16.225.548	87,9	324.512	113	109
B	982.398	6,3	77.167	1.032.373	6,0	82.700	919.119	4,9	72.972	105	89
C	224.335	1,4	58.086	166.456	1,0	45.486	140.776	0,8	40.189	74	85
D	423.766	2,7	253.348	301.598	1,8	178.304	345.526	1,9	204.017	71	115
E	881.786	5,6	881.787	889.293	5,2	889.292	837.965	4,5	837.964	101	94
Risk-weighted assets (A-E)	15.678.467	100	1.533.712	17.224.329	100	1.492.475	18.468.934	100	1.479.654	110	107
Classified (B-E)	2.512.285	16,0	1.270.389	2.389.720	13,9	1.195.782	2.243.386	12,1	1.155.142	95	94
Non-performing (C-E)	1.529.887	9,8	1.193.221	1.357.347	7,9	1.113.082	1.324.267	7,2	1.082.170	89	98

Non-risk weighted assets ¹⁷	7.175.607	7.699.195	8.874.083	107	115
Total (risk-weighted and non-risk weighted)	22.854.074	24.923.524	27.343.017	109	110

Asset quality assessment is an evaluation of credit risk exposure of the banks' loans, i.e. the identification of PLL. The first and warning indicator of potential problems with loan repayment is an increase in past due receivables and their share in total loans. As of 31.12.2018, past due receivables amounted to BAM 1.0 billion, which is down by 4.3% or BAM 44.8 million compared to the end of previous year, and the share is decreased from 8.1% to 7.1%.

Annexes 6 and 6a provide a classification of balance sheet assets and off-balance sheet risk weighted items.

As of 31.12.2018, classified assets amounted to BAM 2.2 billion, non-performing assets to BAM 1.3 billion. The classified assets (categories B-E) decreased by BAM 146.3 million or 6.1% compared to the end of 2017 (in 2017 decrease of BAM 122.6 million or 5.1%). Category B decreased by BAM 113.3 million or 11%. Non-performing assets (categories C-E) amount to BAM 1.3 billion and is down by BAM 33.1 million or 2.4% (in 2017 non-performing assets decreased by BAM 172.5 million or 11.3%), due to the significant decrease of non-performing loans with the most banks and permanent asset write-off in the amount of BAM 95.0 million.

The share of classified assets in risk-weighted assets amount to 12.1%, as of 31.12.2018, which is a drop for 1.8 percentage points compared to the end of 2017.

The most significant indicator of asset quality is the ratio between non-performing assets and risk-weighted assets, which amounts to 7.2%, that is drop by 0.7 percentage points compared to the end of 2017.

Sector-level data analysis is based on loan quality indicators for two key sectors: corporate and retail. The two aforementioned indicators for these sectors deviates significantly and indicate a higher exposure to credit risk and consequently to PLL regarding corporate loans.

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

-in 000 BAM-

Table 26: Classification of Retail and Corporate Loans

Classificati on category	31.12.2017.						31.12.2018.						Index
	Retail	Share%	Corporate	Share%	Total		Retail	Share%	Corporate	Share%	Total		
					Amount	Share%					Amount	Share%	
1	2	3	4	5	6 (2+4)	7	8	9	10	11	12=(8+10)	13	14=(12/6)
A	5.732.970	90,2	5.356.474	78,5	11.089.444	84,1	6.275.311	91,5	6.107.597	81,7	12.382.908	86,4	112
B	163.628	2,6	651.859	9,6	815.487	6,2	151.062	2,2	573.795	7,7	724.857	5,1	89
C	61.371	1,0	98.470	1,4	159.841	1,2	60.150	0,9	73.815	1,0	133.965	0,9	84
D	46.850	0,7	243.681	3,6	290.531	2,2	46.055	0,7	288.575	3,9	334.630	2,3	115
E	353.889	5,6	469.668	6,9	823.557	6,2	321.401	4,7	427.873	5,7	749.274	5,3	91
Total	6.358.708	100	6.820.152	100	13.178.860	100	6.853.979	100	7.471.655	100	14.325.634	100	109
Class loans B-E	625.738	9,8	1.463.678	21,5	2.089.416	15,9	578.668	8,4	1.364.058	18,2	1.942.726	13,6	93
NPL's C-E	462.110	7,3	811.819	11,9	1.273.929	9,7	427.606	6,2	790.263	10,6	1.217.869	8,5	96
48,2 51,8 47,8 52,2 100													
Individual sector's share in classified loans, non-performing loans and category B:													
Categories-E	29,9		70,1		100		29,8		70,2		100		
NPL's C-E	36,3		63,7		100		35,1		64,9		100		
Categories B	20,1		79,9		100		20,8		79,2		100		

In 2018, the share of classified loans decreased to 13.6% (-2.3 percentage points), on the one hand due to decrease of classified loans by the amount of BAM 146.7 million or 7.0%, and on

¹⁷ In accordance with Article 2, paragraph 2 of the Decision on Minimum Standards for Credit Risk Management and Asset Classification in Banks, assets items that are not classified and items for which no general LLP of 2% are calculated (as per Article 22, paragraph 8 of the same Decision)

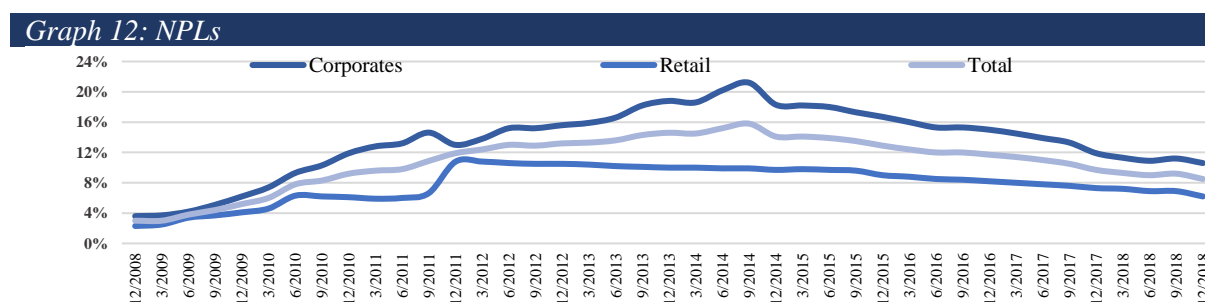
the other hand, due to overall loan increase. Classified retail loans decreased by BAM 47.1 million or 7.5%, corporate by BAM 99.6 million or 6.8%.

The share of NPLs decreased from 9.7% to 8.5%, mainly as a result of the credit growth and activities on collection. Out of the total approved corporate loans, BAM 790.3 million or 10.6% refers to NPLs, that's is for 1.3 percentage points lower compared to the end of 2017 (in 2017 the share decreased by 3.1 percentage point). For retail sector, NPL accounts for BAM 427.6 million or 6.2%, that is for 1.1 percentage point lower than at the end of 2017 (in 2017 the share decreased by 0.9 percentage points).

In absolute term, the total NPLs decreased compared to the end of 2017 for the amount of BAM 56.1 million or 4.4%. Corporate NPLs decreased by the amount of BAM 21.6 million or 2.7%, and retail for the amount of BAM 34.5 million or 7.5% compared to the end of 2017. Within NPLs, there was increase in a category D in the amount of BAM 44.1 million, while non-performing loans in categories C and E decreased by the amount of BAM 25.9 million i.e. BAM 74.3 million.

Out of the total loans passed on corporates in the amount of BAM 7.5 billion, BAM 1.4 billion or 18.2% of loans were classified within categories B to E as of 31.12.2018, while this indicator is much better for the retail segment. Out of the total approved retail loans in the amount of BAM 6.9 billion, the amount of BAM 578.7 million or 8.4% is classified within categories B to E.

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



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

-in 000 BAM-

Table 27: Concentration of Loans by Industry Sector

Description	31.12.2017.				31.12.2018.				Index	
	Total Loans		Non-performing Loans		Total Loans		Non-performing Loans			
	Amount	Share %	Amount	Share %	Amount	Share %	Amount	Share %		
1	2	3	4	5=(4/2)	6	7	8	9=(8/6)	10=(6/2)	11=(8/4)
1. Corporate Loans for:										
Agriculture (AGR)	206.554	1,6	30.860	14,9	187.278	1,3	36.311	19,4	91	118
Industry (IND)	1.986.437	15,1	281.513	14,2	2.130.781	14,9	269.505	12,6	107	96
Construction (CON)	428.151	3,2	67.845	15,8	441.833	3,1	74.092	16,8	103	109
Trade(TRD)	2.589.004	19,6	290.802	11,2	2.642.599	18,4	274.333	10,4	102	94
Hospitality, Tourism, Recreation (HTR)	243.136	1,8	11.536	4,7	268.239	1,9	16.074	6,0	110	139
Other ¹⁸	1.366.870	10,4	129.263	9,5	1.800.925	12,6	119.948	6,6	132	93
Total 1	6.820.152	51,8	811.819	11,9	7.471.655	52,2	790.263	10,6	110	97

¹⁸ The following sectors included: transport, storage and communication (TRC); financial intermediation (FIN); Real estate, renting and business activities (RER); public administration and defense, compulsory social insurance (GOV) and other

2. Retail Loans for:										
General consumption	5.188.942	39,4	317.089	6,1	5.574.057	38,9	326.714	5,9	107	103
Housing	1.065.987	8,1	126.907	11,9	1.178.483	8,2	87.273	7,4	111	69
Business activities (small business owners)	103.779	0,8	18.114	17,5	101.439	0,7	13.619	13,4	98	75
Total 2	6.358.708	48,2	462.110	7,3	6.853.979	47,8	427.606	6,2	108	93
Total (1+2)	13.178.860	100	1.273.929	9,7	14.325.634	100	1.217.869	8,5	109	96

The largest share in total corporate loans refers to the trade sector (18.4%) and production (14.9%), while the largest share in the retail segment is held by general consumption loans (38.9%) and housing loans (8.2%). The level of loans to the production sector in the amount of BAM 2.1 billion increased in 2018 for the amount of BAM 144.3 million or 7.3%. NPLs passed on to production sector amount to BAM 269.5 million and decreased by the amount of BAM 12.0 million or 4.3%, while the share of NPLs is still on high level of 12.6%, although it has been decreased by 1.6 percentage points.

At the end of 2018, lending to the trade sector amount to BAM 2.6 billion and increased by the amount of BAM 53.6 million or 2.1% compared to the end of 2017. NPLs in this sector amount to BAM 274.3 million and have decreased by BAM 16.5 million, their share decreased by 0.8 percentage points, i.e. to 10.4%, which is a better indicator than in production sector.

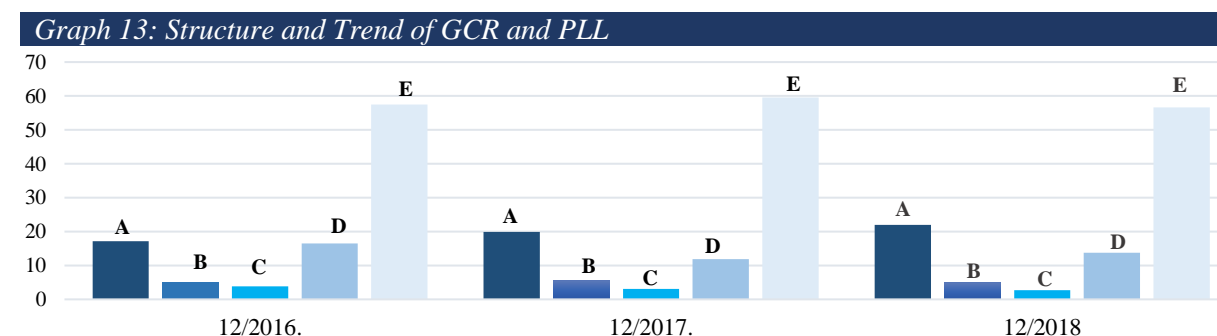
The share of NPLs is high in the construction sector (16.8%) and up by 1.0 percentage point, while loans from this sector hold a low share in the amount of only 3.1% in total loans. In the agriculture sector, which has the lowest share of 1.3% of the total loans, NPLs hold a significant share of 19.4%, which increased by 4.5 percentage points compared to the end of the previous year.

In the retail segment, general consumption loans hold the highest share, which amounts to share of 38.9% in total loans, with a growth of BAM 385.1 million or 7.4%. Housing loans increased by BAM 112.5 million or 10.6%. The share of NPLs with housing loans is 7.4%, with general consumption loans 5.9% having a downward trend compared to the end of 2017.

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

-in 000 BAM-

Table 28: Structure and Trend of GCR and PLL								
Classification category	Amount (in 000 BAM) and structure (in %)						Index	
	31.12.2016.	%	31.12.2017.	%	31.12.2018.	%	8=(4/2)	9=(6/4)
1	2	3	4	5	6	7	8=(4/2)	9=(6/4)
A	263.324	17,2	296.693	19,9	324.512	22,0	113	109
B	77.167	5,0	82.700	5,5	72.972	4,9	107	88
C	58.086	3,8	45.486	3,0	40.189	2,7	78	88
D	253.348	16,5	178.304	11,9	204.017	13,8	70	114
E	881.787	57,5	889.292	59,6	837.964	56,6	101	94
Total	1.533.712	100	1.492.475	100	1.479.654	100	97	99



The total level of calculated GCR as of 31.12.2018 amount to BAM 1.5 billion and compared to the end of 2017, there is decrease of BAM 12.8 million or 0.9%. Individually by categories, in

2018 there was GCR increase for categories A and D, while in other categories there was GCR decrease compared to the end of 2017. Reserves for category A increased by 9.4% and 14.4% for category D, while there was GCR decrease for categories B and C for 11.8%, i.e. 5.8% category E.

One of the key indicators of asset quality is the ratio between PLL and risk-weighted assets with off-balance sheet items and this ratio amounts to 6.2% being lower by 0.7 percentage points compared to the end of 2017. As of 31.12.2018 banks had at approximately same level as at the end of 2017, calculated reserves in the amount of 8% for category B, 29% for category C, 59% for category D and 100% for category E¹⁹ (increase of 2 percentage points with category C).

Analysing the asset quality of the banking sector of the FBiH, through indicators of trends and changes, it might be concluded that asset quality of the banking sector in 2018 is improved.

The credit risk is a dominant risk in the banking sector in the FBiH, why the focus of the supervisor is on the assessment of practices for credit risk management i.e. identification, measuring, monitoring and controlling of credit risk and assets classification.

1.3.5. Profitability

The major impact on profitability of banks have the asset quality, structure, diversification and expenses of funding sources, cost efficiency, external factors specific for banking i.e. financial sector in the FBiH (financial system development level, regulatory features, industrial concentration etc.) and external macroeconomic factors (economic growth, interest rates on world market, employment and unemployment rate, salary trend, inflation etc.).

Lax monetary policy and low interest rates kept by ECB influenced a continuation of favourable environment and economic growth in the EU and consequently in the Southeast Europe.

In the banking sector of the FBiH a positive trend of credit growth was kept, expressed through the continuous growth of credit portfolio in absolute term, wherein in the period 2016-2018 relative share of credit portfolio in the total assets²⁰ decreased (from 66.8% to 65.2%, i.e. 64.8% as it was at the end of 2018). Application and respecting of prudent credit standards of banks when approving loans and adequate assessment and coverage of value adjustment for risk-weighted assets i.e. reserves for potential liabilities and other value adjustments is subject of continuous indirect and periodical direct supervision, as well as regular external audit of banks in accordance with regulations. In addition to credit risk measured by the quality of credit portfolio, financial result of banking sector operations in the FBiH is greatly influenced by pricing and interest rate risk. These risks are reflected on the side of source availability and price trends of bank funding sources, and on the side of possibility to achieve adequate level of net interest margin.

From the perspective of supervisor, a profitability of banking system in the FBiH, as well as individual banks in the system, is observed in the context of sustainability, i.e. stability of the level and quality of earnings and strengthening the capital base through retained earnings. Capability of banks to generate acceptable, sustainable and stable profit is in relation to the risks of their business models, i.e. factors influencing sustainability of business model and capacity to generate profit which arise from adequate funding sources and capital and appropriate risk

¹⁹ According to the Decision on Minimum Standards for Credit Risk Management and Asset Classification in Banks, banks are required to calculate LLP by classification category bearing the following percentages: A-2%, B 5-15%, C 16-40%, D 41-60% and E 100%.

²⁰ Pozicija 4. Bilansa stanja banaka u FBiH po šemi FBA (aktivni podbilans)

appetite through rounded business and economic cycle, and which is adequately presented as the result of correct, complete and consistent application of the IAS and IFRS.

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

The following part of this Information presents data and information on profitability of the banking sector in the FBiH, on the basis of non-revised final reporting data submitted by banks with situation as of 31.12.2018. Data were analysed in the context of the existing elements for assessment of quality and profitability level and ranking criteria of the basic components of financial and operational situation of banks (CAMELS).

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

At the level of banking sector in the FBiH for period 01.01-31.12.2018 a positive financial result was presented in the amount of BAM 255.4 million, which is by BAM 15.4 million or 6.4% more than in the same period of 2017. At the same time, the total net-profit at the level of the banking sector in the FBiH amounted to BAM 290.1 million (14 banks), and net-loss in the amount of BAM 34.7 million relates to one bank, which in the same period of 2017 presented net-profit in the amount of BAM 2.6 million.

If data compared with the same period of 2017, there is loss presented at the level of sector in 2018 increased by BAM 27.5 million, where in the previous year, two banks presented loss in the total amount of BAM 7.3 million, and as of 31.12.2018 presented profit in the total amount of BAM 5.3 million.

If financial result at the level of banking sector of the FBiH is analysed for three-year period, there is continuous growth of profit presented, wherein more significant profit growth was in period 31.12.2016-31.12.2017, since the growth in absolute term was BAM 66.7 million or 38.5%.

Based on an analysis of the structure of profit and loss at the level of the banking sector of the FBiH for the period 01.01.-31.12.2018 in relation to the same period of 2017, it is evident that positive financial result – net profit in the amount of BAM 255.4 million is the result of the following changes:

- Increase of total operating income for the amount of BAM 18.3 million or 4.3%, where within its structure it is evident increase of income from foreign exchange operations, service fees, fees on off-balance, with decrease of other operating income, income from trade operations and income based on credit fees;
- Slight increase of total non-interest expenses for the amount of BAM 7.8 million or 1.0%, wherein total business and direct expenses increased by the amount of BAM 8.7 million or 3.9%, while total operating expenses decreased by the amount of BAM 0.9 million or 0.2%; and
- Slight increase of net interest and similar income for the amount of BAM 6.8 million or 1.1%, which presents net effects of total interest and similar income decrease for the amount of BAM 19.9 million or 13.3% and simultaneous decrease of total interest and similar expenses for the amount of BAM 13.1 million or 1.7%.

Over the period observed, in the structure of total business and direct expenses at the level of banking sector in the FBiH, the expenses of value adjustment for risk-weighted assets were

decreased, same as reserves for potential liabilities and other value adjustments, for the total amount of BAM 3.4 million or 3.0%, which is connected with calculation of expected credit losses in accordance to IFRS 9 which is applied in banks since 01.01.2018.

In 2018, other business and direct expenses increased by the amount of BAM 12.1 million or 10.6% compared to 2017.

At the level of the banking sector in the FBiH, in the structure of total operating expenses it is evident increase of expenses for salaries and contributions in the amount of BAM 8.3 million or 3.3% and slight decrease of other operating expenses for the amount of BAM 4.9 million or 4.0%, while the expenses decreased for business premises, other fixed assets and utilities for the amount of BAM 4.3 million or 2.7%, which is trend change, considering increase of this expense category in 2017 compared to 2016, when increase in the amount of BAM 2.7 million or 1.7% was presented. It is related to the fact that in 2018 there were no significant expanding of banks organisational units in the FBiH. A reported increase of expenses for salaries and contributions is related to the increase of employees' number by 1.3%, where in relative term of this expense category (3.1%) is higher than increase of employee's number in the banking sector of the FBiH for the period observed.

Comparing analytical data with the same period of 2017, for 14 banks in the system which reported a positive financial result as of 31.12.2018, it can be seen that:

- Ten banks or 71.4% reported higher net-profit with the total positive effect in the amount of BAM 41.0 million,
- Two banks or 14.3% reported lower net-profit, with a total negative effect in the amount of BAM 0.8 million,
- Two banks or 14.3% reported net-profit in relation to the previously presented loss, with a total positive effect in the amount of BAM 12.6 million.

Observed by the asset amount as of 31.12.2018, the five biggest banks in which hold a total share of 68.3% in the total assets, reported a positive financial result in the total amount of BAM 253.0 million or 99.1% of the total reported financial result – net profit at the level of sector. Whereby, the amount of BAM 181.7 million or 71.1% of the reported profit at the system level, refers to two largest banks which have the largest individual share as per asset amount (47.0% of the total assets).

Annex 7 shows the aggregated balance sheet of banks in the FBiH for the period 01.01.-31.12.2018 according to the FBA model.

The table below shows an overview of the recorded financial result, at the level of banking sector in FBiH, by reporting period:

-000 BAM-

Table 29: Financial result: profit/loss						
Description	31.12.2016.		31.12.2017.		31.12.2018.	
	Amount	No. of banks	Amount	No. of banks	Amount	No. of banks
1	2	3	4	5	6	7
Loss	-38.505	2	-7.288	2	-34.743	1
Profit	211.753	13	247.261	13	290.098	14
Total	173.248	15	239.973	15	255.355	15

The presented financial results at the level of banking sector in FBiH by reporting period, steadily record an increase, where some oscillations are presented in terms of reported loss over period observed, as in terms of the amount, trend, as well as individual banks which presented losses. In fact, one bank which in 2016 presented a significant operating losses, has already in 2017

reported a positive financial result which is significantly increased in 2018. Two banks which in 2017 reported operating losses, in 2018 were out of the zone of negative financial result, where one bank has significantly improved financial result – profit, and reported profit of other bank was materially insignificant. The one bank which in 2018 reported materially significant loss, was reporting operating profit in 2016 and 2017. The banks which show instability in terms of profit level, quality and trend in the banking system of the FBiH, should improve their practices in risk management, and in particular the assessment of business model risk, to ensure fulfilment of regulatory requirements, long-term profit sustainability and stability of internal sources for capital increase, that will be the subject of supervisory reviews with the aim to preserve and strengthen the stability of the banking sector in the FBiH.

1.3.5.2. Total income of the banking sector in the FBiH

According to the reporting data from banks, the total income at the level of the banking sector in the FBiH amounts to BAM 1.2 million as of 31.12.2018, which compared to 31.12.2017 increased by BAM 5.1 million, which is increase of less than 1% (0.4%).

Total interest income and similar income amount to BAM 741.4 million and hold a share of 62.8% in the total incomes of banking sector in the FBiH. Observed in period 2016-2018 it is evident decrease of share for the total interest and similar income, in the total incomes of the banking sector, from 66.3% in 2016, to 64.2% in 2017, i.e. 62.8% in the total income in 2018.

Compared to 31.12.2017, interest and similar income at the level of the banking sector in the FBiH slightly decreased (by 1.7%).

In the structure of interest and similar income in 2018, the largest item are interest income on loans and leasing operations, which accounts for BAM 657.9 million or 88.8% of the total interest and similar income, where compared with the same period in 2017 lower for the amount of BAM 11.7 million or 1.8%, and the same time the total receivables on loans and leasing operations increased by the amount of BAM 1.2 billion or 8.7%. In the same period, other interest and similar income recorded decrease by the amount of BAM 3.8 million or 4.9%. Equity based income is not presented, and those accounted to BAM 0.8 million at the end of 2017.

Other categories of interest and similar incomes recorded growth as follows: interest-bearing deposit accounts by 70.6%, income based on facilities to other banks by 66.2% and income based on securities held to maturity by 7.8%. The indicated growth trend in revenues on interest-bearing deposit accounts is related to the increase in the balance sheet position of interest-bearing deposit accounts in assets by 15.2%. Income from loans to other banks recorded an increase, although in the observed period the level of placements to other banks decreased by 22.9%.

Trend related to total income by securities (held to maturity increased and decreased by equity), presented according to the cumulative balance of banks' income statement in the FBiH according to the FBA scheme, should be considered in the context of trends in the respective balance sheet positions presented in the cumulative balance sheet of banks in FBiH as of December 31, 2018 and 31.12.2017, according to which it is evident:

- increase of the securities position at fair value through profit or loss and at fair value in other comprehensive income ²¹ for the amount of BAM 57.8 million or 5.3%,
- increase of the securities position at amortized cost²² in the amount of BAM 18.4 million or 13.5%,
- - Reduction of investment position in dependent and affiliated companies ²³ by the amount of BAM 6.3 million or 34.4%.

²¹ do 31.12.2017. godine opis ove bilansne pozicije je glasio: vrijednosni papiri za trgovanje

²² do 31.12.2017. godine opis ove bilansne pozicije je glasio: vrijednosni papiri koji se drže do dospeljeka

²³ do 31.12.2017. godine opis ove bilansne pozicije je glasio: investicije u nekonsolidovana povezan preduzeća

Observing the trend of total interest and similar income over a period of three years, it is evident that in 2017 it was slightly increased compared to 2016 (by 0.3%), while in 2018 it decreased by 1.7% compared to 2017. At the same time, net interest income and similar income recorded a steady increase in the observed period, with an increase of 3.0% in 2017 compared to 2016, and in 2018, by 1.1% compared to 2017. This is a consequence of a constant decrease in total interest and similar expenses, with a decrease of 9.2% in 2017 compared to 2016, and in 2018 by 13.3%. Linking the observed trends in terms of net interest and similar income at the level of the interest rate system, it can be seen that the average active interest rates recorded a decline from 4.66% in 2016 to 4.42% in 2017, i.e. 3.94% in 2018, while at the same time reducing an average passive interest rates from 1.55% to 1.31%, i.e. 1.02%, and consequently the net interest margin, as a difference between the average active and average deposit facility interest rates from 3.11%, which amounted in 2016 and 2017, to 2.92% in 2018.

The total operating income, which amounts to BAM 439.8 million in 2018 and holds a share of 37.2% in the total income, records a continuous growth of share over the three-years period (2016-2018). The growth was more significant in 2017 compared to 2016 (10.3%), and compared to 2017 the growth in 2018 was 4.3%.

Within the structure of the total operating income, the largest share account for income based on service fees that amount to BAM 294.7 million or 67.0% recording a continuous growth over the period 2016-2018, which is more significant in 2017 - by 10.8%, while in 2018 it was 9.4%.

Income based on FX operations amount to BAM 60.4 million and holds a share of 13.7% in the total operating income, having a continuous growth over three-years period which is more significant in 2018 compared to 2017 (12.8%), while the growth in 2017 was 4.0% compared to 2016.

Other operating income amount to BAM 51.2 million and holds a share of 11.6% in the total operating income, where in 2018 decreased by BAM 13.6 or 21.0% compared to 2017, while in 2017 growth recorded compared to 2016 by BAM 10 million or 18.2%.

Individual share of other operating income categories (income based on off-balance, loan fees and trading activities) is not more than 5% in the total operating income in 2018.

Structure of the total income for the previous three business years is provided in the table below:

-000 BAM-

Table 30: Total Income Structure								
Total income structure	31.12.2016.		31.12.2017.		31.12.2018.		Index	
	Amount	%	Amount	%	Amount	%		
1	2	3	4	5	6	7	8=(4/2)	9=(6/4)
I Interest income and similar income								
Interest-bearing dep. acc at dep.institutions	1.877	0,2	2.653	0,2	4.525	0,4	141	171
Loans and leasing facilities	671.168	59,1	669.651	56,9	657.927	55,7	100	98
Other interest income	79.111	7,0	82.244	7,0	78.914	6,7	104	96
Total I	752.156	66,3	754.548	64,1	741.366	62,8	100	98
II Operating income								
Service fees	243.028	21,5	269.292	22,9	294.707	24,9	111	109
Income from FX deals	51.471	4,5	53.539	4,6	60.374	5,1	104	113
Other operating income	87.730	7,7	98.709	8,4	84.714	7,2	113	86
Total II	382.229	33,7	421.540	35,9	439.795	37,2	110	104
Total income (I+II)	1.134.385	100	1.176.088	100	1.181.161	100	104	101

It is evident that relative share of interest and similar income over the period had declining trend, where within their structure the share of income by interest-bearing deposit accounts at deposit institutions increased, as a consequence of cash fund rise at interest-bearing deposit accounts

over the period observed. At the same time, the share of operating income rise over the period observed.

1.3.5.3. Total expenses of the banking sector of the FBiH

According to the reporting data from banks as of 31.12.2018 the total expenses at the level of the banking sector in the FBiH amounts to BAM 891.5 million which compared to 31.12.2017 decreased by BAM 12.1 million or 1.3%.

As of 31.12.2018, the total business and direct expenses amount to BAM 234.9 million, which account for 26.3% of the total expenses. Compared to the same period of 2017 there is evident rise of BAM 8.7 million or 3.9%. In the structure of total business and direct expenses, the costs of value adjustment for risk weighted assets, reservations for potential liabilities and other value adjustments amount to BAM 108.7 million which account for 46.3% of the total business and direct expenses, and other business and direct expenses amount to BAM 126.2 million or 53.7% of the total business and direct expenses. Compared to the 2017, costs of the value adjustments for risk weighted assets, reservations for potential liabilities and other value adjustments decreased by the amount of BAM 3.4 million or 3.0%, while other business and direct expenses recorded a growth in the amount of BAM 12.1 million or 10.6%.

At the level of the banking sector in the FBiH slight increase was recorded with the total operating expenses by the amount of BAM 0.9 million or 0.2% compared to 2017, that is a net effect of the reported increase for salaries and contributions expenses by the amount of BAM 8.3 million or 3.3%, and decrease of other operating expenses by the amount of BAM 4.9 million or 4.0%, business premises expenses, other fixed assets and utilities by the amount of BAM 4.3 million or 2.7%.

The structure of total expenses of the banking sector for the period 2016 -2018 is provided in the table below:

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Structure of total expenses	31.12.2016.		31.12.2017.		31.12.2018.		Index	
	Amount	%	Amount	%	Amount	%		
1	2	3	4	5	6	7	8=(4/2)	9=(6/4)
I Interest expenses and similar expenses								
Deposits	142.618	15,3	124.706	13,8	104.053	11,7	87	83
Liabilities based on loans and other borrowings ²⁴	18.762	2,0	18.741	2,1	16.879	1,9	100	90
Other interest expenses	3.767	0,4	6.538	0,7	9.121	1,0	173	140
Total I	165.147	17,7	149.985	16,6	130.053	14,6	91	87
II Total non-interest bearing expenses								
Costs of value adjustment of risk-weighted assets and provisions for contingent liabilities and other value	111.305	11,9	112.074	12,4	108.662	12,2	101	97
Costs of salaries and contributions	243.892	26,2	248.113	27,5	256.407	28,8	102	103
Costs of business premises and depreciation	154.963	16,6	157.670	17,4	153.348	17,2	102	97
Other business expenses and direct expenses	98.593	10,6	114.096	12,6	126.225	14,1	116	111
Other operating expenses	158.184	17,0	121.689	13,5	116.784	13,1	77	96
Total II	766.937	82,3	753.642	83,4	761.426	85,4	98	101
Total expenses (I+II)	932.084	100	903.627	100	891.479	100	97	99

Over the observed three-year period the total expenses at the level of banking sector had declining trend, which was more evident in 2017 compared to 2016, wherein the share of interest and similar expenses had declining trend, which is more evident in 2018 while the share of total non-interest expenses had declining trend, which is also more evident in 2018. In the structure of non-interest expenses over the period observed, specific changes related to decrease of expenses for value adjustment of risk weighted assets and reservations for potential liabilities and other value

²⁴ Including interests by subordinated debts, which over period observed amounted to BAM: 7.3 million in 2016. godini, 7.9 million in 2017, i.e. 7.8 million in 2018.

adjustments, business premises expenses, other fixed assets and utilities in 2018, same as other business and direct expenses, growth trend has recorded with other operating expenses in 2018, while expenses for salaries and contributions is mainly stable.

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

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

-in %-

<i>Table 32: Profitability, Productivity and Efficiency Ratios by Period</i>			
Ratio	31.12.2016.	31.12.2017.	31.12.2018.
Profit from average assets	1,0	1,3	1,2
Profit from average total capital	6,5	8,5	8,7
Profit from average share capital	15,0	19,6	20,4
Net interest income/average assets	3,4	3,2	2,9
Operating income/average assets	2,2	2,2	2,1
Total income/average assets	5,6	5,4	5,0
Business expenses and direct expenses / average assets ²⁵	1,2	1,2	1,1
Operating expenses/average assets	3,2	2,8	2,5
Total non-interest expenses/average assets	4,4	3,9	3,6

When analysing the presented indicators for the banking sector of the FBiH it should be taken into account period observed was marked by a continuous growth of total, i.e. average assets and the total and share capital, which are the basis for calculation of those ratios. The assets growth was more evident in relation to the growth of total and share capital, and total income.

Return on average assets increased by 0.3 percentage points in 2017 (from 1.0% to 1.3%), and slightly decreased in 2018 by 0.1 percentage point compared to 2017 (from 1.3% to 1.2%). Return on average total and share capital recorded a continuous growth over the three-years observed period, where it is more evident increase in 2017 compared to 2016, than in 2018 compared to 2017.

Over the period observed, net interest income presented as difference between the total interest and similar income and total interest and similar expenses, records a constant drop in relation to the average assets, where the drop is more significant in 2018 than 2017, while the operating income in relation to the average assets mainly stable, with a slight drop in 2018 (by 0.12 percentage points). There is evident decreasing trend with ratio of total income to average assets, as an indicator of business productivity in banking sector of the FBiH over the observed reporting period.

Business and direct expenses in relation to the average assets are mainly stable, with slight decrease in 2018 (by 0.1 percentage point), while operating expenses in relation to average assets records a continues drop, consequently total non-interest expenses in relation to the average assets.

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

²⁵ Expenses include value adjustments expenditures

1.3.6. Weighted NIR and EIR

To ensure a greater transparency and to facilitate comparability of banks' loan approval and deposit taking terms, as well as to ensure customer protection by means of introduction of transparent disclosure of loan approval costs, i.e. deposit income, all in accordance with the international standards, criteria and practices in other countries, the FBA has prescribed a uniform manner of calculating and disclosing the EIR for all banks seated in the FBiH as well as the organizational units of banks seated in RS and operating on the territory of the FBiH including a mandatory reporting to the FBA on weighted NIR and EIR on loans approved and taken deposits for the reporting month, all of it in accordance with the prescribed methodology²⁶. For the needs of loan users, when analysing a trend of interest rates it is relevant to follow up a trend of weighted EIR, since it includes all costs that user should pay, and which are directly connected to the loan i.e. conditions for the loan approval and which are also included in the calculation of loan price (for instance, loan processing costs, cost of the insurance premium with natural persons if it is one of the condition for loan approval, then other costs related to additional services paid by the client, and which presents condition for loan approval).

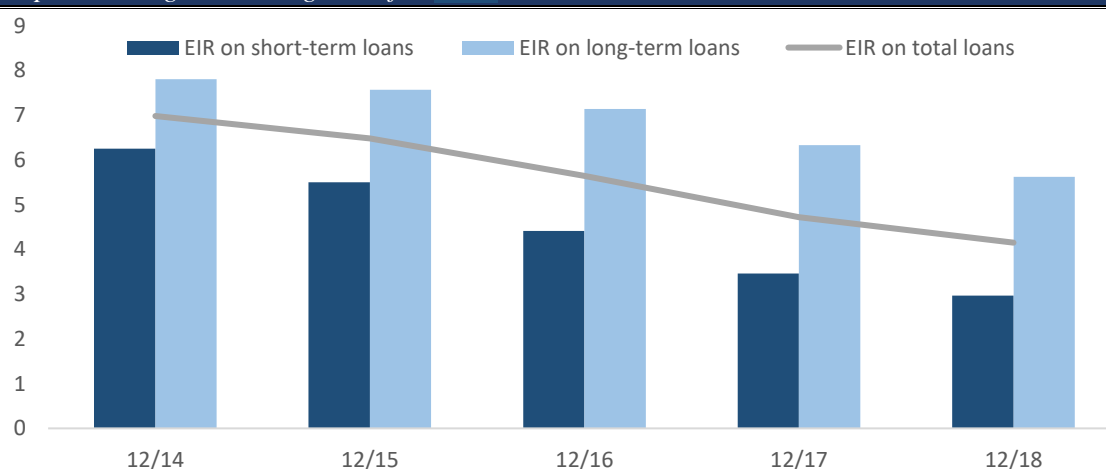
Observing the period of the last five years, it is evident a moderate, but continuous drop of weighted average EIR for loans calculated on annual level, at first place with corporates, while in retail a continuous drop from previous years stopped in 2015, afterward a slight increase was recorded in 2016, having drop trend again in 2017 and 2018 as presented in the following table:

Table 33: Weighted Average NIR and EIR on Loans on Annual level

DESCRIPTION	2014.		2015.		2016.		2017.		2018.	
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	2	3	4	5	6	7	8	9	10	11
1. Weighted IR on short-term loans	5,72	6,25	5,10	5,50	4,01	4,41	3,20	3,46	2,67	2,97
1.1. Corporate	5,70	6,17	5,07	5,42	3,96	4,28	3,13	3,33	2,61	2,84
1.2. Retail	7,98	11,39	7,84	11,37	8,07	13,91	8,32	15,36	7,53	14,66
2. Weighted IR on long-term loans	6,98	7,80	6,60	7,57	6,08	7,14	5,30	6,33	4,66	5,62
2.1. Corporate	6,19	6,81	5,63	6,20	4,91	5,23	4,02	4,33	3,61	3,91
2.2. Retail	7,66	8,66	7,36	8,65	7,10	8,79	6,31	7,89	5,55	7,06
3. Total weighted IR on loans	6,32	6,98	5,81	6,48	4,94	5,64	4,12	4,72	3,56	4,15
3.1. Corporate	5,84	6,35	5,23	5,64	4,22	4,54	3,36	3,59	2,88	3,13
3.2. Retail	7,68	8,77	7,37	8,74	7,13	8,95	6,35	8,04	5,59	7,22

The graph below shows development trends of weighted EIR on short-term, long-term and total loans in the FBiH over the last five years.

Graph 14: Weighted average EIR for loans on annual level



²⁶ Decision on Uniform Method of Calculation and Disclosure of Effective Interest Rate on Loans and Deposits (Official Gazette of Federation of BiH, No. 81/17) and Instructions for Calculation of Weighted Nominal and Effective Interest Rate

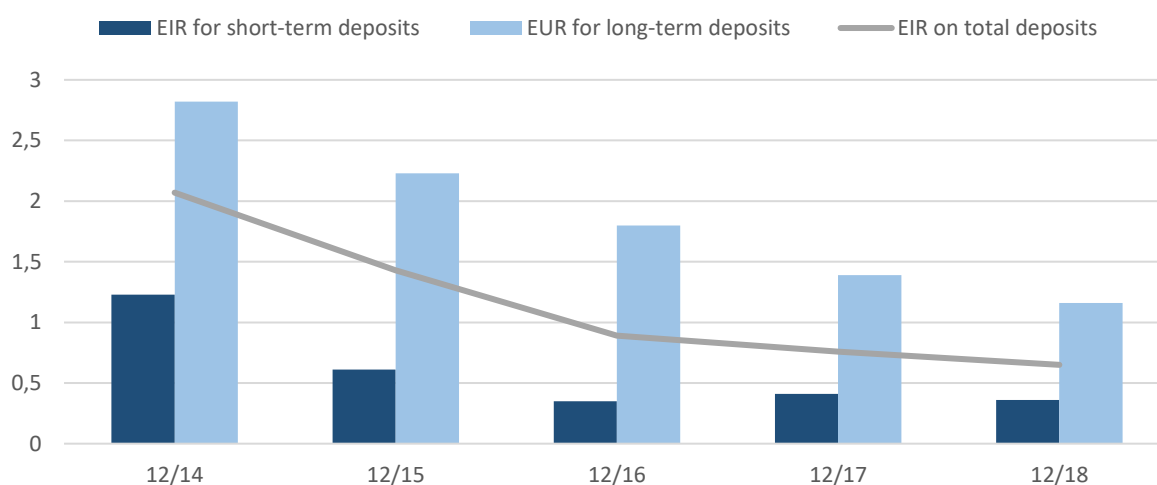
When analysing trend of weighted average interest rates on deposits at annual level, over the five-years period, it is evident a continuous drop of interest rates on long-term deposits which is continued in 2018 as well.

Following a continues drop of interest rates with short-term deposits, it has a slightly arise in 2017, but continued to drop in 2018 (with the exception of weighted interest rates for short-term deposits up to three months), which is presented in the table below:

<i>Table 34: Weighted average NIR and EIR for deposits per annum</i>										
DESCRIPTION	2014.		2015.		2016.		2017.		2018.	
	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
1	2	3	4	5	6	7	8	9	10	11
1. Weighted interest rate short-term deposits	1,20	1,23	0,60	0,61	0,35	0,35	0,40	0,41	0,38	0,36
1.1. up to three months	0,79	0,80	0,27	0,28	0,27	0,27	0,35	0,36	0,41	0,39
1.2. up to one year	1,72	1,76	1,25	1,28	0,68	0,69	0,61	0,62	0,31	0,31
2. Weighted interest rate long-term deposits	2,79	2,82	2,20	2,23	1,78	1,80	1,37	1,39	1,15	1,16
2.1. up to three years	2,61	2,64	2,08	2,10	1,59	1,62	1,22	1,24	0,99	1,01
2.2. over three years	3,32	3,34	2,48	2,52	2,33	2,34	1,82	1,85	1,44	1,45
3. Total weighted interest rates	2,04	2,07	1,41	1,43	0,88	0,89	0,75	0,76	0,66	0,65

The graph below shows trend of weighted EIR for short-term deposits, long-term deposits and the total deposits in the FBiH in the last five years:

Graph 15: Weighted average EIR on deposits per annum



1.3.7. Liquidity

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

The liquidity of the banking sector in the FBiH might be assessed as satisfactory, considering the share of liquid assets in total assets as well as the maturity adjustment of financial assets and financial liabilities. Given the high correlation between credit risk, the dominant risk in banks' operations, and liquidity risk, one of the most important factors impacting the liquidity position of banks is the banks' ability to adequately manage their assets and liabilities, which encompasses

obtaining assets with good performances and the quality which ensures that bank loans, along with interest are repaid in accordance with maturity dates.

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

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

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Table 35: LCR					
Description	30.06.2018.	30.09.2018.	31.12.2018.	(3/2)	(4/3)
1	2	3	4	5	6
Liquidity buffer	3.801.780	4.034.644	4.325.281	106	107
Net liquidity outflows	1.150.369	1.353.143	1.392.629	118	103
LCR	330,5%	298,2%	310,6%	90	104

In the third quarter of 2018, LCR decreased by 32.3 percentage points, having increase by 12.4 percentage points at the end of 2018. As of 31.12.2018, all banks in the banking sector of the FBiH fulfil requirements related to LCR, and most of the banks is significantly above the regulatory minimum.

In the structure of founding sources for the banking sector as of 31.12.2018, the largest share of 79.7% refers to deposits, followed by loans taken (including subordinated debt) with a share of 4.5%. Loans taken have longer maturities and represent a quality source for the approval of long-term loans, while also improving the maturity adjustment of assets and liabilities items, although a downward trend of the aforementioned has been evident for an extensive period of time.

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

-in 000 BAM-

Table 36: Maturity structure of deposits								
Deposits	31.12.2016.		31.12.2017.		31.12.2018.		Index	
	Amount	Share %	Amount	Share %	Amount	Share %		
1	2	3	4	5	6	7	8=(4/2)	9=(6/4)
Savings and call deposits (up to 7 days)	7.961.438	56,1	9.227.317	58,3	10.562.758	60,0	116	114
7-90 days	690.281	4,9	988.235	6,2	1.058.414	6,0	143	107
91 day up to one year	1.982.775	14,0	2.144.316	13,6	2.616.873	14,9	108	122
1. Total short-term	10.634.494	75,0	12.359.868	78,2	14.238.045	80,9	116	115
Up to 5 years	3.344.169	23,6	3.280.639	20,7	3.193.809	18,1	98	97
Over 5 years	197.611	1,4	174.216	1,1	172.783	1,0	88	99
2. Total long-term	3.541.780	25,0	3.454.855	21,8	3.366.592	19,1	98	97
Total (1 + 2)	14.176.274	100	15.814.723	100	17.604.637	100	112	111

In 2018, short-term deposits by remaining maturity held a share in the amount of 80.9%, while long-term deposits held a 19.1% share in total deposits. Compared to the end of 2017, short-term deposits increased by BAM 1.9 billion or 15.2%, while long-term deposits recorded a decrease in the amount of BAM 88.3 million or 2.6%. The share in total deposits had increase by 2.7 percentage points with short-term deposits, i.e. decrease in case of long-term deposits compared to the end of 2017

When analysing the structure of long-term deposits, it is evident domination by deposits with remaining maturity of up to five years (95% of long-term deposits and 18.1% of total deposits). Deposits with remaining maturity of over five years recorded a decrease in the amount of BAM 1.4 million or 1%.

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

-in %-

Table 37: Liquidity Ratios			
Ratios	31.12.2016.	31.12.2017.	31.12.2018.
1	2	3	4
Liquid Assets ²⁷ / Total assets	28,4	30,2	30,8
Liquid assets/short-term financial liabilities	47,1	47,6	46,3
Short-term financial liabilities/total financial liabilities	71,9	74,9	77,7
Loans/ Deposits and loans taken ²⁸	81,7	79,2	77,6
Loans/deposits, loans taken and subordinated debts ²⁹	81,0	78,5	77,1

Indicator- the loans/deposits and loans taken ratio, as of 31.12.2018 was 77.6%, that is 1.6 percentage points lower compared at the end of 2017. The ratio is above 85% with respect to four banks. The share of short-term financial liabilities in total financial liabilities is still high, but the liquid assets/total assets ratio is continuously satisfactory.

A very important aspect of the monitoring and analysis of the liquidity position is the maturity adjustment of remaining maturities of financial assets and liabilities items in accordance with the time scale created to capture a time horizon of 180 days³⁰. For the purpose of planning the required level of liquid assets, banks need to plan the sources of funding and structure of adequate liquidity potential, which is also tied to plans for their credit policy. Loan maturity, i.e. the maturity of the loan portfolio, is determined right by the maturity of sources of funding. Since maturity transformation of funds in banks is inherently related to the functional characteristics of banking operations, banks are required to continuously control and maintain maturity mismatches between sources of funding and loans in accordance with the prescribed minimum limits.

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

-in 000 BAM-

Table 38: Maturity Adjustment of Financial Assets and Financial Liabilities – up to 180 Days					
Description	31.12.2016.	31.12.2017.	31.12.2018.	Index	
	Amount	Amount	Amount		
1	2	3	4	5=(3/2)	6=(4/3)
I 1-30 days					
1. Financial assets	7.515.361	8.462.124	9.513.038	113	112
2. Financial liabilities	7.909.801	9.193.511	10.426.004	116	113
3. Difference (+ or -) = 1-2	-394.440	-731.387	-912.966	-	-
Calculation of prescribed requirement in %					
a) Actual % = no.1 /no.2	95,0%	92,0%	91,2%		
b) Prescribed minimum %	85,0%	85,0%	85,0%		
Plus (+) or minus (-) = a - b	10,0%	7,0%	6,2%		
II 1-90 days					
1. Financial assets	8.384.767	9.416.671	10.556.456	112	112
2. Financial liabilities	8.476.151	10.041.101	11.346.039	118	113
3. Difference (+ or -) = 1-2	-91.384	-624.430	-789.583	-	-

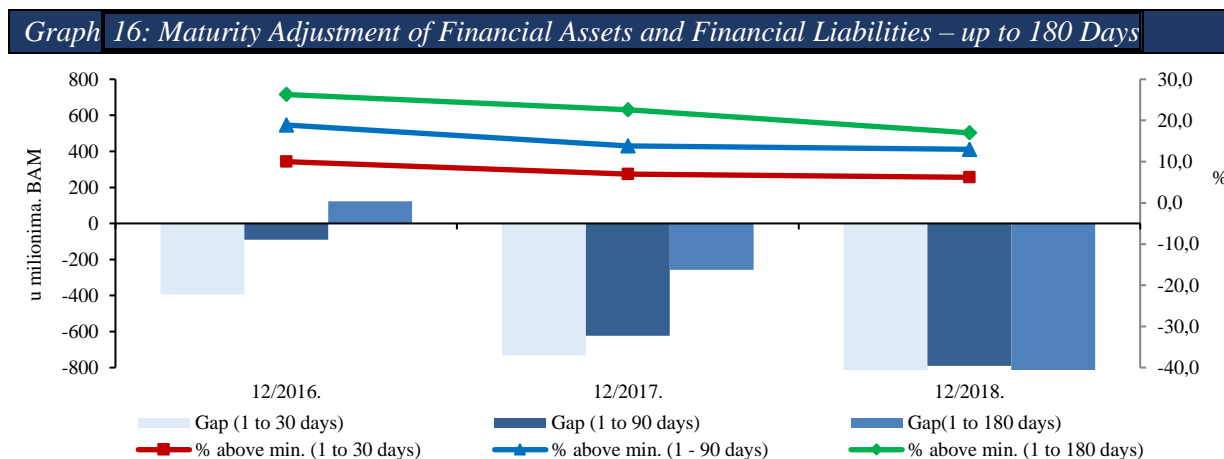
²⁷ Strict liquid assets: cash and deposits and other financial assets with maturity up to three months, excluding inter-bank deposits

²⁸ Empirical standards are: below 70% - very solid, 71%-75% - satisfactory, 76%-80% - marginal and marginally satisfactory, 81%-85% - unsatisfactory, over 85% - critical

²⁹ Previous ratio expanded, sources include subordinated debts, that is more realistic indicator

³⁰ Article 41 of the Decision on Liquidity Risk Management in Banks (Official Gazette of the Federation of BiH, No. 81/17): „Until the introduction of the NSFR referred to in Article 34 of this Decision, as a mandatory quantitative requirement towards banks, banks shall apply and report on the maturity adjustment of financial assets and financial liabilities and the structure of the largest sources, and thus accordingly, Article 6, paragraph (3), item 1, Art. 6a, 6b, 11, paragraph (2) and 12 of the Decision on Minimum Standards for Liquidity Risk Management in Banks shall remain applicable (Official Gazette of the Federation of BiH, No. 48/12, 110/12 and 45/14)“. The prescribed percentages for the maturity adjustment of financial assets and liabilities are as follows: min. 85% of sources of funding with maturity of up to 30 days must be used for facilities with maturity of up to 30 days, min. 80% of sources of funding with maturity of up to 90 days must be used for facilities with maturity of up to 90 days, and min. 75% of sources of funding with maturity of up to 180 days must be used for facilities with maturity of up to 180 days.

<i>Calculation of prescribed requirement in %</i>					
a) Actual % = no.1 / no.2	98,9%	93,8%	93,0%		
b) Prescribed minimum %	80,0%	80,0%	80,0%		
Plus (+) or minus (-) = a - b	18,9%	13,8%	13,0%		
<i>III 1-180 days</i>					
1. Financial assets	9.387.062	10.476.675	11.639.701	112	111
2. Financial liabilities	9.263.730	10.734.265	12.645.200	116	118
3. Difference (+ or -) = 1-2	123.332	-257.590	-1.005.499	-	-
<i>Calculation of prescribed requirement in %</i>					
a) Actual % = no.1 / no.2	101,3%	97,6%	92,0%		
b) Prescribed minimum %	75,0%	75,0%	75,0%		
Plus (+) or minus (-) = a - b	26,3%	22,6%	17,0%		



As of 31.12.2018, financial assets for all three intervals were lower than financial liabilities, due to the increase in financial liabilities, primarily deposits, than the increase in financial assets. As of 31.12.2018 the achieved maturity adjustment percentages are for all three intervals slightly lower than at the end of 2017, but still and significantly above the prescribed minimum by 6.2% in the first interval, 13.0% in the second interval, and 17% in the third interval.

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

1.3.8. Foreign Exchange (FX) Risk

In their operations, banks are exposed to risks originating from possible losses related to balance sheet and off-balance sheet items, incurred due to market price changes. One of these risks is FX risk arising as a result of changes in exchange rates and/or unadjusted levels of assets, liabilities and off-balance sheet items denominated in the same currency – individual FX position or all currencies of the bank's operations together – total FX position of the bank.

In order to ensure the implementation and realisation of prudential principles related to FX activities of banks and to reduce FX risk effects on their profitability, liquidity and capital, the

FBA has adopted the Decision on Foreign Currency Risk Management in Banks³¹, which prescribes the method for calculating the FX position and the maximum allowed exposure to foreign currency risk, i.e. limits for the open individual and total FX position (long or short) calculated in relation to the eligible capital of the bank³². To ensure that the FBA monitors the banks' compliance with the regulated limits and their exposure level to FX risk, banks are required to report to the FBA on a daily basis. Based on the review, monitoring and analysis of the submitted reports, it can be concluded that banks adhere to regulated limits and conduct their FX activities within such limits.

As of 31.12.2018 at the level of a banking sector foreign currency items in the currency structure of banks amounted to BAM 3.2 billion, held a share of 14.4% (at the end of 2017, it was BAM 2.3 billion or 11.2%). The currency structure of liabilities is quite different since the share of foreign currency liabilities is much higher and amounts to BAM 8.3 billion or 37.6% (at the end of 2017 it was BAM 7.7 billion, with a share of 38.2%). The table below provides the structure and trend of financial assets and financial liabilities and FX positions for the EUR as the key currency and the total FX position at the level of the banking sector:

-in BAM million-

Table 39: FX Adjustment of financial assets and financial liabilities (EUR and aggregate)³³

Description	31.12.2017.				31.12.2018.				Index	
	EUR		Total		EUR		Total		EUR	Total
	Amount	Share %	Amount	Share %	Amount	Share %	Amount	Share %	(6/2)	(8/4)
1	2	3	4	5	6	7	8	9	10	11
I Financial Assets										
1. Cash	906	11,0	1.349	15,2	1.437	15,5	1.882	19,0	159	140
2. Loans	27	0,3	28	0,3	264	2,9	265	2,7	975	942
3. Loans with a currency clause	6.415	77,7	6.429	72,4	6.482	70,1	6.490	65,6	101	101
4. Other	721	8,7	884	10,0	843	9,1	1.029	10,4	117	116
5. Other financial assets with a currency clause.	188	2,3	188	2,1	225	2,4	225	2,3	120	120
Total I (1+2+3+4+5)	8.257	100	8.878	100	9.251	100	9.891	100	112	111
II Financial Liabilities										
1. Deposits	6.076	74,4	6.725	76,2	6.614	74,8	7.284	76,5	109	108
2. Loans taken	813	9,9	813	9,2	855	9,7	855	9,0	105	105
3. Deposits and loans with a currency clause.	1.107	13,5	1.107	12,5	1.204	13,6	1.204	12,7	109	109
4. Other	176	2,2	180	2,0	166	1,9	172	1,8	94	95
Total II (1+2+3+4)	8.172	100	8.825	100	8.839	100	9.515	100	108	108
III Off-balance sheet										
1. Assets	98		147		80		131			
2. Liabilities	218		225		456		463			
IV Position										
Long (amount)					37		44			
%					1,5%		1,8%			
Short	36		27							
%	1,6%		1,2%							
Allowed	30,0%		30,0%		30,0%		30,0%			
Below the allowed limit	28,4%		28,8%		28,5%		28,2%			

If the structure of foreign currencies in the financial assets³⁴ is analysed, the dominant share is held by EUR with 80.1% (as of 31.12.2017 it was 73.2%), with an increase of nominal amount from BAM 1.7 billion to BAM 2.5 billion. The share of EUR in liabilities is 91.9% and compared to the end of 2017, increased in nominal amount from BAM 7.7 billion to BAM 8.3 billion.

When observed by banks and at the level of overall banking sector of the FBiH, it can be concluded that FX risk exposure of banks and the banking sector at the end of 2018 fluctuated

³¹ Official Gazette of the Federation of BiH, No. 81/17

³² Article 3 of the Decision on Foreign Currency Risk Management in Banks defines the following limits: for the individual FX position – up to 30% of the eligible capital for EUR, up to 20% for other currencies and up to 30% for the total FX position of the bank

³³ Source: Form 5 – FX position

³⁴ Source: Report on FX position of a bank: part of financial assets (in foreign currencies denominated in BAM). Financial assets is presented on net principles, i.e. reduced by value adjustment and reserves for potential liabilities.

within the prescribed limits. As of 31.12.2018, the long FX position was recorded with 10 banks and the short position with 5 banks. At the sector level, there is a long FX position of 1.8% of the total eligible capital of banks, which is 28.2 percentage points lower than allowed. The individual FX position for the EUR was 1.5%, which is 28.5% lower than allowed, with financial assets items being higher than financial liabilities (net long position).

1.4. COMPLIANCE OF BANKS IN THE PAYMENT SYSTEM OPERATIONS AND AML/CTF STANDARDS

1.4.1. Compliance of the banks in the payment system operations

In accordance with the internal organisation of the FBA, the control over the payment system operations is organised through the control of foreign exchange operations and control over payment system operations.

In 2018 the activities on the control of foreign exchange operations were reflected on further development of the Banking Registry, the authorised foreign exchange dealers and offices (hereinafter: the Registry), provision of the continues electronic reporting on the exchange operations and reporting control.

Through the control of data collected for the Registry, and comparing data received from banks and the FMF, and its harmonisation, it has been continued the administration, updating and maintenance of the Registry data. As of 31.12.2018, there were 74 authorised foreign exchange dealers and 497 exchange offices, which have a contract on foreign exchange operations concluded with the banks whose headquarter is in the FBiH.

The FBA control over reports on foreign exchange operations is carried out by the control over daily reports on the exchange operations in the banks and the authorised dealers, which have a contract concluded with the banks and the authorisation by the FMF. This activity assume control over daily reports on performed exchange operations in the 15 banks and 74 authorised dealers. The number of reports from authorised dealers is variable category and it depends of durability of issued order, and report itself is an overview of all exchange offices of one authorised dealer.

The information on foreign exchange payment operations is the result of the bank reports analyse about the scope of the payment operations, which identified 265 475 foreign exchange accounts in the FBiH, by different currencies (EUR, USD and other currencies). In the period from 01.01. to 31.12.2018, the turnover on these accounts amounted to BAM 27 908,0 million.

The overview of turnover presented in BAM by currencies is the following:

- EUR - BAM 24 833,6 million,
- USD – BAM 2 083,8 million and
- Other currencies - BAM 990, 6 million.

In the segment of internal payment system control of banks in the FBiH, banks were requested to submit data on internal payment by certain parameters (number of main accounts, number of other accounts, number of transactions, value of transactions etc.) for the reporting period. To verify those data, they are compared with data in the registries maintained by the Financial–intelligence Agency (Account Registry) and the CBBH (data on the volume of inter-banking payments). By data comparison it may be concluded that those are relevant and describe the volume of payment transaction satisfactory.

The table below shows data on the number of main and other accounts as per the status:

Table 40: Data on the number of main and other accounts as per the status

No.	Type/status of an account	Active	Blocked	Total
1.	Main account	104.524	53.070	157.594
2.	Other accounts	98.283	46.188	144.471
3.	Total (1+2)	202.807	99.258	302.695

Through these accounts in the total of 154.334.296 transactions, the turnover in the amount of BAM 190.110.922 thousands was performed

The table below shows an overview of the number and value of the transaction, by type of transaction.

Table 41: Number and value of transactions, by type of transaction

No.	Type of transactions	No. of transactions	No. transact. (%)		Value (in BAM 000)	No. transact. (%)	
			Total	Interbank.		Total	Interbank.
1.	Interbank	50.103.111	32,5	100	108.563.270	57,1	100
1.1.	RTGS	1.158.037	-	2,3	90.070.854	-	83,0
1.2.	Giro Clearing	48.945.074	-	97,7	18.492.415	-	17,0
2.	Intrabank	104.231.185	67,5	-	81.255.148	42,9	-
3.	Total (1+2)	154.334.296	100	-	190.110.922	100	-

1.4.2. Compliance of banks with the AML/CTF standards

The assessment of banks' compliance in 2018 is based on compliance assessment with AML/CTF standards in the previous period, the situation found during inspections on execution of orders, and on the basis of information from the external sources.

During the inspections on execution of orders, the FBA found that out of 57 issued orders number of 28 have been executed that is 49.1%, and 29 orders have partially executed, that is 50.9% non-executed orders. Detailed overview of the execution status for orders issued to banks by the FBA is presented in the table below:

Table 42: Overview of the orders' status by policies

no.	Policy on:	No of issued orders	%	No. of executed orders	%	%	No. of partially executed	%	%	Σ (%)
1	2	3	4= 3/Σ3 *100	5	6= 5/Σ5*100	7= 5/3*100	8	9= 8/Σ8*100	10= 8/3*100	11=Σ 7,10
1.	Client eligibility	9	15,8	6	21,4	66,7	3	10,3	33,3	100
2.	Identification of client	16	28,1	1	3,6	6,2	15	51,7	93,8	100
3.	Continuous monitoring of the account and transactions	15	26,3	5	17,9	33,3	10	34,5	66,7	100
4.	AML/CTF Risk Management	17	29,8	16	57,1	94,1	1	3,5	5,9	100
5.	Total	57	100	28	100	-	29	100	-	-
6.	Total (%)	100	-	49,1	-	-	50,9	-	-	-

Following the above mentioned, it might be concluded that there are no reasons for supervisory concern in terms of the AML/CTF risk management. Risk quantity is moderate. The quality of risk management which might appear in the banking operations as a consequence of the money laundering and financing terrorist activities (reputational risk, operational risk, legal risk, concentration risk in assets and deposits), in the banking sector of the FBiH is still satisfactory and rising trend has continued. Therefore, and taking into account the Risk Assessment on money laundering and financing terrorist activities, in BiH, and assessments of the international organisations which assessed compliance of the BiH legislation and institutions with AML/CFT standards, the banking sector of the FBiH is mainly complied with AML/CFT standards.

On the basis of reports banks submit to the FBA on cash transaction, connected and suspicious transactions on which they reported to FOO (AML/CFT template), and on the basis of inspections to banks, the number and value of the reporting transactions have been determined, which is in total 290.027 transactions in the value of BAM 14 405 055 thousands for 2018. Compared to 2017, number of reporting transactions increased by 3.2% and their value increased by 3.7%.

The following table provides a comparative review of the number and the value of the reporting transactions, presented in the BAM thousands, by the reporting type (before execution, within the period prescribed and on expiry of a given period):

-in 000 BAM-

<i>Table 43: Number of reported transactions, by the number and the value</i>							
No.	Description	01.01.-31.12.2017.		01.01.-31.12.2018.		Index	
		No.	Value	No.	Value	No.	Value
1	2	3	4	5	6	7 (5/3)	8 (6/4)
1.	Transactions reported before execution	12	18.450	8	5.724	67	31
2.	Transactions reported within 3 days	280.899	13.869.448	289.790	14.388.884	103	104
3.	Transactions reported upon expiration of 3 days period	38	8.838	22	959	58	11
Total:		280.949	13.896.736	290.027	14.405.055	103	104

The overview of reported suspicious transactions by the number and the value, in BAM thousands is presented in the table below:

-in 000 BAM-

<i>Table 44: Overview of reported suspicious transactions by the number and the value</i>							
No.	Description	01.01.-31.12.2017.		01.01.-31.12.2018.		Index	
		No.	Value	No.	Value	No.	Value
1	2	3	4	5	6	7 (5/3)	8 (6/4)
1.	Transactions reported before execution	12	18.450	8	5.724	67	31
2.	Transactions reported within 3 days	57	9.902	50	10.667	88	108
3.	Transactions reported upon expiration of 3 days period	34	8.693	6	315	18	4
Total:		103	37.045	64	16.706	62	45

The following table provides an overview of the reported suspicious clients:

<i>Table 45: Overview of the reported suspicious clients</i>				
No.	Description	01.01.-31.12.2017.	01.01.-31.12.2018.	Index
1	2	3	4	5 (4/3)
1.	The suspicious clients for which FOO requested the additional information	4	4	100
2.	The suspicious clients for which FOO did not request the additional information	71	58	82
Total:		75	62	83

Within the structure of reporting transactions it is evident drop of the reported suspicious transactions before the execution. In eight cases the banks took preventive actions (12.5%), where the banks submitted reports on suspicious transactions to the FOO before the execution. This implicated the conclusion that banks could pay more attention to analyse transactions before the execution. Downward trend is also evident with transactions reported upon expiration of three-day period, which was in the same period of the last year the consequence of the execution of the FBA orders. This implies a need for banks to pay due attention to the corrective monitoring. The FOO requested banks to send the additional information for seven reported suspicious clients (3.1%). It is necessary that banks improve indicators for recognition of suspicious transactions and client actions, to achieve a full compliance with reporting standards and to timely and accurately report to the FOO.

1.5. RECOMMENDATIONS FOR THE BANKING SECTOR

Considering the significant, demanding and comprehensive processes related to the reform of the regulatory framework for banking operations and supervision and the establishment of a new framework for bank resolution, the start of a multi-year project of shifting from the existing CAMELS-based supervisory methodology to a completely new supervisory framework – the SREP, the establishment of a new framework of supervisory reporting together with a gradual transition from existing reporting forms, in order to maintain the continuity of banking supervision and gradually adjust to the new method of assessing risk profiles of banks, in 2018, the FBA has continued to strengthen the supervisory capacities in order to implement the new regulatory framework in accordance with the BL, the LoBA and the set of regulations adopted on their bases.

In the period to come, the FBA will continue its activities to further harmonisation of the regulatory framework with the relevant EU Directives, international standards and best supervisory practices, which is part of the preparations of BiH for the EU accession.

In accordance with its prescribed competences for banking supervision in the FBiH, the FBA will continue to undertake measures and activities to preserve and strengthen the stability of the banking sector and protection of depositors, as well as to improve the safe, high-quality and legitimate operations of banks in the FBiH.

The aforementioned measures and activities will be in particular directed towards the continuation of banking supervision, with a focus on:

- control of the dominant risk segments of operations banks of systemic importance for the development of lending activities and banks in which large amounts of savings and other deposits are concentrated, applied practices in banks in the segment of protection of users of financial services and guarantors, etc.;
- capital strengthening of banks, especially those with above-average assets growth and banks with a decrease in the capital adequacy ratios;
- monitoring the application of IAS/IFRS 9, with the aim of adequately evaluation of financial assets and allocating reserves for expected loan losses in the function of maintaining adequate capitalisation of banks in the FBiH;
- systematic monitoring of banks' activities on the application of AML/CTF standards and improvement of cooperation with other competent institutions in this segment;
- establishment, expansion and improvement of cooperation with competent supervisory bodies for supervision of EU banking groups whose members are seated in the FBiH, as well as other countries, with the aim of more efficient supervision and improvement of supervisory practices, as well as cooperation and exchange of information with the ECB

and the EBA in terms of supervision and banking regulation, and with international financial institutions;

- improvement of cooperation through the signing of new Cooperation Agreements with relevant institutions in BiH that are included in the institutional framework for supervision, crisis management and systemic risk management, protection of users of financial services, and
- continuation of cooperation with the BA BiH with the aim of improving the operations of banks, the compliance of their operations with regulations, international standards and rules of the profession, as well as the requirements of the market, etc.

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

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

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

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

- credit support to the corporate and retail segment, applying the prescribed requirements in terms of credit risk management and maintaining adequate capitalisation in relation to the risk profile of the bank;
- efficiency of an integral risk management system and improvement of early identification system for increased credit risks, i.e. deterioration of loan portfolio quality, and more efficient management of NPL;
- adjustment of business operations with the new regulatory requirements for banking operations and supervision;
- consistent and full application of IFRS 9, together with adequate documentation of the first application of the aforementioned and comparative data relative to IAS 39;
- consistent application of regulations in the AML/CTF segment, protection of users of financial services and guarantors, security and protection of money in the bank and in transport, and

- Active participation in the implementation of reform measures and measures to address the problem of over indebtedness of citizens, as well as financial consolidation of companies, etc.

2. SECTOR OF NON-DEPOSIT FINANCIAL INSTITUTIONS

2.1. REGULATORY ACTIVITIES

Over 2018 the FBA actively participated in drafting new LoMCO within the Working group nominated by the FMF. Activities of the Working group resulted with adoption of the draft LoMCO by the Government of the FBiH and processing to parliamentary procedure for adoption.

In the segment of operation and supervision of non-deposit financial institutions, and in accordance to its competences the FBA improved the regulatory framework, by adoption of regulations – decisions governing operation and supervision of MCO, leasing companies and factoring operations in the FBiH, and in particular in relation to changes and amendments of regulatory requirements related to: procedure of issuance operating license and other approvals for MCO and leasing companies, requirements and other operational standards and limitations for MCO, supervision of MCO and leasing companies and the FBA procedures in supervision etc.

Detailed overview of the regulatory framework for operations and supervision of sector of non-deposit institutions is an integral part of the Annex 1 of this Information – Legal framework for FBA and BSEs in the FBiH.

FBA will continue to improve and develop regulations in the segment of supervision of sector of non-deposit institutions in accordance to its competences, with the objective to preserve and strengthen the stability of non-deposit financial institutions in the FBiH and improvement of its legal, prudential and quality operations.

2.2. MICROCREDIT SECTOR

2.2.1. THE STRUCTURE OF MICROCREDIT SECTOR IN THE FBiH

2.2.1.1. Status, Number and Branching

As of 31.12.2018, 12 MCO have the FBA's operating licence, 11 of which are MCF (non-profit organisations) and 1 of which is an MCC (profit organisation). According to data from the Registry of Microcredit Organisations and their organisational units, which is maintained by the FBA in line with Article 13 of the LoMCO, there was a total of 362 organisational units of MCO seated in the FBiH, as of 31.12.2018, that is six organisational units or 1.7% more compared with data from 31.12.2017. As of 31.12.2018, four microcredit organisations seated in RS perform their operations in the FBiH through 45 organisational units that is increase for six organisational units or 15% compared with 31.12.2017.

Annex 8 includes the general information on MCF and MCC, which have the FBA's operating licence for micro lending business operations as of 31.12.2018.

2.2.1.2. Ownership structure

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

2.2.1.3 Structure of Human Resources

As of 31.12.2018, the total headcount of the microcredit sector was 1 461 person, which is up by 62 persons or 4.4% compared to 31.12.2017. MCF (11) employ 1 173 persons or 80.3% and MCC 288 employees or 19.7%.

Comparative data on number and qualification structure of the employees are presented in the table below:

<i>Table 46: Employees Qualification structure</i>								
Educational qualifications	No. of employees						Index	
	31.12.2016.		31.12.2017.		31.12.2018.		(4/2)	(6/4)
1	2	3	4	5	6	7	8	9
University degree	575	46,0%	680	48,6%	725	49,6%	118	107
Two-year post-secondary school qualification	115	9,2%	135	9,6%	135	9,3%	117	100
Secondary School Qualification	547	43,7%	572	40,9%	589	40,3%	105	103
Other	14	1,1%	12	0,9%	12	0,8%	86	100
Total	1.251	100%	1.399	100%	1.461	100%	112	104

As of 31.12.2018, in the employee structure the highest share is held by the employees with the university degree - 49,6%, followed by the secondary school qualification of 40,3%, the two-year post-secondary school qualification share of 9.3%.

It is evident that in the period observed the total number of employees in the microcredit sector records slight continues growth, which is more evident in 2017 (11,8%).

2.2.2. FINANCIAL PERFORMANCE INDICATORS

2.2.2.1. Balance Sheet

As of 31.12.2018, the total assets of microcredit sector in the FBiH amounted to BAM 580.4 million, which is up by BAM 53.4 million or 10.1% compared to the balance as of 31.12.2017. Increase of total assets of MCC amounts to BAM 39.6 million or 36.9%, and increase of total assets of MCF amounted to BAM 13.8 million or 3.3%. In the total assets of microcredit sector, MCC holds a share of 25.3% (BAM 147.0 million, five MCFs hold a share of 67.5% (BAM 392.0 million), which together is 92.8% of the total assets of the microcredit sector of the FBiH. The other six MCFs hold a share of 7.2% (BAM 41.4 million) in the total assets of the sector.

Annexes 9 and 10 of this Information show an overview of the consolidated balance sheet of MCF and MCC, while the Annex 11 shows an overview of the key financial indicators of MCO as of 31.12.2018.

The aggregated balance sheet of microcredit sector as of 31.12.2018, with comparative data as of 31.12.2017 is presented in the table below:

<i>Table 47: Balance sheet of microcredit sector</i>									
No.	Description	31.12.2017			31.12.2018				
		MCFs Balance	MCCs Balance	Total	MCF Balance	MCC Balance	Total	%	Index

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1	2	3	4	5=(3+4)	6	7	8=(6+7)	9	10
ASSETS									
1.	Cash	21.989	24.841	46.830	48.291	9.107	57.398	9,9	123
2.	Facilities to banks	1.210	0	1.210	210	0	210	0,0	17
3.	Loans	329.758	81.396	411.154	322.369	134.551	456.920	78,7	111
4.	Loan loss provisions	-2.716	-542	-3.258	-2.232	-672	-2.904	-0,5	89
5.	Net loans	327.042	80.854	407.896	320.137	133.879	454.016	78,2	111
6.	Business premises and other fixed assets	28.383	430	28.813	24.918	1.751	26.669	4,6	93
7.	Long-term investment	33.061	0	33.061	33.061	0	33.061	5,7	100
8.	Other assets	8.062	1.243	9.305	6.900	2.270	9.170	1,6	99
9.	Provisions for other assets items, except loans	-158	-30	-188	-135	-36	-171	0,0	91
Total assets		419.589	107.338	526.927	433.382	146.971	580.353	100	110
LIABILITIES									
10.	Loan commitments	177.140	68.856	245.996	177.970	101.712	279.682	48,2	114
11.	Other commitments	21.215	4.656	25.871	21.647	6.155	27.802	4,8	107
12.	Capital	221.234	33.826	255.060	233.765	39.104	272.869	47,0	107
Total liabilities		419.589	107.338	526.927	433.382	146.971	580.353	100	110
13.	Off-balance sheet records	110.554	420	110.974	105.572	1.506	107.078		96

As of 31.12.2018, in the assets structure, cash funds amount to BAM 57.4 million or 9.9%, and are up by BAM 10.6 million or 22.6% compared to 31.12.2017. That is the result of cash funds increase with MCF for the amount of BAM 26.3 million or 119.6% and simultaneous, decrease of cash funds with MCC for the amount of BAM 15.7 million or 63.3% compared to 31.12.2017.

As of 31.12.2018, the facilities to banks amount to BAM 0.2 million, and compared to the same period of the previous business year they are down by BAM one million or 82.6%.

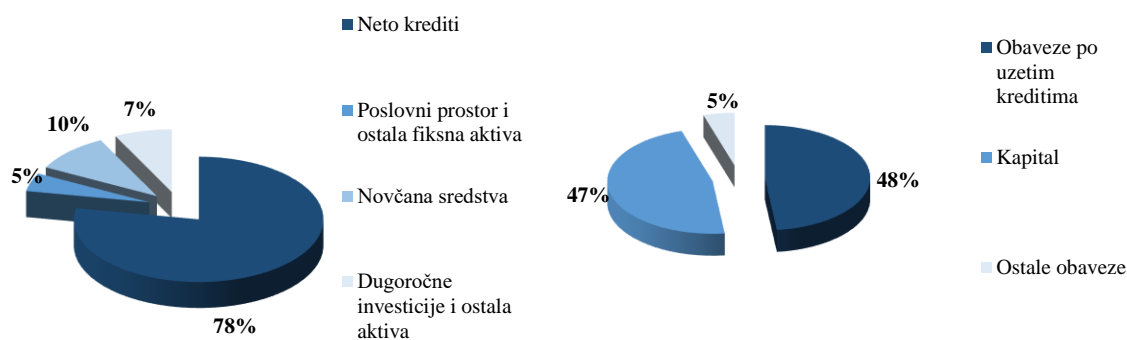
Net microloans, i.e. gross microloans net of LLP amount to BAM 454.0 million or 78.2% of total assets of microcredit sector in the FBiH as of 31.12.2018, and are up by BAM 46.1 million or 11.3% compared to 31.12.2017. Net microloan growth compared to the end of the previous year amounted to BAM 53.0 million or 65.6%, while at the level of MCF decrease was recorded in the total amount of BAM 6.9 million or 2.1% compared to 31.12.2017. The amount of RKG at the level of microcredit sector in the FBiH recorded a nominal drop by BAM 0.4 million or 10.9%. Gross microcredit portfolio at the level of microcredit sector in the FBiH recorded a growth for the amount of BAM 45.8 million or 11.1% and amounted to BAM 456.9 million or 78.7% of the total assets in the sector.

In regard to other balance sheet positions (fixed assets, long-term investments, other assets) there was no significant changes compared to the end of 31.12.2017. The fixed asset rate in relation to total assets decreased by donated capital, at the level of microcredit sector amount to 5.0%, as of 31.12.2018, which is within the standard rate up to 10%, where one MCF has the rate significantly above the standard indicator.

As of 31.12.2018, the total off-balance evidence amount to BAM 107.1 and it decreased by BAM 3.9 million or 3.5% compared to 31.12.2017. Out of this amount, the largest item relates to total receivables on loans written down in the amount of BAM 106.7 million or 99.6% of the total off-balance evidence. Remaining amount of BAM 0.4 million relates to the evidence of agent businesses.

The assets and liabilities structure of the microcredit sector, as per final not revised reporting data as of 31.12.2018 is shown in the graph below:

Graph 17: The structure of assets and liabilities



2.2.2.2. Capital and Liabilities

Out of the total microcredit sector liabilities in the FBiH which amount to BAM 580.4 million as of 31.12.2018, the amount of BAM 279.7 million or 48.2% million refers to loan commitments. The total capital of microcredit sector of the FBiH amounts to BAM 272.9 million or 47.0%, while the remaining amount of BAM 27.8 million or 4.8% refers to other commitments (income tax, employees, suppliers etc.). Compared to 31.12.2017, in 2018, it is evident growth of loan commitments by the amount of BAM 33.7 million or 13.7% which mainly refers to the MCC commitment growth.

Within period observed, the total increase of capital at the level of microcredit sector amounted to BAM 17.8 million or 7.0%, while increase of other commitments was BAM 1.9 million or 7.5%.

The maturity structure of loans taken is presented in the table below:

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Table 48: Maturity Structure of Loans taken										
No.	Description	31.12.2017				31.12.2018				Index
		MCF	MCC	Total	%	MCF	MCC	Total	%	
1	2	3	4	5=(3+4)	6	7	8	9=(7+8)	10	11=9/5
1.	Liabilities on short-term loan	86.518	18.273	104.791	42,6	69.189	33.197	102.386	36,6	98
2.	Liabilities on long-term loans	90.622	50.583	141.205	57,4	108.781	68.515	177.296	63,4	126
Total		177.140	68.856	245.996	100	177.970	101.712	279.682	100	114

In the structure of total loan commitments, long-term microloans have a share of 63.4% and compared to 31.12.2017 are up by BAM 36.1 million or 25.6%, while short-term microloans have a share of 36.6% and within period observed are down by the amount of BAM 2.4 million or 2.3%. Out of the total loan commitments, 36.4% refers to MCC loan commitments, where MCC increased loan commitments by 47.7% within period observed, and from this source the growth of microcredit portfolio was financed in the same period.

Out of the total increase of capital of microcredit sector in the FBiH, which amounted to BAM 17.8 million or 7.0% compared to 31.12.2017, the amount of BAM 5.3 million or 29.6% of the total increase of capital refers to increase of MCC, while the capital of all MCFs increased by the amount of BAM 12.5 million or 70.4% of the total capital increase of microcredit sector in 2018.

The structure of capital in the microcredit sector is shown in the table below:

Table 49: The Structure of Capital in Microcredit Sector

No.	Description	31.12.2017.					31.12.2018.					Index
		MCFs Balance	%	MCCs Balance	%	Total	MCFs Balance	%	MCCs Balance	%	Total	
1	2	3	4	5	6	7=(3+5)	8	9	10	11	12=(8+10)	13=12/7
1.	Donated capital	45.851	20,7	0	0,0	45.851	48.076	20,6	0	0,0	48.076	105
2.	Core capital	3.820	1,7	30.600	90,5	34.420	3.820	1,6	30.600	78,3	34.420	100
3.	Surplus/deficit of income over expenses	169.831	76,8	0	0,0	169.831	181.168	77,5	0	0,0	181.168	107
4.	Issue premiums	0	0,0	0	0,0	0	0	0,0	0	0,0	0	0
5.	Unallocated profit	0	0,0	1.317	3,9	1.317	0	0,0	6.504	16,6	6.504	494
6.	Legal reserves	0	0,0	1.909	5,6	1.909	0	0,0	2.000	5,1	2.000	105
7.	Other reserves	1.732	0,8	0	0,0	1.732	701	0,3	0	0,0	701	40
Total capital		221.234	100	33.826	100	255.060	233.765	100,0	39.104	100,0	272.869	107

Out of the total capital of microcredit sector of the FBiH, capital of MCF amounts to BAM 233.8 million and it is by BAM 12.5 million or 5.7% higher than as of 31.12.2017, and the largest item is the excess of income over expenses which amounts to BAM 181.2 million and presents 77.5% of the total MCF capital. Compared to 31.12.2017 this item has been increased by the amount of BAM 11.3 million or 6.7%. As of 31.12.2018, other items of MCFs capital were: donated capital in the total amount of BAM 48.1 million or 20.6%, the core capital in the total amount of BAM 3.8 million or 1.6% and other reserves in the total amount of BAM 0.7 million or 0.3%. Out of the total amount of donated capital – donations for credit fund, reported by 10 MCFs, the amount of BAM 31.0 million or 64.5% refers to three MCFs, where the amount of BAM 18.8 million or 39.1% of the total donated capital refers to one MCF.

The total capital of MCC amounts to BAM 39.1 million which accounts for 14.3% of the total capital of microcredit sector, where within its structure the largest item is the core capital in the amount of BAM 30.6 million or 78.3%, while other items relate to unallocated profit in the amount of BAM 6.5 million or 16.6% and regulatory reserves in the amount of BAM 2.0 million or 5.1%. Compared to 31.12.2017, the total capital of MCC increased by the amount of BAM 5.3 million or 15.6%, as a result of unallocated profit increase for the amount of BAM 5.2 million or 393.8%.

The total capital of microcredit sector in the FBiH, reduced by the amount of donated capital, amount to BAM 225.0 million, which presents 38.7% of the total liabilities, where in case of two MCFs total capital shall have a negative value

Observing the indicator of capital ratio reduced by the amount of donated capital in relation to the assets, which amount to 38.7% at the level of microcredit sector as of 31.12.2018, it can be concluded that it is in line with standard (more than 10%), where two MCFs are not aligned with this standard, since this indicator has a negative value.

Other liabilities at the level of microcredit sector amount to BAM 27.8 million as of 31.12.2018, which presents 4.8% of the total liabilities. Compared with 31.12.2017 other liabilities are increased by the amount of BAM 1.9 million or 7.5%, which is mainly related to the growth of MCC liabilities in the amount of BAM 1.5 million, which is 77.6% of other liabilities increase at the level of the microcredit sector.

2.2.2.3. Assets and Asset Quality

Microcredit portfolio presented in the gross amount in the total balance amounts to BAM 456.9 million or 78.7% of the total assets of microcredit sector, i.e. with a decrease of related loan loss provisions in the total amount of BAM 2.9 million, net microcredit portfolio amount to BAM 454.0 million or 78.2% of the total assets of microcredit sector in the FBiH.

Compared to 31.12.2017, net microcredit portfolio increased by the amount of BAM 46.1 million or 11.3%, and in the same period loan loss provisions decreased by 10.9% (absolute amount of decrease is BAM 0.4 million).

The LLP ratio in relation to the total gross microcredit portfolio amount to 0.64% as of 31.12.2018, which is decrease of 0.15 percentage points compared to the same ratio as of 31.12.2017 when it amounted 0.79%.

In the structure of total net microcredit portfolio, MCFs net micro loans amount to BAM 320.1 million and presents 70.5% of the total microloans at the sector level, while the amount of BAM 133.9 million or 29.5% of total microloans at sector level refers to MCC. Compared to 31.12.2017, MCFs net microloans decreased by the amount of BAM 6.9 million or 2.1%, while MCCs net microloans increased by the amount of BAM 53.0 million or 65.6%.

Net microloans, which make up total microloans net of LLP, are presented in the following table:
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<i>Table 50: Net microloans</i>								
No	Description	31.12.2017			31.12.2018			Index
		MCF	MCC	Total	MCF	MCC	Total	
1	2	3	4	5=(3+4)	6	7	8=(6+7)	9=8/5
1.	Microloans (gross)	329.758	81.396	411.154	322.369	134.551	456.920	111
2.	Loan Loss Provisions	2.716	542	3.258	2.232	672	2.904	89
3.	Net microloans (1.-2.)	327.042	80.854	407.896	320.137	133.879	454.017	111

As of 31.12.2018, in the maturity structure of the total microcredit portfolio, presented on gross basis, the highest share has a long-term microcredit with 93.1%, short-term loans have a share of 6.6% and due receivables for microloans 0.3%. Observing the sectoral structure, it is dominant share of microloans approved to natural persons 97.2%, and remaining 2.78 refers to microloans approved to legal persons.

Within microcredit portfolio of natural persons, the highest share hold microcredits approved for agriculture – 34.1%, and loans approved for housing needs hold a share of 21.7% followed by other purposes with share of 20.8% and services with 18.3%, while the share of trade is 3.4% and production 1.9%.

Out of the total due receivables, 94.1% refers to microcredits of natural persons, and according to sectoral structure the highest share has microloans for other purposes, agriculture and hospitality services.

As of 31.12.2018 MCOs had 156 703 active microcredit accounts that is by 791 accounts or 0.5% more compared to the end of the previous year. Over the period observed number of active microcredit accounts with MCF decreased by 11 125 or 8.1%, while number increased with MCC by 11 916 or 64.4%. As of 31.12.2018 an average amount of microcredit at the sector level was BAM 2 915.84, that is up by 10.6% compared to 31.12.2017. Analytically observed as of 31.12.2018 an average amount of microcredit with MCF amounts to BAM 2 552.60 and it is up by 6.4% compared to 31.12.2017, while in case of MCC it amounts to BAM 4 427.27 being up by 0.5%.

Detailed data on sectoral and maturity structure of microcredit portfolio as of 31.12.2018, are presented in the table below:

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<i>Table 51: Sectoral and Maturity Structure of microloans of MCOs as of 31.12.2018</i>						
no.	Microloans	Short-term microloans	Long-term microloans	Due receivables	Total	%
1	2	3	4	5	6=(3+4+5)	7

1.	Legal entities					
a.)	Services	280	6.795	17	7.092	55,4%
b.)	Trade	166	2.966	37	3.169	24,8%
c.)	Agriculture	10	783	0	793	6,2%
d.)	Production	137	1.489	12	1.638	12,8%
e.)	Other	24	76	0	100	0,8%
Total 1:		617	12.109	66	12.792	100%
2.	Natural persons					
a.)	Services	4.547	76.267	220	81.034	18,3%
b.)	Trade	1.090	13.910	53	15.053	3,4%
c.)	Agriculture	6.753	144.237	256	151.246	34,1%
d.)	Production	536	7.595	24	8.155	1,9%
e.)	Housing needs	3.075	93.306	170	95.551	21,5%
f.)	Other	13.663	78.091	336	92.089	20,8%
Total 2:		29.664	413.405	1.059	444.128	100%
Total (1+2):		30.281	425.514	1.125	456.920	

When observe sectoral and maturity structure of microloans, it might be concluded that to the large extend microcredits refer to long-term microloans approved to natural persons, which indicates that microloans were in great number approved to persons who do not have access to traditional sources of financing, as due to risk profile of the job they perform, as well due to the lack of adequate collateral. According to the Decision on the Amount and Manner of Creating and Maintaining Reserves for Covering Loan Losses of Microcredit Organisations, which is on force since 2007, MCOs are required to allocate all loan proceeds and other receivables to certain groups by applying the days past due criterion in a way that funds for loan loss provisions and other losses are allocated to each group debiting operating expenses. The basis for the calculation of the reserves is the amount of outstanding loan, due interest and fee and any other items in which the MCO is exposed to the risk of un-collectability, i.e. business failure. In that regard MCOs shall establish the system to ensure creation and maintenance of loan loss provisions, and to submit reports to the FBA using required templates.

In accordance with the mentioned reporting requirements, the following table provides an overview of due receivables with related reserves by days past due groups, and information on uncollected overdue receivables over 180 days, which are taken from balance sheet on 31.12.2018:

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Table 52: LLP as of 31.12.2018											
No.	Days past due	Provisioning rates	Loan amount	Share (%)	Interest due			Provisions			
					Provisioning rate	Interest amount	Amount of other assets	By loans	By interest due	By other assets items	Total provisions
1	2	3	4	5	6	7	8	9=(4x3)/100	10=(7x6)/100	11=(8x3)/100	12=(9+10+11)
1.	0	0%	449.655	98,4	0%	5	371	0	0	0	0
2.	1-15	2%	1.904	0,4	2%	25	0	38	1	0	39
3.	16-30	15%	2.078	0,5	100%	37	0	323	37	0	360
4.	31-60	50%	1.243	0,3	100%	33	0	622	33	0	655
5.	61-90	80%	602	0,1	100%	24	0	482	24	0	506
6.	91-180	100%	1.438	0,3	100%	75	0	1.439	76	0	1.515
Total			456.920	100,0		199	371	2.904	171	0	3.075
7.	over 180	Write-off	4.136		100%	339	0	0	0	0	0

In the overall microcredit portfolio, 98.4% refers to microloans which are not defaulted, while 1.6% refers to defaulted microloans, out of it 0.9% microloans defaulted up to 30 days, and 0.7% for microloans defaulted from 31 to 180 days. Microloans receivables which are defaulted more than 180 days' amount to BAM 1.1 million and account for 0.2% of the overall microcredit portfolio

Out of the total amount of interest due (BAM 0.2 million), payment overdue up to 30 days make 33.7%, overdue between 31-90 days accounts for 66.3%. For the interest due which are not paid

within period of 15 days, MCO is required to formulate 100% the reserves to cover credit losses. As of 31.12.2018 interest written-off amount to BAM 0.1 million.

Out of the total amount of microloans provisioning, interest and other assets items as of 31.12.2018 (BAM 3.1 million), the largest item accounts for microloan reservations for overdue from 91 to 180 days, which amounts to BAM 1.5 million or 49.3% of the total amount of reservations. Total reservations for interest due amounts to BAM 0.2 million or 5.6% of the total amount of reservations.

Key Indicators of Microcredit Portfolio Quality

As of 31.12.2018 and compared to 31.12.2017, the gross microloan portfolio saw an increase in the absolute amount of BAM 45.8 million or 11.1%. In the same period, the coverage of gross microloans with loan loss reserves decreased from 0.79%, as it was on 31.12.2017, to 0.64%, which is decrease by 0.15 percentage points. Through data analyse it can be noticed that decreasing trend of coverage with loan loss reserves is continued since 2014.

The indicator of the portfolio at risk exceeding 30 days past due (PAR>30 days) as of 31.12.2018 at the level of microcredit sector amounts 0.72% and is down by 0.17 percentage points compared to 31.12.2017, when it amounted 0.89%, which is continuation of decreasing trend since 2014. This risk indicator of microcredit portfolio at the level of sector is within regulatory standard (below 5%), where two MCFs do not meet requirements, since their indicator is 7.7% i.e.16.8%. The portfolio at risk for more than one day past due (PAR>1 day) at the level of microcredit sector as of 31.12.2018 amounts to 1.59% and it is decreased by 0.36 percentage points compared to 31.12.2017 when amounted 1.95%.

At the level of microcredit sector, the rate of write-offs amounts to 0.95% as of 31.12.2018, which is within the FBA standard (below 3%). This indicator records a constant downward trend since the end of 2014, when it was above the mentioned standard. Therein, two MCFs do not meet this FBA standard, since their indicator is above 3% (4.8% i.e.9.3%). The same MCFs also do not meet the standard related to portfolio at risk over 30 past due days.

As of 31.12. 2018, the total amount of write-offs at the level of microcredit sector amount to BAM 104.8 million, where BAM 94.6 million account for the written-off principal (natural persons - BAM 91.4 million and legal entities – BAM 3.2 million) and BAM 10.2 million account for written-off interest (natural persons – BAM 9.9 million and legal entities BAM 0.3 million). The number of written-off loan accounts is 39 156.

Out of the total amount of written-off receivables at the level of microcredit sector as of 31.12.2018 (BAM 104.8 million) the amount of BAM 109.1 million refers to the opening balance on 01.01.2018, the collection of written-off receivables during 2018 accounts for BAM 8.6 million, new written-offs in 2018 amount to BAM 4.5 million and permanent write-offs BAM 0.2 million.

2.2.2.4. Profitability

In accordance to legal regulations MCOs operate as non-deposit financial organisations whose primarily activity is micro lending that is performed with the objective to improve material position of microcredit user, increase of employment, providing support to enterprise development and making profit. Pursuant to legislation MCO is a legal entity which can be established and operate either as MCC or MCF, wherein provisions of the Article 13 of the Decision on requirements and other operational standards and limitations in microcredit organisations provide division of any excess of resources over expenditure for MCF and distributions of profit for MCC. According to this provision, it is not allowed to make direct or

indirect division of any excess of resources over expenditure to founders, members of the bodies, responsible persons and employees with MCFs or to other connected persons, donors or third parties. Also, it is not allowed indirect distribution of MCC profit established by MCF or in which MCF hold an investment. Thereby, provisions precisely define what is considered as indirect division of any excess of resources over expenditure.

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

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

Financial result of the microcredit sector in the FBiH

According to the final non-revised reporting data from MCOs, over the period 01.01-31.12.2018, the overall financial result at the level of microcredit sector of the FBiH was positive and amounted to BAM 20.9 million that is by BAM 2.4 million or 12.7% more than in the same period of 2017. It is the consequence of rise in overall income by BAM 6.1 million or 7.0%. The rise is dominantly generated by the growth of total interest and similar income in the amount of BAM 6.3 million that is growth of 8.1% compared to 2017, while the operating income in the same period recorded a drop in the amount of BAM 0.2 million or 2.3%. The presented growth trend of total income is followed by the growth of total expenses by BAM 5.5 million or 7.1% compared to the same period of 2017, where the interest and similar expenses recorded growth in the amount of BAM 0.9 million or 8.4%, operating expenses in the amount of BAM 4.7 million or 7.5% and loan loss provisions and other losses in the amount of BAM 0.1 million or 2.7%. At the level of microcredit sector, as of 31.12.2018 an extraordinary income is recorded in the amount of BAM 13.8 million that compared to the same period of 2017 presents an increase by BAM 1.8 million or 14.7%. The total amount of recorded extraordinary income is almost fully related to MCF (99.5%). Extraordinary expenses at the level of microcredit sector are down by 60.6% compared to 2017 that is result of its decrease with MCC by 80.1%, while in case of MCF it slightly increased by 8.4% compared to 2017.

Comparing the financial result for three-year period (2016-2018), it is evident growth, where the highest financial result has recorded in 2018.

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

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Table 53: Aggregated income statement of the microcredit sector										
no.	Description	Period 01.01. - 31.12.2017.				Period 01.01. - 31.12.2018.				Index
		MCF	MCC	Total	%	MCF	MCC	Total	%	
1	2	1	2	3=(1+2)	4	5	6	7=(5+6)	8	9=(7/3)
1. INCOME										
1.1.	Interest income and similar income	67.916	9.154	77.070	89,6	63.610	19.714	83.324	90,5	108
1.2.	Operating income	8.136	789	8.925	10,4	6.976	1.740	8.716	9,5	98
2.	Total income (1.1.+1.2.)	76.052	9.943	85.995	100	70.586	21.454	92.040	100	107
3. EXPENSES										
3.1.	Interest expenses and similar expenses	8.656	2.584	11.240	14,4	8.419	3.760	12.179	14,6	108
3.2.	Operating expenses	56.850	5.605	62.455	80,2	56.713	10.420	67.133	80,6	107

3.3.	Expenses for loan loss provisions and other losses	3.528	614	4.142	5,4	2.760	1.271	4.031	4,8	97
4.	Total expenses (3.1.+3.2.+3.3.)	69.034	8.803	77.837	100	67.892	15.451	83.343	100	107
5.	Extraordinary incomes	11.975	57	12.032		13.737	65	13.802		115
6.	Extraordinary expenses	725	850	1.575		792	169	961		61
7.	Total income-expenses (2+5-4-6)	18.268	347	18.615		15.639	5.899	21.538		116
8.	Excess/deficit income over expenditure	18.268		18.268		15.639		15.639		86
9.	Profit before tax		347	347			5.899	5.899		1.700
10.	Taxes		47	47			620	620		1.319
11.	Net profit/loss		300	300			5.279	5.279		1.760
12.	Total financial result			18.568				20.918		113

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

MCC presented a net profit in the amount of BAM 5.3 million, which compared to the same period of the previous business year presents an extreme growth, since that as of 31.12.2017 net profit amounted to BAM 0.3 million. The growth of MCC net profit has influenced by the growth of overall MCC income by BAM 11.5 million or 115.8% which is followed by the growth of total expenditures by BAM 6.6 million or 75.5% compared to 2017, with parallel decrease of extraordinary expenses by BAM 0.7% or 80.1% and slight increase of extraordinary income (by BAM 8 thousands or 14.9%). Within the growth of total income the largest increase has recorded with interest income and similar income by the amount of BAM 10.6 million or 115.4% while operating income increased by BAM one million or 120.5%.

Within the growth of total expenditures, the growth of interest and similar expenses amounted to BAM 1.2 million or 45.5%, growth of operating expenses BAM 4.8 million or 85.9% and growth of loan loss and other provisions by BAM 0.7 million or 107%. In the relative term the most significant growth had expenditures on the basis of loan loss and other provisions.

In the same period MCFs presented an excess of income over expenditure in the total amount of BAM 15.6 million, which compared to 30.09.2017 presents a decrease in the amount of BAM 2.6 million or 14.4%. It is the consequence of decrease in total income of MCF by BAM 5.5 million or 7.2% with a parallel decrease of total expenditure by BAM 1.1 million or 1.7%. Analysing the structure of total MCFs income it is evident that interest and similar income decreased by the amount of BAM 4.3 million or 6.3%, same as operating income by BAM 1.2 million or 14.3%. Over the same period MCFs interest and similar expenses decreased by the amount of BAM 0.2 million or 2.7%, operating expenses decreased by BAM 0.1 million or 0.2%, and loan loss and other provisions decreased by BAM 0.8 million or 21.8%. The extraordinary income rise by 1.8 million or 14.7% compared to 2017, with an increase of extraordinary expenses by BAM 0.1 million or 9.2%.

Analytically observed, as of 31.12.2018, two MCFs recorded deficit of income over expenditure in the total amount of BAM 0.7 million, while other nine MCFs recorded an excess of income over expenditure in the total amount of BAM 16.3 million, wherein the share of four MCFs in the total recorded excess of income over expenditure amount to BAM 15.6 million or 95.6%. One MCF holds share of BAM 9.8% million or 59.8% in the total amount of excess of income over expenditure. Observed by the structure, five MCFs record deficit of income over expenditure in the total amount of BAM 4.9 million, thus indicate a conclusion that three MCFs presented positive financial result due to the extraordinary income.

Indicators of efficiency and sustainability of microcredit sector of the FBiH

As of 31.12.2018 business operational efficiency of microcredit sector of the FBiH amount to 19.4%, that is within required indicator up to 45% which is required MCO compliance with Article 12, paragraph (1) of the subject Decision. Thereby, two MCFs derogate from required indicator since it amount 46.3%, i.e. 48.3%.

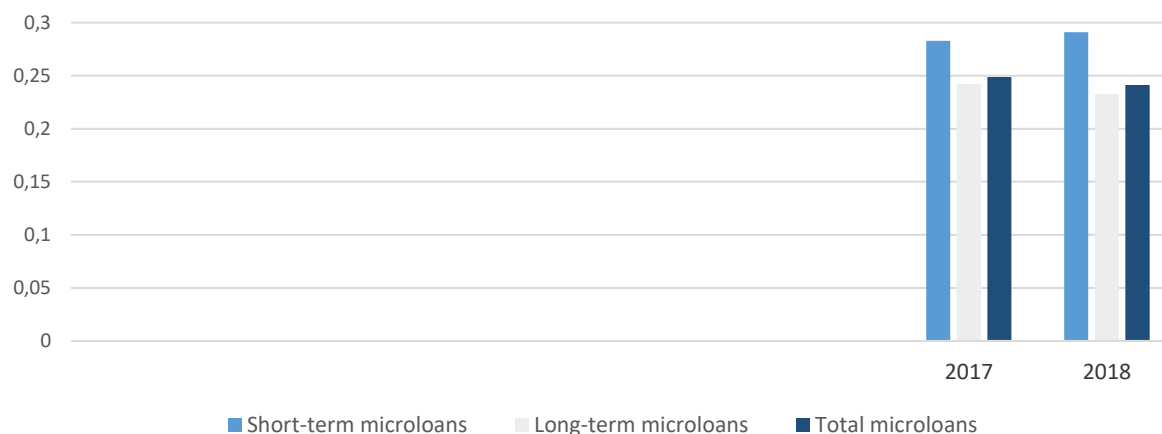
Indicator of operational sustainability of microcredit sector of the FBiH, used as common standard and presented by ratio of the total income from ordinary activities (excluding extraordinary income) and total expenditures amounts to 109.2% indicating operational sustainability of the sector (above 100%). Thereby five MCFs report this indicator below 100% (interval from 47.6% to 86.2%), indicating those MCFs cannot cover all expenditures from generated income, i.e. facing difficulties with operational sustainability. Out of those five MCFs, as of 31.12.2017 four MCFs have not meet common standard for operational sustainability indicator, and one more MCF in 2018 has not meet a common indicator.

2.2.2.5. Weighted NIR and EIR

The total average weighted EIR for microloans concluded in 2018 was 24.13% and compared to 2017 decreased by 0.7 percentage points. Also, there is evident decrease of weighted EIR for long-term microloans at annual level by 0.9 percentage points (24.22% in 2017), while an average weighted EIR for short-term loans rise by 0.8 percentage points (28.29% in 2017).

The following graph shows trend for average weighted EIR annually for total microloans, short-term microloans and long-term microloans in 2017 and 2018:

Graph 18: Average weighted EIR for microloans (%)



2.2.3. OPERATIONAL COMPLIANCE OF MICROCREDIT SECTOR WITH AML/CFT STANDARDS

MCOs compliance assessments with AML/CFT standards for 2018 is based on the assessment of situation in MCOs in the previous period and compliances identified during the inspections conducted in the year ending at 31.12.2018 (eight inspections), and analyse of reports MCOs submitted to the FBA.

The following table provides an overview about the number of identified non-compliances and number of issued orders (consistent) by individual policies from the AML/CFT segment and their average number in relation to MCO.

Table 54: Overview of orders issued to MCOs				
No.	Policy	No. of orders	%	Average by MCO
1	2	3	$4=3/\Sigma 3*100$	5
1.	Policy on client's eligibility	1	11,1	0,13
2.	Policy on identification and monitoring of client's activities	5	55,6	0,63
3.	Policy on AML/CFT risk management ³⁵	3	33,3	0,38
Total:		9	100	1,13

Risk quantity is moderate and it presents market threats of money laundering and terrorist financing, i.e. potential vulnerability of microcredit sector in relation to identified threats. Non-compliances identified during the inspections, which is by 79.1% less non-compliances than number identified over the previous supervisory cycle, resulted by the assessments of risk management quality and by the assessment of supervisory concern, on which basis an assessment of microcredit sector has conducted in terms of the compliance, i.e. risk management.

The assessments of risk quantity, risk management quality and supervisory concern in relation to identified non-compliances are presented in the table below:

Table 55: Overview of supervisory assessments for MCOs										
Risk quantity			Risk management quality					Supervisory concern		
High	Moderate	low	Poor	Marginally satisfactory	Satisfactory	Approaching high	High	Yes	Particular	No
-	8	-	-	1	4	3	-	-	-	8

Taking into account the assessment of MCO compliance for 2017, individual MCO compliance assessments identified during inspections in 2018 and the analysis of the submitted reports, it can be concluded that: the quantity of risk is still moderate, the quality of risk managing is satisfactory, with continued growth trend, with three MCOs estimated to approaching the strong, resulting in an overall assessment that there are no reasons for supervisory concern.

Observing the compliance of the microcredit sector with the provisions of the Law on Prevention of Money Laundering and Financing Terrorist Activities, the Law on Microcredit Organizations, Decisions on Minimum Standards of Microcredit Organizations Activities for the Prevention of Money Laundering and Financing Terrorist Activities, and other laws and implementing regulations that stipulate obligations of MCOs against AML/CFT, it can be concluded that the microcredit sector of FBiH is largely in line with the norms prescribed by these laws and implementing regulations.

In 2018 MCOs reported on 407 suspicious transactions that is by 38% less compared to the previous year, and the total value of those transactions is BAM 689 685, that is 23% compared to the previous year.

The table below provides comparative overview of number and value of reported suspicious transactions:

³⁵ money laundering and financing of terrorist activities

Table 56: Overview of reported suspicious transactions by number and value in BAM

no.	Description	01.01.-31.12.2017.		01.01.-31.12.2018.		Index	
		No.	Value	No.	Value	No.	Value
1	2	3	4	5	6	7 (5/3)	8 (6/4)
1.	Transactions where FOO required data	0	0	0	0	0	0
2.	Transactions where FOO did not require data	656	898.642	407	689.685	62	77
Total:		656	898.642	407	689.685	62	77

Comparative overview on the number of suspicious clients is presented in the table below:

Table 57: Overview on the number of suspicious clients

No.	Reported suspicious clients where FOO:	01.01.-31.12.2017.	01.01.-31.12.2018.	Index
1	2	3	4	5 (4/3)
1.	Required additional data	2	0	0
2.	Did not require additional data	202	126	62
Total:		204	126	62

Within the structure of suspicious transactions and suspicious clients over the period observe it is evident declining trend. According to information collected during the inspections of execution of orders, MCOs were acting in accordance to FOO instructions and on the basis of information provided by FOO in relation to reported suspicious transactions and clients for the previous year, MCOs revised their approach to recognize suspicious transactions and suspicious client's activities. Although declining trend is evident in the number of reported suspicious transactions and suspicious clients, there is still a need for improvement in the part related to reporting to competent institutions. In 2018, the FOO did not required additional data from MMCOs about reported notifications. MCOs should continue the activities on revision of indicators for recognition of suspicious transactions and suspicious clients in order to have more quality reporting to FOO.

2.2.4. RECOMMENDATIONS FOR THE MICROCREDIT SECTOR

In 2018, the FBA actively participated in the drafting of new LoMCO, through a participation in the Working Group nominated by the FMF. These activities resulted with preparation of the draft LoMCO, which is adopted by the Government of the FBiH and presented to the Parliament procedure for adoption.

In 2018, the FBA improved the existing legal framework for operations and supervision of MCOs, through changes and amendments of the regulations which preciously stipulates conditions and procedures for issuance of operating licences for MCOs resulting from a change of organisational form of MCF, conditions and procedures for issuance and withdrawal of operating licences and other approvals for MCOs, conditions and procedures for issuance and approvals for the acquisition of equity shares through investment and shares of MCO assets, supervision of MCOs and the FBA actions, tariffs rate for MCOs, conditions and other standards elated to MCOs business operations and limitations.

Based on these improvements, in the following period the FBA shall within its prescribed competences continue with planned activities focused on the supervision:

- MCOs business compliance with regulations, with the aim of full application of the LoMCO provisions for the achievement of microcredit targets in terms of improvement of a material position of microcredit user, contribution to employment rate and support to entrepreneurship development;
- Implementation of the regulations for operations and supervision of the MCOs in the FBiH;

- Through planned controls of MCOs compliance with regulatory requirements, with the aim of full and adequate application of the existing regulations and increase of operations transparency in microcredit sector in the FBiH ensuring that appropriate measures are taken.

The microcredit sector in the FBiH is required to apply the prescribed standards and limitations in the performance of microcredit operations, reporting and auditing activities in its operations. In that regard, it is required that authorised bodies of the MCOs, ensure compliance of the operations with the prescribed standards, and particularly in regard to:

- Business operations compliance with legal regulations and provision which prescribe that the objective of micro lending operations is improvement of the material position of microloan user, increase of employment, provision of support to the development of entrepreneurship and profit gain for entrepreneur-microloan users, and adjustment and control of interest rates for microloans, starting from the basic objectives of the micro lending and legal provisions on protection of users of financial services, providing that way its contributions to the stability and sustainability of the microcredit sector in the FBiH
- establishment and improvement of sound risk management practices to which MCO are or might be exposed, effective internal controls systems and independent function of the internal audit;
- optimisation of MCO resources and application of the principle of responsible lending via microloans, i.e. sound business practices in operating with MCF funds;
- regular, timely, and accurate submission of data to the CBBH for the purposes of CRC, etc.;
- Improvement of business transparency and strengthening of the institutional capacities etc...

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

2.3. LEASING SECTOR

2.3.1. STRUCTURE OF LEASING SECTOR IN THE FBiH

2.3.1.1. Number of Leasing Companies

As of 31.12.2018, seven leasing companies in the FBiH had operating licences to perform leasing operations. Compared to 31.12.2017 there is an increase in number of leasing companies, since in the second quarter of 2018, the FBA issued the licence to one leasing company, which started its activities during the third quarter of 2018.

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

2.3.1.2. Ownership Structure

As of 31.12.2018, the ownership structure at the level of the leasing sector of the FBiH is the following: three leasing companies are 100% owned by non-resident legal entities, one leasing company is in majority ownership of a non-resident legal entity, one leasing company is in majority ownership of non-resident natural person, and two leasing companies are 100% owned by resident legal entities.

Detailed information on the overview of the ownership structure of leasing companies is provided in Annex 15.

2.3.1.3. Structure of Human Resources

As of 31.12.2018, there are 124 employees in the leasing sector in the FBiH, out of it 118 of which employees engaged on the basis of employment contract (reporting category employment on permanent basis), while six persons were recruited via student services and organisations mediating in employment (reporting category temporary employees). Number of permanent employees is up by 14 employees of 13.5% compared to the same period of 2017.

In regard to the qualification structure of employees in the leasing sector as of 31.12.2018, there were no significant changes compared to the previous reporting periods. The highest share has employees with the university degree (71.2%), followed by secondary school qualification (16.1%).

The table below shows parallel data on the number and qualification structure of employees in the leasing sector of the FBiH by period:

<i>Table 58: Qualification Structure of Employees</i>								
Level of qualification	No. of employees						Index	
	31.12.2016.		31.12.2017.		31.12.2018.		(4/2)	(6/4)
1	2	3	4	5	6	7	8	9
University degree	120	75,0%	81	77,9%	84	71,2%	68	104
Two-year post-secondary school	5	3,1%	4	3,8%	4	3,4%	80	100
Secondary school	23	14,4%	13	12,5%	19	16,1%	57	146
Other	12	7,5%	6	5,8%	11	9,3%	50	183
Total	160	100%	104	100%	118	100%	65	113

The performance assessment of a leasing company is based on ratio of the assets/headcount ratio (assets per employee), and according to indicators on 31.12.2018 at the level of leasing sector in the FBiH, each employee accounts for BAM 2.5 million assets. The analytical indicators for the individual leasing companies in the FBiH are in range from BAM 0.4 to BAM 4.6 million assets per employee. Three leasing companies have a higher indicator of assets per employee in relation to the average of the leasing sector in the FBiH, while other leasing companies are below the average.

2.3.2. FINANCIAL PERFORMANCE INDICATORS

2.3.2.1. Balance Sheet

As of 31.12.2018, the total assets of the leasing sector in the FBiH amounted to BAM 297.2 million and is up by BAM 37.0 million or 14.2%, compared to 31.12.2017.

The Annex 16 shows the consolidated balance sheet of leasing companies in the FBiH by final not revised data as of 31.12.2018.

When comparing the individual balance sheet totals of leasing companies with the data as of 31.12.2018 and 31.12.2017, it can be concluded that three leasing companies presented increase in the balance sheet in the amount of BAM 49.3 million, while four leasing companies presented decrease of balance sheet in the total amount of BAM 12.3 million, out of it BAM 11 million or 90%, from the total decreased amount of the balance sheet, refers to one leasing company. The decrease in the balance sheet is the consequence of the business policy of this leasing company to avoid new leasing agreements, until final decision of the leasing company owner is reached in regard to the strategic directions and business targets at the market in the FBiH.

By assets size, two leasing companies, account for 70.2% of the total assets of the leasing companies in the FBiH, as of 31.12.2018.

Annex 17 provides an overview of assets, receivables by financial and operating leasing and the financial result of leasing companies as of 31.12.2018.

Annex 18 provides an overview of the key financial indicators at the level of system (leasing companies and banks which perform financial leasing operations).

In the structure of the total assets of the leasing sector in the FBiH, the highest share accounts for net receivables for financial leasing, which amounts to BAM 214.7 million or 72.2% of the total assets. Compared to 31.12.2017 net receivables for financial leasing are up by BAM 38.7 million or 22%, while gross receivables for financial leasing are up by BAM 41 million or 21.3%

Reviewing the reports of bank that performs financial leasing operations it was found that net receivables for financial leasing in the amount of BAM 82 million were recorded, which indicates that total net receivables at the level of leasing system in the FBiH amounts to BAM 296.6 million, being up by BAM 46.7 million or 18.7% compared to 31.12.2017.

In the structure of receivables for financial leasing at the level of the leasing sector in the FBiH, arrangements approved on the basis of financing passenger vehicles and company vehicles account for 86.2%, arrangements approved on the basis of financing equipment account for 12.7%, while financial leasing arrangements that finance real estate account for 1.1%.

The tables below provide the structure of receivables for financial leasing at the level of the leasing sector in the FBiH (receivables before impairment on the basis of reserves for losses) as of 31.12.2018 and a parallel overview of the receivables structure as of 31.12.2017 and 31.12.2018:

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<i>Table 59: Structure of Leasing Sector Receivables for Financial Leasing - 31.12.2018</i>					
By leasing object	Short-term receivables	Long-term receivables	Past due receivables	Total receivables	Share in total receivables
1	2	3	4	5	6
Passenger vehicles	29.564	56.154	645	86.363	40,1%
Company vehicles (cargo and passenger)	37.824	60.448	1.174	99.446	46,1%
Machinery and equipment	10.635	16.431	368	27.434	12,7%
Real estate	397	1.879	48	2.324	1,1%
Other	4	0	0	4	0,0%
Total	78.424	134.912	2.235	215.571	100%

By lessee	Short-term receivables	Long-term receivables	Past due receivables	Total receivables	Share in total receivables
1	2	3	4	5	6
Legal entities	70.792	118.711	1.992	191.495	88,8%
Entrepreneurs	1.958	3.418	40	5.416	2,5%
Natural persons	4.201	10.099	178	14.478	6,7%
Other	1.473	2.684	25	4.182	1,9%
Total	78.424	134.912	2.235	215.571	100%

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Table 60: Structure of Receivables for Financial Leasing – Comparative Overview

By leasing object	Receivables as of 31.12.2017	Receivables as of 31.12.2018	Index
1	2	3	4=(3/2)
Passenger vehicles	73.142	86.363	118
Company vehicles (cargo and passenger)	79.545	99.446	125
Machinery and equipment	22.343	27.434	123
Real estate	3.037	2.324	77
Other	18	4	22
Total	178.085	215.571	121

By lessee	Receivables as of 31.12.2017	Receivables as of 31.12.2018	Index
1	2	3	4=(3/2)
Legal entities	156.216	191.495	123
Entrepreneurs	3.951	5.416	137
Natural persons	12.678	14.478	114
Other	5.240	4.182	80
Total	178.085	215.571	121

As of 31.12.2018, the gross receivables for loans amounted to BAM 12.1 million or 4.1% of the total assets amount of the leasing sector in the FBiH, and net receivables for loans amounted to BAM 6.3 million or 2.1% of the total assets amount of the leasing sector in the FBiH. Compared to 31.12.2017, net receivables for loans decreased by BAM 7.2 million or 53.5%, while gross receivables decreased by BAM 3.2 million or 21.0%, and loan loss provision increased by BAM 4.0 million or 21.0% compared to 31.12.2017.

Significant increase of loan loss provisions is formed by one leasing company which portfolio has the total amount of receivables for loans recorded at the level of sector, and it is due to the value adjustment of unrecoverable receivables. Receivables for loans in the structure of the total assets of leasing companies decreased due to the continuous decrease of receivables for loans, because the provisions of LoL prohibit new loan contracting, where it will remain in the evidence of the leasing companies in the FBiH until agreed maturity expire.

As of 31.12.2018, the recorded balance sheet item Cash and Cash Equivalents amounted to BAM 14.0 million which is BAM 0.2 million or 1.7% more than as of 31.12.2017, where a relative share accounted for 4.7% and decreased compared to 31.12.2017, when it was 5.3%. As of 31.12.2018, Facilities to Banks amounted to BAM 17.2 million which is BAM 0.3 million or 1.7% more than 31.12.2017. This item mostly relates to term deposits of leasing companies with commercial banks.

The net value of fixed assets financed via operational leasing as of 31.12.2018 amounted to BAM 35.4 million, which is up by BAM 6.8 million or 23.7% compared to 31.12.2017. If observed individually, the net value of fixed assets financed via operational leasing rose for one leasing company in the amount of BAM 8.1 million, while five leasing companies recorded a decrease

in the amount of BAM 1.3 million, BAM 0.8 million or 57.5% of which account for decrease with one leasing company.

The table below shows the structure of net balance sheet positions of leasing sector assets in the FBiH:

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<i>Table 61: Structure of net balance sheet positions</i>					
Description	31.12.2017	Share in assets %	31.12.2018	Share in assets %	Index
1	2	3	4	5	6=(4/2)
Financial Leasing	176.007	67,6%	214.674	72,3	122
Operational leasing	28.616	11,0%	35.385	11,9	124
Loan	13.449	5,2%	6.253	2,1	46
Other assets	42.132	16,2%	40.842	13,7	97
Total	260.204	100%	297.154	100%	114

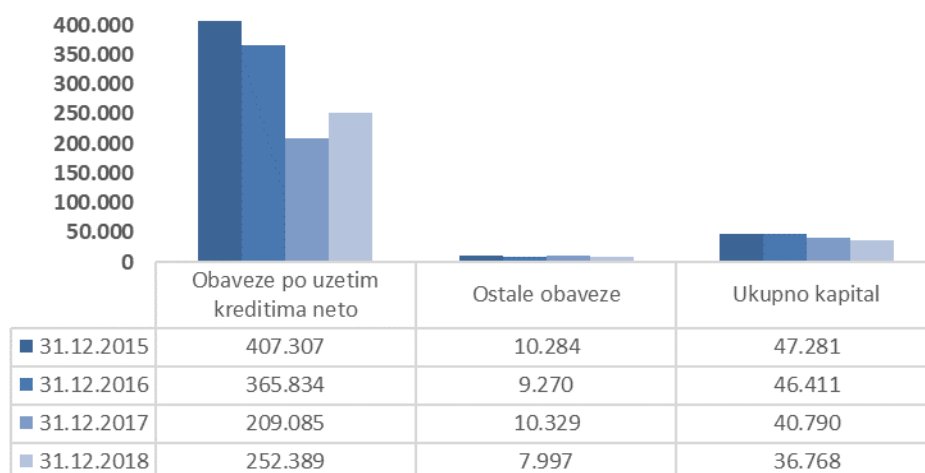
2.3.2.2. Capital and Liabilities

As of 31.12.2018, the total liabilities of the leasing sector amounted to BAM 260.5 million, which presents 87.6% of the total liabilities of the leasing companies in the FBiH. Compared to 31.12.2017, the total liabilities at the sector level increased by BAM 41.0 million or 18.7%.

Graph 19 shows the liabilities structure of the leasing sector in the FBiH:

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Graph 19: Liabilities Structure



The loan commitments of the leasing companies in the FBiH, as of 31.12.2018, still presents a dominant position in the structure of the total liabilities of the leasing sector – 84.9% from the total amount of the balance item. Compared to 31.12.2017, the liability position increased by BAM 43.3 million or 20.7%. The increase presented is result of increased market activities of the leasing sector in the FBiH.

The indebtedness with foreign and domestic commercial banks which mostly belong to banking groups to which leasing companies belong as well, account for 38.7% of the total loan commitments, while 28.6% refers to direct indebtedness by the founder and 32.7% to the European banks (the EIB, the EBRD, the CEDB and the DEG). The funds from these banks are mostly purpose funds, and mainly intended for development of small and medium enterprises, and they have been provided by bank guarantees issued by parent banks or their holding companies

If observed by maturity, the total amount of loan commitments is related to long-term commitments

The total weighted NIR paid by leasing companies on funding sources in the period from 01.01. to 31.12.2018 amounted to 1.4% per annum (the interest rate calculated on the basis of the average balance of taken loans and interest expenses in the reporting period) and it is up compared to 31.12.2017, when it amounted to 1.2%

The total capital of the leasing sector in the FBiH as of 31.12.2018 amounted to BAM 36.8 million. Compared to 31.12.2017, this item is down by BAM 4.0 million or 9.9%. Observed individually, three leasing companies, including newly established, saw an increase compared to 31.12.2017 in total capital in the amount of BAM 2.1 million, while four leasing companies saw a decrease in total capital in the amount of BAM 6.1 million, out of it BAM 4.3 million or 70.1% of the total decrease relating to one company, due to the application of IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors.

2.3.2.3. Assets and Asset Quality

According to the reporting data at the level of the leasing sector in the FBiH, loan loss provisions for financial leasing as of 31.12.2018 were recorded in the amount of BAM 0.9 million and are down by BAM 1.2 million or 56.8% compared to 31.12.2017. In the structure of receivables for financial leasing as of 31.12.2018, a total of BAM 2.2 million of outstanding past due receivables was recorded and the aforementioned are down by BAM 1.2 million or 34.7% compared to 31.12.2017.

Annex 19 provides a detailed overview of reserves for financial leasing, while the table below shows the structure of formed reserves for losses of the leasing sector by category of default:

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<i>Table 62: Formed Leasing Sector Reserves for Financial Leasing by Category of Default</i>			
Days past due	Total reserves 31.12.2017	Total reserves 31.12.2018	Index
1	2	3	4=(3/2)
0-60	931	325	35
60-90	164	19	12
90-180	104	120	115
over 180	879	427	49
over 360	0	6	n/a
Total	2.078	897	43

The decrease in the amount of formed reserves for losses further points to the stabilisation of business operations and the fact that there was no deterioration in the quality of the portfolio relating to receivables for financial leasing during 2018. If observed by category of default of outstanding past due receivables, compared to 31.12.2017, there is a decrease in reserves for losses was recorded in the categories of default of 0-60 days, 60-90 days and over 180 days, while a slight increase recorded in category 90-180 days.

As of 31.12.2018, loan reserves amounted to BAM 5.9 million and increased by BAM 4.0 million or 48.0%. The total amount of formed loan reserves as of 31.12.2018 was formed by one leasing company with a significant amount of loan receivables from subsidiary companies in its portfolio and those are in category of default of up to 60 due days.

Annex 20 provides an overview of loan reserves of leasing companies.

The total amount of written-off receivables for financial leasing and loans as of 31.12.2018 amounted to BAM 72.9 million, which is down by BAM 11.2 million or 13.4% compared to the amount recorded at the end of the previous business year. Out of the total recorded amount of written-off receivables, BAM 40.7 million or 55.8% account for write-offs by one leasing company. The decrease in the total amount of written-off receivables was caused by a significant collection of written-off receivables for loans in the amount of BAM 4.1 million and permanent write-offs in the amount of BAM 8.0 million.

The market value of repossessed leasing objects, due to the termination of leasing arrangements with lessees at the level of the leasing sector as of 31.12.2018 amounted to BAM 1.3 million and decreased by BAM 1.7 million or 55.7% compared to 31.12.2017, while the number of repossessed objects is also down by 12 units or 28.6%. The most significant change in the number and value of repossessed objects is presented at the position of real estate, which decreased by BAM 1.3 million or 58.6% compared to the previous reporting period, and it refers to three units.

The structure of repossessed objects of the leasing sector is shown in the table below:

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Table 63: Repossessed objects				
Type of leasing object	31.12.2017.		31.12.2018.	
	Number of units	Estimated market value of the leasing object	Number of units	Estimated market value of the leasing object
1	2	3	4	5
Passenger vehicles	12	198	19	299
Company vehicles (cargo and passenger)	13	129	2	16
Machinery and equipment	8	454	3	96
Real estate	9	2.246	6	931
Other	0	0	0	0
Total:	42	3.027	30	1.342

Out of the total estimated value of repossessed objects of the leasing sector in the FBiH as of 31.12.2018, BAM 0.9 million or 69.4% relates to real estate (commercial real estate) repossessed by leasing companies due to the lessees' non-compliance with legal obligations. The total amount of this item relates to two leasing companies.

If observed at the level of the leasing system as of 31.12.2018, the market value of repossessed leasing objects amounts to BAM 9.8 million and it is down by BAM 3.3 million or 25.5% compared to 31.12.2017. Out of the aforementioned amount of repossessed leasing objects, BAM 8.4 million or 86.2% of the total amount of repossessed objects recorded at the level of the leasing sector account for objects repossessed by the bank that performs leasing operations.

The current market situation and inadequate financing approval criteria cause difficult sales or new financing of repossessed real estate via financial or operational leasing, especially if one takes into account the fact that repossessed real estate constitutes mostly production and commercial facilities.

2.3.2.4. Profitability

According to the not-revised reporting data on leasing companies, in the period from 01.01 to 31.12.2018, a net profit in the amount of BAM 3.3 million was recorded at the level of the leasing sector and it is decreased by BAM 1.7 million or 34% compared to the same period of 2017. If

observed individually, four leasing companies recorded a positive financial result in the amount of BAM 5.7 million, with one leasing company accounting for BAM 2.1 million or 36.5%, while three leasing companies recorded a negative financial result in the amount of BAM 2.4 million, out of it BAM 1.0 million or 41.8% accounting for one leasing company. The recorded profit at the level of the leasing sector in the 2018 was significantly influenced by the collection of written-off receivables for loans by one leasing company in the amount of BAM 3 million.

Annex 21 of this Information provides an aggregated balance sheet of leasing companies in the FBiH as of 31.12.2018.

The comparative financial result of the leasing sector in the previous years is shown in the table below:

-in 000 BAM-

Table 64: Financial Result: profit/ loss						
Description	31.12.2016.		31.12.2017.		31.12.2018.	
	Amount	No. of leasing companies	Amount	No. of leasing companies	Amount	No. of leasing companies
1	2	3	4	5	6	7
Loss	-4.062	3	-1.046	2	-2.410	3
Profit	3.264	4	6.038	4	5.707	4
Total	-798	7	4.992	6	3.297	7

The total income of the leasing sector in the FBiH, as of 31.12.2018 amounted to BAM 32.5 million, and compared with 31.12.2017 decreased by BAM 1.0 million or 3%, where the total interest and similar income lower by the amount of BAM 3.0 million or 21.1%, while the operating income higher by the amount of BAM 1.9 million or 9.8%.

The level and structure of the total income with comparative data for the three previous business years is presented in the table below:

-in 000 BAM-

Table 65: Structure of the total income								
Structure of the total income	31.12.2016.		31.12.2017.		31.12.2018.		Index	
	Amount	% Share	Amount	% Share	Amount	% Share		
1	2	3	4	5	6	7	8=(4/2)	9=(6/4)
I Interest income and similar income								
Interest on financial leasing	17.501	38,3	10.074	30,0	9.223	28,3	58	92
Interest on facilities to banks	263	0,6	220	0,7	318	1,0	84	145
Other interest income	5.473	12,0	3.898	11,6	1.648	5,1	71	42
Total I	23.237	50,9	14.192	42,3	11.189	34,4	61	79
II Operating income								
Fees for operational lease	11.364	24,9	10.723	32,0	12.614	38,8	94	118
Service fees	10	0,0	4	0,0	5	0,0	40	125
Other operating income	11.061	24,2	8.629	25,7	8.631	26,5	78	100
Total II	22.435	49,1	19.356	57,7	21.250	65,3	86	110
Income from release of reserves for losses	0	0,0	0	0,0	98	0,0	n/a	n/a
Total income (I+II)	45.672	100,0	33.548	100,0	32.537	99,7	73	97

If observed by type of income, interest income of the leasing sector in the FBiH amounted to BAM 11.2 million in the period from 01.01 to 31.12.2018. The most significant item of interest income is income based on interest income for financial leasing in the total amount of BAM 9.2 million and it is BAM 0.9 million or 8.5% down compared to the same period of the previous

business year. The most significant decrease of interest income is presented at the category other interest income in the amount of BAM 2.2 million or 57.7% compared to the previous year, and it is caused by the significant decrease of interest income by loans and other types of interest income (default interest, intercalary interest etc.).

The category of operating income amounted to BAM 21.3 million and is up by BAM 1.9 million or 9.8% compared to the same period of the previous year.

As of 31.12.2018, the total expenses amounted to BAM 29.2 million and compared to the same period of the previous year decreased by the amount of BAM 0.6 million or 2.2%.

The level and structure of the total expenses with comparative data are presented in the table below:

-in 000 BAM-

<i>Table 66: Structure of the total expenses</i>								
Structure of the total expenses	31.12.2016.		31.12.2017.		31.12.2018.		Index	
	Amount	% Share	Amount	% Share	Amount	% Share		
1	2	3	4	5	6	7	8(4/2)	9(6/4)
I Interest expenses and similar income								
Interest on borrowed funds	7.721	16,6	3.261	11,4	3.135	10,7	42	96
Loan processing fees	171	0,4	105	0,4	99	0,3	61	94
Other interest expenses	0	0,0	3	0,0	0	0,0	n.a.	0
Total I	7.892	17,0	3.369	11,8	3.234	11,1	43	96
II Operating expenses								
Costs of salaries and contributions	6.756	14,5	5.102	17,9	6.311	21,6	76	124
Costs of business premises	12.947	27,9	8.771	30,7	9.682	33,1	68	110
Other expenses	13.215	28,4	10.693	37,4	9.247	31,6	81	86
Total II	32.918	70,8	24.566	86,0	25.240	86,3	75	103
III Costs of Reserves	5.110	11,0	22	0,1	0	0,0	n/a	n/a
Income tax	550	1,2	599	2,1	766	2,6	109	n/a
Total expenses (I+II+III)	46.470	100,0	28.556	100,0	29.240	100,0	61	102

Interest expenses amounted to BAM 3.2 million and reduced by BAM 0.1 million or 4.0% compared to the same period of the previous business years. In the same period, the total operating expenses decreased, same as individual categories of this expense item.

In the period observed it is evident a continues and significant decrease of net interest income, which is mainly due to the status change of one leasing company having merged with its parent bank (significant drop compared to 2016) as well as due to the continuous decrease of active interest rate for leasing arrangements, which is the result of increased liquidity of financial institutions in the FBiH and market conditions.

2.3.2.5. Weighted NIR and EIR

The total average NIR for financial leasing arrangements concluded in 2018 amounted to 6.0% for short-term and 4.3% for long-term arrangements, while the EIR for short-term was 12.3% and long-term arrangements 6.8% per annum. The total weighted NIR in 2018 amounted to 4.3%, while the EIR amounted to 6.8% per annum.

Comparing those data with the same period of the previous business year, when the total weighted NIR was 4.65% and the EIR 7.12% per annum, it is evident continuation of decrease of interest rates for financial leasing arrangements, and it is mainly caused by the low value of the

EURIBOR variable index, to which interest rates are mainly linked, and also due to the fact that during 2018 business year, most of the leasing providers had promotional products for which the interest on the financing amount (in whole or in part) was subsidised by the supplier of the leasing object, while the leasing object's Casco insurance fee was also subsidised by insurance companies in the case of individual promotional products.

The significant differences in weighted EIR are mainly caused by the fact that the calculation of the EIR on arrangements concluded with natural persons is not identical to the calculation of the arrangements concluded with legal entities, since its calculation does not include a Casco insurance premium, which is a legal requirement when it comes to arrangements with natural persons.

The table below shows a detailed overview of the weighted NIR and EIR for financial leasing arrangements concluded in 2018:

<i>Table 67: Average NIR and EIR for Financial Leasing Arrangements Concluded in 2018</i>					
no	Description	No. of arrangements	Amount of financings (000BAM)	Weighted NIR	Weighted EIR
1	2	3	4	5	6
1.	Short-term leasing arrangements by leasing object::	28	688	6,0%	12,3%
a.	Passenger vehicles	18	435	7,1%	15,3%
b.	Company vehicles (cargo and passenger)	10	253	4,1%	7,1%
c.	Machinery and equipment	0	0	0,0%	0,0%
d.	Real estate	0	0	0,0%	0,0%
e.	Other	0	0	0,0%	0,0%
1.1.	Short-term leasing arrangements by type of lessee:	28	688	6,0%	12,3%
a.	Legal entities	20	594	4,1%	7,3%
b.	Entrepreneurs	0	0	0,0%	0,0%
c.	Natural persons	8	94	17,6%	43,6%
2.	Long-term leasing arrangements by leasing object:	3.654	168.972	4,3%	6,8%
a.	Passenger vehicles	2.118	70.021	5,0%	8,2%
b.	Company vehicles (cargo and passenger)	1.327	71.686	4,0%	6,0%
c.	Machinery and equipment	208	27.077	3,5%	5,4%
d.	Real estate	1	188	4,0%	4,2%
e.	Other	0	0	0,0%	0,0%
2.1.	Long-term leasing arrangements by type of lessee:	3.654	168.972	4,3%	6,8%
a.	Legal entities	3.072	156.941	4,1%	5,9%
b.	Entrepreneurs	101	3.000	5,1%	7,2%
c.	Natural persons	481	9.031	8,1%	21,8%
Total (1+2)		3.682	169.660	4,3%	6,8%

The significant difference between the NIR and EIR is due to the fact that the VAT is paid on the interest rate, which is a mandatory part of the financial leasing arrangement and is paid in advance by the lessee, as well as the creation of the financial leasing arrangement with purchase value, and additional costs of leasing arrangements included in the calculation of EIR.

The following table shows trends of weighted NIR and EIR for financial leasing arrangements by reporting period for the previous five years:

<i>Table 68: Weighted Average NIR and EIR for Financial Leasing Arrangements</i>					
Description	31.12.2014.	31.12.2015.	31.12.2016.	31.12.2017.	31.12.2018.
	1	2	3	4	5

	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR	NIR	EIR
I Short-term leasing arrangements										
1. By leasing object	6,2%	10,3%	4,7%	7,6%	3,8%	6,8%	3,7%	6,4%	6,0%	12,3%
a) Passenger vehicles	6,4%	11,6%	5,1%	8,2%	4,9%	100,0%	4,9%	8,3%	7,1%	15,3%
b) Company vehicles (cargo and passenger)	6,0%	9,2%	4,5%	7,4%	3,8%	5,2%	3,8%	6,2%	4,1%	7,1%
c) Machinery and equipment	6,6%	10,7%	3,9%	5,4%	1,7%	3,4%	1,5%	2,8%	0,0%	0,0%
d) Real estate	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
e) Other	7,0%	9,6%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
1.1. By type of lessee	6,2%	10,3%	4,7%	7,6%	3,8%	6,8%	3,7%	6,4%	6,0%	12,3%
a) Legal entities	6,1%	10,0%	4,6%	7,3%	3,7%	5,7%	3,6%	6,0%	4,1%	7,3%
b) Entrepreneurs	9,1%	22,1%	6,4%	12,8%	6,0%	11,7%	5,5%	12,8%	0,0%	0,0%
c) Natural persons	8,2%	18,3%	6,4%	12,4%	5,9%	37,4%	6,5%	30,2%	17,6%	43,6%
II Long-term leasing arrangements										
2. By leasing object	6,5%	9,0%	5,8%	8,1%	5,1%	8,0%	4,7%	7,2%	4,3%	6,8%
a) Passenger vehicles	6,6%	9,5%	6,0%	9,1%	5,5%	9,5%	5,1%	8,2%	5,0%	8,2%
b) Company vehicles (cargo and passenger)	6,3%	8,6%	5,4%	7,4%	4,7%	6,9%	4,4%	6,5%	4,0%	6,0%
c) Machinery and equipment	6,8%	9,1%	6,1%	7,9%	5,0%	6,5%	4,5%	6,4%	3,5%	5,4%
d) Real estate	6,2%	6,5%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	4,0%	4,2%
e) Other	8,1%	11,9%	7,8%	11,4%	6,1%	9,2%	7,0%	36,5%	0,0%	0,0%
2.1. By type of lessee	6,5%	9,0%	5,8%	8,1%	5,1%	8,0%	4,7%	7,2%	4,3%	6,8%
a) Legal entities	6,6%	8,9%	5,8%	7,8%	5,1%	7,2%	4,6%	6,6%	4,1%	5,9%
b) Entrepreneurs	7,1%	11,3%	6,9%	10,1%	6,3%	8,7%	5,8%	9,0%	5,1%	7,2%
c) Natural persons	5,9%	9,4%	5,5%	11,8%	5,0%	20,3%	5,3%	17,9%	8,1%	21,8%
Total	6,5%	9,0%	5,8%	8,1%	5,1%	8,0%	4,7%	7,2%	4,3%	6,8%

2.3.2.6. Structure of Placements by Leasing Object and Type

The value of newly-concluded financial and operational leasing arrangements in the period from 01.01 to 31.12.2018 amounted to BAM 192.7 million at the level of the leasing sector, and is up by BAM 47.0 million or 32.2% compared to the same period of the previous business year.

In the same time period, the number of newly-concluded arrangements was 4 368 and it was up by 973 arrangements or 28.7% compared to the same period of the previous year.

The average value of arrangements concluded in 2018 at the level of the leasing system amounted to BAM 44.1 thousand, and it is approximately at the same level as in the same period of the previous year, when amounted to BAM 42.9 thousand.

Out of the total achieved value of newly-concluded arrangements in 2018, BAM 169.7 million or 88.3% account for financial leasing arrangements. Compared to the same period of the previous business year, and previous reporting periods, the stagnation is evident with the growth trend of operational leasing arrangements in the total volume of newly-concluded arrangements.

The following tables show a parallel overview of the recorded volume of newly-concluded arrangements in 2018 and the same period of the previous business year as well as comparative overview of the number of arrangements concluded in the same period.

-in 000 BAM-

Table 69: : Structure of Financing Amounts of the Leasing Sector						
Description	31.12.2017			31.12.2018		
	Financial leasing	Operational leasing	Total	Financial leasing	Operational leasing	Total
1	2	3	4=(2+3)	5	6	7=(5+6)
Vehicles	113.752	15.580	129.332	142.395	23.086	165.481
Equipment	16.451	0	16.451	27.077	0	27.077

Real estate	0	0	0	188	0	188
Other	6	0	6	0	0	0
Total	130.209	15.580	145.789	169.660	23.086	192.746

-in 000 BAM-

<i>Table 70: Structure of Concluded Arrangements</i>						
Description	31.12.2017			31.12.2018		
	Financial leasing	Operational leasing	Total	Financial leasing	Operational leasing	Total
1	2	3	4=(2+3)	5	6	7=(5+6)
Vehicles	2.733	448	3.181	3.473	686	4.159
Equipment	213	0	213	208	0	208
Real estate	0	0	0	1	0	1
Other	1	0	1	0	0	0
Total	2.947	448	3.395	3.682	686	4.368

The total amount of new financings in 2018, was achieved by four leasing companies and one bank, which performs leasing operations to certain extend (legal successor of leasing company which merged to the bank), while three leasing companies suspended the conclusion of new arrangements, with the exception of sporadic cases of financings of repossessed leasing objects.

In the structure of new placements by type of lessee, placements to legal entities are predominant, with 93.7% of the total financing amount in 2018. One important reason is the fact that financing via leasing arrangements is less favourable for natural persons than loan placements due to the obligatory payment of the VAT on interest rates, which poses additional costs for clients who are non-taxable VAT persons.

2.3.3. OPERATIONAL COMPLIANCE OF LEASING SECTOR WITH AML/CFT STANDARDS

Compliance assessments of leasing companies with AML/CFT standards has been identified on the basis of situation assessment in leasing companies in the previous period and compliance assessment with AML/CFT standards in the previous period, status of the orders issues by the FBA which is identified during the inspections, and analyse of reports that leasing companies submit to the FBA. During the inspection of orders issued the FBA identified that eight orders has executed out of the total of ten, that is 80%, and two orders have been partially executed, which accounts for 20%, and there has not been unexecuted orders by leasing companies.

Detailed overview of the status orders issued by the FBA to leasing companies is given in the table below:

<i>Table 71 Status of given orders by policies</i>										
No.	Policy:	No of issued orders	%	No. of executed orders	%	%	Partially executed orders	%	%	Σ (%)
1	2	3	4=3/Σ3*100	5	6=5/Σ5*100	7=5/3*100	8	9=8/Σ8*100	10=8/3*100	11=Σ7,10
1.	Client eligibility	2	20,0	2	25,0	100	0	0	0	100
2.	Identification of clients	4	40,0	2	25,0	50	2	100	50	100
3.	AML/CFT Risk Management	4	40,0	4	50,0	100	0	0	0	100

Table 71 Status of given orders by policies

No.	Policy:	No of issued orders	%	No. of executed orders	%	%	Partially executed orders	%	%	Σ (%)
1	2	3	$4=3/\Sigma 3 *100$	5	$6=5/\Sigma 5*100$	$7=5/3*100$	8	$9=8/\Sigma 8*100$	$10=8/3*100$	$11=\Sigma 7,10$
4.	Total	10	100	8	100	-	2	-	-	-
5.	Total (%)	100	-	80	-	-	20	-	-	-

Taking into account the mentioned parameters on the basis of which the assessment of the compliance of the leasing sector with the AML/CFT standards has performed, the status of the given orders and the conformity assessment identified during compliance inspections, it can be concluded that the quantity of money laundering and funding terrorist activities risk is moderate, the quality of managing this risk satisfactory having upward trend, and that there are no reasons for supervisory concern.

Observing the compliance of the leasing sector with the provisions of the Law on the Prevention of Money Laundering and Financing of Terrorist Activities, BL, the Decisions on Minimum Standards for the Activities of Leasing Companies in the Prevention of Money Laundering and Financing Terrorist Activities, and other laws and implementing regulations laying down the obligations of leasing companies to prevent money laundering and financing terrorist activities, it can be concluded that the leasing sector of the FBiH, which is in line with the identified growth trend of the risk management quality which may be the consequence of money laundering and terrorist financing activities, is largely in line with the norms prescribed by these laws and implementing regulations.

In 2018 leasing companies in the FBiH reported on five suspicious transactions in the total amount of BAM 34 938, 00 BAM, that is by 81% lower compared to 2017. The following table provides an overview of suspicious transactions:

Table 72: Overview of reported suspicious transactions by number and value in BAM

no.	Description	01.01.-31.12.2017.		01.01.-31.12.2018.		Index	
		No.	Value	No.	Value	No.	Value
1	2	3	4	5	6	7 (5/3)	8 (6/4)
1.	Transactions where FOO required data	0	0	0	0	0	0
2.	Transactions where FOO did not require data	24	187.756	5	34.938	21	19
Total:		24	187.756	5	34.938	21	19

The fact that number and value of reported suspicious transactions has declining trend, and FOO did not request additional data, indicates the need to pay an additional attention on AML/CFT preventive actions and monitoring of transactions. In order to achieve a full compliance with reporting standards, the leasing companies in the FBiH should improve indicators to recognize suspicious transactions, for prompt and quality reporting to FOO.

2.3.4. RECOMMENDATIONS FOR THE LEASING SECTOR

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

- initiating changes of the LoL with the objective of adjusting business ambience for leasing company's operations in the FBiH and amending regulations in terms of drafting a new, and updating the existing regulations, in accordance to adopted changes and amendments of the legislation

- Continued supervision of leasing system in the FBiH, through reports and on-site inspections;
- Maintaining of the capital adequacy of the leasing system in the FBiH and strengthening of the internal processes on definition of parameters for protection of capital and capital adequacy in the leasing system entities in the FBiH;
- Supervision of leasing system entities in the FBiH compliance with the legislation and regulations, prescribed AML/CTF standards, as well as sound practices in the segment of protection of financial services users and guarantors
- Improvement of cooperation with the ALC BiH in terms of providing expert assistance in the application of legislation and regulations of leasing companies, as well as cooperation with other supervisory and control institutions, as well as the CBBH regarding the structure and quality of data related to financial leasing exposure in the CRC
- Creation of the more favourable business ambience for leasing sector operations, to facilitate creation of new leasing companies etc.

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

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

2.4. FACTORING SECTOR

2.4.1. Characteristics of the factoring sector in the FBiH

Factoring operations in BiH are regulated by law in the FBiH and factoring service providers from this entity are required to apply factoring regulations, whereas in the other entity – RS, factoring operations were not regulated by law as of the day this Information was compiled.

In accordance with the provisions of the LoF, factoring operations in the FBiH may be performed by a company established either as a joint stock company or limited liability company having seat in the FBiH, which must possess the FBA's license, as well as a bank whose operations are regulated by the regulations governing the operations of banks in the FBiH to which relevant provisions of the LoF were applied.

Pursuant to the provisions of the LoA related to the supervision, the FBA supervises the operations of factoring companies in order to verify the legality, assess the safety and stability of the operations of factoring companies in accordance to the provisions of the LoF, and to protect the interests of clients and public interest, contribution to the stability of the financial system, and establishment and maintenance the confidence in the factoring market in the FBiH. If it

determines illegalities and irregularities in the operations of a factoring company in the course of supervision, the FBA shall order the implementation of appropriate measures and activities aimed at eliminating the aforementioned. In accordance with the prescribed competences and within the framework of supervision of the operations of the banking system entities in the FBiH, the FBA also performs supervision of the factoring operations in the banks in the FBiH.

As of 31.12.2018 factoring sector in the FBiH consisted of one registered factoring company (hereinafter: Company) which obtained the FBA license to perform factoring operations on 28.12.2017 and which started its operations in the first quarter of 2018. By the fourth quarter of 2018, this newly established company did not have concluded contracts on the purchase and sale of the existing outstanding or future short-term monetary claims, arisen under the contracts on selling of goods or the provision of services in the country and abroad. In the last quarter the Company concluded two contracts on factoring. According to the final non-revised reporting data, as of 31.12.2018 the Company presented the total capital in the amount of BAM 0.7 million, which is below the amount required by the Article 27 of the LoF. The company's Assembly twice time reached decisions to increase the share capital: 28.08.2018 in the amount of BAM 63.0 thousands, i.e. 08.01.2019 in the amount of BAM 137.0 thousands. FBA performed direct inspection of the Company afterward instructed a corrective measures to compile the operations of the Company with the provisions of the LoF and other regulations.

Annex 22 shows the general information about the Company and review of the ownership structure as of 31.12.2018.

According to the final non-revised reporting data as of 31.12.2018, the total balance sheet of the Company amounted to BAM 1.1 million, where the largest item accounts for short-term receivables by factoring operations in the total amount of BAM 0.7 million or 60.4% of the total assets. Cash and cash equivalents amount to BAM 0.3 million and accounts for 26.4%, material and non-material assets amount to BAM 0.1 million or 10.0%, while remaining items accounts for 3.2% of the total assets (other assets and accruals and short-term facilities to banks). Capital and reserves amounts in total BAM 0.7 million or 58.5% of the total liabilities of the Company, and it consists of share capital in the amount of BAM 1.1 million decreased by the loss in the amount of BAM 0.4 million, which is presented at the balance-sheet item for other capital. The total liabilities of the Company amounts to BAM 0.4 million, and the largest item relates to short-term liabilities for loans taken, which amounts to BAM 0.3 million and accounts for 26.2% of the total liabilities of the Company. Remaining items accounts for 15.2% of the Company's liabilities and relates to other liabilities and deferrals and to liabilities for unpaid debts kept until collection (Factoring guarantee fund) – 6% in relation to the total liabilities. The amount presented in the off-balance sheet record of the Company amounts to BAM 0.4 million and relates to the potential liabilities for concluded but not realized arrangements.

Given that it is a newly established Company, which concluded first two contracts in the fourth quarter of 2018, consequently a small total income is presented which amounted to the total of BAM nine thousands for the period 01.01.-31.12.2018 (income from fees of the nominal amount of purchased claims – BAM seven thousands and interest income for advance payment – BAM two thousand), while the total expenses amounted to BAM 418.0 thousands, where business and operational expenses accounts for BAM 415.0 thousands (staff expenses, general and administrative costs, depreciation and business premises, other business and operational expenses).

Within the first three quarters of 2018, factoring services in the FBiH were performed mainly by the banks, through the conclusion of Cash Claim Purchase Agreements, solely in the domestic factoring, which include right to recourse and no-recourse i.e. contracted and not contracted

advance for purchased cash claim. Out of the total number of four banks which performed factoring operations, three banks are members of the international banking group whose seat is in the EU member states, and one bank is in majority domestic ownership.

As of 31.12.2018, at the level of the factoring system of the FBiH, consisted of the Company and four commercial banks, the total volume of the purchased cash claims amount to BAM 131.2 million, out of it BAM 130.5 million or 99.5% accounts for portfolio in the banks, and BAM 0.7 million or 0.5% to the Company.

In addition to the factoring operations with right to recourse or no-recourse in the domestic factoring, which was dominant type of factoring in 2018, during the last quarter of 2018, the range of factoring operations was extended to the reverse (supply) factoring, as a special type of factoring, in a way that one bank realised the contract on this type of factoring. In 2018, factoring service providers did not perform the operations of the purchase of cash claims in foreign factoring, either operations similar to factoring (solvency and credit assessment of legal physical entities which perform self-employed activities, securing the claims, discount accounts, discount of bills of exchange, cession of bill claims, issuance of guarantees and other collaterals, sale of movable and immovable property taken as collateral on the basis of factoring and similar).

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

As of 31.12.2018, the total number of concluded factoring contracts at the level of the factoring system was 287 which are mainly related to the domestic factoring, out of it 273 contracts or 95.1% were concluded with the right of recourse i.e. Assuming the right of the factor, that in the case of inability for collection from the buyer, upon the maturity date, request the claim settlement from the seller, and that way compensate the advance paid, advance interest, as well as fees for the factor, while 14 contracts or 4.9% were without the right of recourse. Comparing the reporting data with the same period of the previous year, when there were 353 factoring contracts concluded, it is evident that there was a slight decrease of concluded factoring contracts by 66 contracts or 18.7%. As of 31.12.2018, the total number of active factoring contracts is 69 which compared to 31.12.2017 presents a decrease of five contracts or 6.8% where the number of active factoring contracts with the right of recourse was down by 12, and number of contracts without the right of recourse arise by seven active contracts.

The value (volume) of the purchased monetary claims at the level of the factoring system of the FBiH in 2018, compared to the same period of the previous year and the structure in terms of right to recourse and residence are presented in the table below:

-in 000 BAM-

Table 73: Nominal amount of purchased cash claims at the level of the factoring system of the FBiH, as per right to recourse and residence

Type	Volume of purchased cash claims												
	Factoring company				Banks				Total				Index (12:10) x 100
	01.01. - 31.12.2017.		01.01. - 31.12.2018.		01.01. - 31.12.2017.		01.01. - 31.12.2018.		01.01. - 31.12.2017.		01.01. - 31.12.2018.		
	Amount t	Share (in %)	Amount t	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	672	100%	310.482	88,6%	55.849	42,8%	310.482	88,6%	56.521	43,1%	18
Factoring without right to recourse	0	0	0	0	39.756	11,4%	74.641	57,2%	39.756	11,4%	74.641	56,9%	188
Total	0	0%	672	100%	350.238	100%	130.490	100%	350.238	100%	131.162	100%	37
Domestic factoring	0	0	672	100%	82.543	23,6%	130.490	100,0%	82.543	23,6%	131.162	100,0%	159

Foreign factoring	0	0	0	0	267.695	76,4%	0	0,0%	267.695	76,4%	0	0,0%	0
Total	0	0%	672	100%	350.238	100%	130.490	100%	350.238	100%	131.162	100%	38

It is evident decrease of the total value (volume) of the purchased claims in 2018 which accounts for only 37.4% in relation to the total value (volume) of the purchased claims in the same period of the previous year. Decrease of the volume of purchased claims in 2018, compared to 2017 is on the side of foreign factoring, hence in 2018 the bank which had concluded contracts in foreign factoring in 2017, during the same period in 2018 did not conclude such contracts. On the side of domestic factoring the total higher volume was achieved for 58.9% or in absolute term by BAM 48.6 million.

In terms of the maturity, the highest share in the total value (volume) of the purchased claims in 2018 accounts for purchased cash claims with maturity from 91 to 180 days – 67.4%, followed by 20.2% for maturity up to 60 days and remaining 12.4% for maturity of 61 to 90 days. Compared to 2017 maturity structure significantly changed, since that purchased claims with maturity up to 60 days accounted to 81.9%, from 61 to 90 days 1.3%, and from 91 to 180 days 16.8%.

In terms of the sectoral structure, the largest share accounts for public companies, since the value (volume) of the claims which in 2018 amount to BAM 66.7 million, accounts for 50.9% of the total value (volume) at the level of the factoring system of the FBiH. It followed by the public companies and enterprises, which amount to BAM 62.3 million or 47.6% of the total value (volume) at the level of the factoring system in the FBiH, government institutions in the amount of BAM 0.8 million or 0.6%, and non-government organisations and other clients in the amount of BAM 1.3 million, which is 1.0% of the total value (volume) at the level of the factoring system in the FBiH.

In the Q4 2018 one bank offered services of the reverse (supply) factoring where the payment of purchaser's obligations to suppliers has conducted in the amount of BAM 0.7 million, which in total related to domestic factoring. In the total value (volume) of paid obligations to suppliers in 2018, obligations with maturity by 60 days accounts for 71.0% , and 29.0% for maturity from 61 to 90 days.

In 2018, total paid advances to suppliers in the segment of private enterprises and companies (claimants) amounted to 127.2 million, of which the amount of BAM 74.6 million or 58.7% refers to factoring without right of recourse, and the amount of BAM 52.6 million or 41.3% on factoring with right of recourse.

Based on purchased monetary claims as of December 31, 2018, banks and the Company claimed a total of BAM 26.6 million, entirely in domestic factoring, out of which the amount of BAM 12.8 million or 47.9% relates to factoring with a right of recourse and BAM 13.9 million or 52, 1% on factoring without right of recourse. The structure of the stated amount according to the contractual maturity is as follows: the purchased claims with the contractual maturity of up to 60 days - 20.0%, from 61 to 90 days - 8.2% and from 91 to 180 days - 71.8%.

According to the final non-revised reporting data, presented total income of the factoring service providers in the FBiH (Company and four commercial banks) for the period 1.01. - 31.12.2018 amount to BAM 1.7 million, out of it 99.5% accounts for income gained by the banks. In the structure of the total income 43.5% relates to factoring with right of recourse observing the income from interest, factoring fees and administrative fees, while 56.5% of the income from interest, factoring fees and administrative fees relates to factoring without right of recourse.

The interest rate on the advance payment at the factoring market in the FBiH which was applicable on the last day of the Q4 2018 reporting period was 7.0%, while discounted interest rate was 5.0% and both were calculated in the domestic factoring. All four banks included in factoring operations and the Company as well charged factoring fees, while only one bank and the Company charged administrative fees for factoring services.

2.4.3. RECOMMENDATIONS FOR FACTORING SECTOR

In 2018 the factoring operations in the FBiH were mainly performed through the functions of financing, where services of recovery guarantee and claims management were not recorded, neither the operations similar to factoring, which confirms that this activity is still at the early days of development at the market of the FBiH, within legal and institutional frameworks defined by the LoF, and the FBA regulations governing the factoring operations in the FBiH

The intentions of the Law on the financial operations, in relation to the strengthening of the financial discipline and establishment of the clear rules in operations, still did not provide a stronger impulse for using the factoring as an instrument of the short-term financing and cash-flow management, to which also contributes the lack of adequately established and educated financial function in the small and medium enterprises.

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

To more efficiently address liquidity problems, and the scope of the short-term financing of the ongoing operations for small and medium enterprises raised to the higher level, in the following period it will be necessary to more vigorously promote factoring as an instrument, not only used for financing, but also for cash flow management, used by service providers, and other participants on the financial market of the FBiH.

Within its competences for the supervision of factoring operations in the FBiH, the FBA is guided by the principles of transparency, building a trust of factoring companies and banks, in order to maintain financial stability and operations of the factoring operations at the level of the FBiH.

3. PROTECTION OF RIGHTS AND INTERESTS OF NATURAL PERSONS – USERS OF FINANCIAL SERVICES WITH THE BANKING SYSTEM ENTITIES IN THE FBiH

3.1. Activities on protection of rights and interests of natural persons as users of the financial services with the banking system entities in the FBiH

In accordance to the competences and authorisations governed by the LoBA and the internal organisation of the FBA, the activities on promotion and protection of rights and interests of the natural persons as users of the financial services in the banking system are organised and performed through actions and interventions of the Ombudsman. The Ombudsman conducts a procedure in a manner defined by the Code of Conduct of the Ombudsman for the banking system of the Federation of Bosnia and Herzegovina, and which performed according to the established material-technical conditions provided by the FBA.

For the reporting period 01.01.-31.12.2018 the key activities of the Ombudsman are reflected in the following: consideration of user's complaints, provision of answers, recommendations and opinions to the banking system entities with the objective to resolve contested relations, and proposal of the measures for improvement of the operations and good practices of the banking system entities in the FBiH.

Within activities related to user's complaints, for the period 01.01.-31.12.2018 in total 335 complaints, requests and notifications were received, in relation to disputes arisen in relation to actions and work of the banking system entities in the individual relations and communication with the users of the financial services. The greatest number of complaints come from the users - 201 or 57.3%, guarantors - 46 or 13.1%, co-debtors - 5 or 1.4% and others - 99 or 28.2%.

Out of the total number of received complaints/requests in 2018, 312 or 93.1% are finished, completed, and its structure is provided in the table below:

<i>Table 74: Method of dealing with complaints by period</i>			
Method of dealing / period	31.12.2016.	31.12.2017.	31.12.2018.
Well-founded complaints	54	61	58 ³⁶
Competent treatment	45	49	83
Unfounded complaints	108	130	74
Complaints with instruction and explained answer	37	39	43
Withdrawal of complaints	18	11	3
Under responsibility of other institutions and organizations	25	19	19
Positively resolved upon Ombudsman recommendation	8	10	-
Recommendation upon request to be exempted from guarantee	17	17	8
Complaints which are not accepted due to untimely submission or delinquency	24	25	24
Total:	336	361	312

Remaining 23 or 6.9% are mainly referred to the cases initiated in December 2018, which objectively could not be finalised in 2018, but it was finalised for all cases during the January 2019.

During the reporting period, the meetings were held with the parties in the process of intermediation before the Ombudsman and other contested relations in the process before the Ombudsman resulted by the written correspondence from both parties.

³⁶ This number includes three positively resolved cases upon Ombudsman's recommendation

By analysing the completed procedures, it can be noticed that there is still a high percentage of complaints (unfounded) that are in the court procedure, terminated by a final court verdict or are being resolved by another body or institution.

The structure of completed procedures – complaints in 2018, against the BSEs is presented in the table below:

<i>Table 75: Structure of complaints against BSE</i>		
BSE – Banking System Entities	No.	% share
Banks	213	68,3
MCOs	29	9,3
Leasing companies	1	0,3
Other	69	22,1
Total:	312	100

Of the total number of complaints related to banks, the highest number of complaints - 89 or 41.8% refers to the two largest banks in the system, according to the amount of total assets. In the microcredit sector in FBiH, there was a significant reduction in the number of received and processed complaints in 2018 compared to previous years, which could be the consequence of the new legal regulations from 2014, FBA regulations, and improved procedures for working with clients.

The table below presents the structure of completed cases – complaints in 2018, as by type of the financial service:

<i>Table 76: Structure of complaints by type of financial service</i>		
Type of financial service	No.	% share
Loans	100	32,1
Deposits	4	1,3
Microloans	29	9,3
Fees	25	8,0
Payment transactions (accounts and cards)	42	13,5
Electronic instrument of payment	16	5,1
Leasing	1	0,3
Other	95	30,4
Total:	312	100

During 2018, as in the previous reporting periods, the largest number of complaints relate to credit operations, and primarily to issues of validity of contractual clauses on interest rate variability on loans, changes in the interest rate during the contractual relationship by financial institutions, loan reprogramming, CRK data delivery and loan insurance premiums. Significant number of complaints relate to payment services, which for the object have the type and amount of fees charged in dealing with customers, and the most frequent objections related to the amount of charges for keeping and closing the accounts, credit accounts/parties and issuing certificates and approvals on the debt according to current obligations.

The Ombudsman has undertaken a number of necessary actions by requests, which include asking for plea and additional plea from financial institutions, communication with users, urgencies, clarifications and amendments. In addition to complaints and requests in writing, users of financial services and guarantors addressed the Ombudsman, both by telephone or directly, with inquiries and requests regarding rights and obligations, new legislation and various financial products. During the reporting period, 150 different inquiries, pleas and requests were received,

according to which they were regularly communicated with explained answers, instructions and advice, and recommendations of the Ombudsman.

During the reporting period, there was also an improvement of the regulatory framework in this segment, which resulted in the adoption of the Rulebook on the Ombudsman for the banking system of the Federation of Bosnia and Herzegovina, and assessment of the situation regarding the conditions under which banks provide services to individuals in the FBiH, which resulted in the draft Guidelines for banks for the purpose of transparent, accurate and complete information of the user based on good business practices and fair treatment of the user.

In addition to the treatment of complaints or demands of financial services users, significant activities of the Ombudsman were also directed to other aspects important for the protection of the financial rights of financial services users, of which the most important were educational activities, financial education and responsible financial behaviour of adults and youth. Implementation of these activities is carried out within the project "Microfinance in BiH" implemented by the IFC, a member of the WB Group with the support of the Swiss Embassy in BiH, with the aim of improving the institutional capacities of the Ombudsman in planning, conducting and implementation of financial education for citizens - users of financial services. Through the trainings, lectures, study visits, creation and distribution of educational materials and other activities, this Project will provide support in the application of best practices and models in education of different categories of population and prevention of irresponsible financial behaviour of the users in the financial market.

3.2. OMBUDSMAN'S RECOMMENDATIONS TO BANKING SYSTEM ENTITIES (BSEs)

In accordance to its legal authorisations, the Ombudsman provides recommendations, views, guidelines and opinions to improve relations between users/guarantors and BSEs, based on findings and information gained through the proceedings upon notifications/complaints or taken cases. Recommendations were primarily related to improve relations to users, application of law, sound business practice, internal acts and resolving individual disputes between users/guarantors and BSEs.

In accordance to its legal authorisations, and based on findings for cases, the Ombudsman will continue to provide recommendations and guidelines to BSEs for the purpose of: compliance with laws and other regulations in the segment of protection of users of financial services, improvement relations toward users of financial services, application of sound business practices and fair treatment of users.

It is necessary that BSEs in the FBiH pay more attention to efficient and economical approach upon client's requests, take all needed measures and actions to remove obstacles and ensure conditions for legitimate, prompt, efficient and economic implementation of their business decisions, to organise their operations in a way to avoid repeating same or similar problems, and to eliminate promptly operational deficiencies which lead to denial of the rights to users of financial services.

The experience gained so far justifies the existence of the institutionalized protection of rights and interests of the users, as one of the effective aspect of protection, as well as a need to pay more attention in the future to dissemination and education of people, and BSEs employees. In regard to the above mentioned, the Ombudsman assessed that BSEs shall conduct activities to improve the quality and relation with the users.

CONCLUSION

During 2018 the ECB kept low, i.e. zero rates for main monetary instruments such as cross-border refinancing operations. Continued monetary expansion kept money market interest rates at low. Such situation in international environment affected that interest rates for deposits in BiH remain low, which is at loan market reflected by the continued growth of loans and improves asset quality.

In the second half of the year, the economic slowdown was recorded in the European Union, in particular Germany, and the fact that at the end of 2018 the Italy technically entered a recession, but for now transfer of slowdown has not recorded to the economy of BiH and consequently to BSEs. There is also uncertainty due to potential putting up protectionist measures.

Within their announcements for the interest rate policy the Central Bank of the United States (FED) and the ECB expressed the expectations that in due time there will not be an increase in interest rates, thus fuelling the expectation that period of the lowest interest rates in history shall continue in 2019 as well.

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

As of 31.12.2018, positive trends in the banking sector operations continued, reflected in the assets growth, increase of loans, cash and deposits, as well as the profitability improvement of the overall banking sector. There is a continued trend of the increase in lending in all sectors, except loans passed to the government institutions. The share of NPL, as a key indicator of loan quality, still has a downward trend. The trend of increase in total deposits and savings deposits continued, with these being the most important and the largest segment of the deposit and financial potential of banks. According to the final non-revised reporting data, as of 31.12.2018, The banks in the FBiH recorded a positive financial result, wherein profitability indicators were mainly affected by assets quality indicators and efficiency in management with operating incomes and expenses. Based on the key business performance indicators of the banking sector of the FBiH as of 31.12.2018, it can be concluded that it is stable, adequately capitalized, liquid and profitable.

It is of the key importance the quality of the overall management system in the banks, and as its part adequately and efficient functioning of the risk management system, and adequate capital risk coverage in operations through respect of the regulatory requirements, and requirements set within the ICAAP and ILAAP.

When analyse the reports of the micro-credit sector in the FBiH according to the final non-revised reporting data as of 31.12.2018 compared with 31.12.2017 it can be concluded that operation of this sector is characterized by the growth of total assets, micro-credit portfolio, number of employees, total capital, positive financial result, with unchanged micro-credit quality indicators for the period observed.

In 2018, at the level of the leasing system in the FBiH it has recorded an increase in the volume of operations compared to the same period of the previous year, in terms of the number and value of newly-concluded arrangements, as well as increase of total assets of the leasing sector in the FBiH, compared to the 31.12.2017, and positive financial result, which indicates that leasing system is stable, with possibility of further development.

Factoring operations in 2018 were mainly performed through the functions of financing, while the function to guarantee recovery and claims management are not recorded, same as other operations related to factoring, that is a confirmation that this service is still at the onset of development at the BiH market within legislative and institutional framework defined by the LoF and regulations issued by the FBA which define factoring operations in more details.

Assessment of the BSEs compliance with the AML/CFT standards indicates that there is no reasons for supervisory concern, but additional efforts are required on compliance of operations and management of risks related to payment operations and AML/CFT.

In the segment of protection of users of financial services, the Ombudsman will continue with provision of recommendations and guidelines to BSEs to improve and enhance their relations with the users of financial services.

No.: U.O.-32-02/19
Sarajevo, 18.04.2019

LEGAL FRAMEWORK

Annex 1- Legal framework governing work of the FBA and BSEs in the FBiH

I. REGULATIONS RELATED TO THE FBA ORGANISATION

1. Law on the Banking Agency of the Federation of Bosnia and Herzegovina (Official Gazette of the FBiH, number 75/17),
2. Statute of the Banking Agency of the Federation of Bosnia and Herzegovina (Official Gazette of the FBiH, number 3/18),
3. Rulebook on Internal organisation of the Banking Agency of the Federation of BiH (No.: U.O.-15-02/18 of 16.02.2018),
4. Rulebook on staff establishment plan of the Banking Agency of the Federation of BiH (No.: 01-1161/18 of 29.03.2018.) and Conclusion on technical correction of 23.04 and 02.07.2018.

II. REGULATIONS RELATED TO THE FBA JURISDICTION

Laws

1. Banking Law ("Official Gazette of the FBiH", no. 27/17),
2. Law on Microcredit organisations ("Official Gazette of the FBiH", no. 59/06),
3. The Law on Associations and Foundations („Official Gazette of the FBiH“, no. 45/02),
4. Law on Leasing of the Federation of Bosnia and Herzegovina („Official Gazette of the FBiH", no. 85/08, 39/09, 65/13 i 104/16),
5. Law on Development Bank of the Federation of BiH ("Official Gazette of the FBiH", no.: 37/08),
6. Law on deposit insurance in BiH („Official Journal BiH“, no. 20/02, 18/05, 100/08, 75/09 i 58/13),
7. Law on Foreign Exchange Operations ("Official Gazette of the FBiH", no. 47/10),
8. Law on the prevention of money laundering and financing of terrorist activities ("Official Journal BiH“, no. 47/14 and 46/16),
9. Law on the Protection of Guarantors in the FBiH („Official Gazette of the FBiH“, no. 100/13),
10. Law on Protection of Users of Financial Services ("Official Gazette of the FBiH", no. 31/14),
11. Law on internal payment transactions („Official Gazette of the FBiH“, no. 48/15 and 79/15-correction),
12. Law on Factoring of the Federation BiH („Official Gazette of the FBiH“, no. 14/16).

Decisions, instructions and guidelines issued by the FBA governing operations and supervision of banks

1. Decision on Calculation of Capital in Banks („Official Gazette of the FBiH“, no. 81/17),
2. Decision on Large Exposures („Official Gazette of the FBiH“, no. 81/17),
3. Decision on management of interest rate risk in the banking book („Official Gazette of the FBiH“, no. 18/17),
4. Decision on Risk Management in a bank („Official Gazette of the FBiH“, no.: 81/17),
5. Decision on Internal Capital Adequacy Assessment Process in a bank („Official Gazette of the FBiH“, no. 81/17),

6. Decision on Liquidity Risk Management („Official Gazette of the FBiH“, no. 81/17),
7. Decision on Disclosing Data and Information of Banks („Official Gazette of the FBiH“, no. 81/17),
8. Decision on Control Functions of Bank („Official Gazette of the FBiH“, no. 81/17),
9. Decision on external audit in bank and its content („Official Gazette of the FBiH“, no. 81/17),
10. Decision on conditions for issuance of procuration in banks („Official Gazette of the FBiH“, no. 81/17),
11. Decision on Sale and Purchase of Bank Facilities („Official Gazette of the FBiH“, no. 81/17),
12. Decision on Recovery Plans of Bank and Banking Group („Official Gazette of the FBiH“, no. 81/17),
13. Decision on requirements for consolidated banking group („Official Gazette of the FBiH“, no. 81/17),
14. Decision on outsourcing management in banks („Official Gazette of the FBiH“, no. 81/17),
15. Decision on Exceptions to Preserve Banking Secrecy („Official Gazette of the FBiH“, no. 81/17),
16. Decision on Records of Banks and Organisational Units of Banks Seated in Republika Srpska or Brčko District and Banks' Representative Offices Opened in the Federation of Bosnia and Herzegovina („Official Gazette of the FBiH“, no. 81/17),
17. Decision on Banks' Obligation to Notify the Banking Agency of the Federation of Bosnia and Herzegovina („Official Gazette of the FBiH“, no. 81/17),
18. Decision on Banks' Operations with Persons in a Special Relationship with the Banks („Official Gazette of the FBiH“, no. 81/17),
19. Decision on Uniform Manner of Calculation and Reporting of Effective Interest Rates on Loans and Deposits („Official Gazette of the FBiH“, no. 81/17),
20. Decision on Conditions in which Banks are Considered Insolvent („Official Gazette of the FBiH“, no. 81/17),
21. Decision on Conscientious Behaviour of Members of Bank's Bodies („Official Gazette of the FBiH“, no. 81/17),
22. Decision on Remuneration Policy and Practice for Bank Employees („Official Gazette of the FBiH“, no. 81/17),
23. Decision on Conditions and Manner of Handling Client Complaints in Banks, Microcredit Organisations and Leasing Companies („Official Gazette of the FBiH“, no. 81/17),
24. Decision on information system management in banks („Official Gazette of the FBiH“, no. 81/17),
25. Decision on Statement on Financial Situation (*wealth statement*) („Official Gazette of the FBiH“, no. 81/17),
26. Decision on Foreign Currency Risk Management in banks („Official Gazette of the FBiH“, no. 81/17),
27. Decision on Internal Control System in banks („Official Gazette of the FBiH“, no. 81/17),
28. Decision on Inclusion of Special Conditions for Contracting Long-Term Non-Purpose and Replacement Loans to Natural Persons in Risk Management Systems of Banks („Official Gazette of the FBiH“, no. 81/17),
29. Decision on Conditions and Procedure for Issuing, Refusing to Issue and Revoking Operating Licences („Official Gazette of the FBiH“, no. 90/17),
30. Decision on Conditions and Procedure for Issuing and Refusing to Issue Approvals for the Selection or Appointment of members of the Supervisory Board and

- Management of Banks and for Revoking Issued Approvals („Official Gazette of the FBiH“, no. 90/17),
31. Decision on Conditions and Procedure for Issuing, Refusing to Issue and Revoking Other Approvals for Performing Banking Activities („Official Gazette of the FBiH“, no. 90/17),
 32. Decision on Assessing the Fulfilment of Conditions for Members of the Supervisory Board and Management of Banks („Official Gazette of the FBiH“, no. 90/17),
 33. Decision on Bank Supervision and Actions of the Banking Agency of the Federation of Bosnia and Herzegovina („Official Gazette of the FBiH“, no. 90/17),
 34. Decision on Procedure for Determination of Claims and Distribution of Assets and Liabilities in Bank Liquidation („Official Gazette of the FBiH“, no. 90/17),
 35. Decision on Reports Banks Submit to the Banking Agency of the Federation of BiH („Official Gazette of the FBiH“, no. 103/17, 31/18 i 103/18),
 36. Decision on Fees Tariff for Banks („Official Gazette of the FBiH“, no. 46/18),
 37. Decision on Criteria for Inclusion of Loan Loss Reserves into Common Equity Tier 1 („Official Gazette of the FBiH“, no. 91/18),
 38. Decision on Minimum Standards for Credit Risk Management and Assets Classification in Banks („Official Gazette of the FBiH“, no. 85/11, 33/12 i 15/13),
 39. Decision on Reporting of Insolvent Clients Considered to Represent Special Credit Risk in Banks („Official Gazette of the FBiH“, no. 3/03),
 40. Decision on Minimum Standards for Bank Activities on Prevention of Money Laundering and Terrorism Financing („Official Gazette of the FBiH“, no. 48/12),
 41. Decision on Minimum Standards for Documenting Lending Activities of Banks („Official Gazette of the FBiH“, no. 3/03 i 23/14),
 42. Internal Bank Rating Criteria by the Banking Agency of the FBiH („Official Gazette of the FBiH“, no. 3/03 i 6/03-amend.),
 43. Decision on Minimum Standards for Currency Exchange Operations („Official Gazette of the FBiH“, no. 95/13, 99/13 i 103/18),
 44. Decision on Examination of Currency Exchange Operations („Official Gazette of the FBiH“, no. 95/13),
 45. Decision on Examination of Foreign Currency Operations in Banks – Payment Transactions („Official Gazette of the FBiH“, no. 95/13),
 46. Instruction for completing reporting forms for liquidity coverage (No.: 01-75/18 dated 15.01.2018),
 47. Guidelines for information system external auditors (No.: 01-262/18 dated 30.01.2018),
 48. Instruction for completing reports on scope of exchange operations, internal and foreign exchange payment operations (No: 01-5343/18 dated 28.12.2018),
 49. Instruction for completing bank report on regulatory capital, credit, operational and market risk and financial leverage ratio (no: 01-4914/17 dated 22.12.2017),
 50. Instruction for completing reporting forms for large exposures (no: 01-4915/17 dated 22.12.2017),
 51. Instruction for completing reporting forms for interest risks in banking book (no: 01-4916/17 dated 22.12.2017),
 52. Guidelines on reporting on ICAAP application to the Banking Agency of the Federation of Bosnia and Herzegovina (no: 01-4917/17 dated 22.12.2017),
 53. Instruction on implementation of provisions of Decision on liquidity risk management of a bank related to the LCR component (no: 01-4918/17 dated 22.12.2017),
 54. Guidelines to assess recovery plans (no: 01-4919/17 dated 22.12.2017),
 55. Instruction for reporting on outsourcing management (no: 01-4920/17 dated 22.12.2017),

56. Instruction for calculation of weighted nominal and effective interest rate (no: 01-4921/17 dated 22.12.2017),
57. Instruction to apply and create creditor's report in accordance to Decision on Conditions and Manner of Handling Client Complaints in Banks, Microcredit Organisations and Leasing Companies (no.: 01-4922/17 dated 22.12.2017),
58. Instruction for reporting on information system management (no: 01-4923/17 dated 22.12.2017),
59. Instruction to apply Decision on foreign currency risk management in banks (no: 01-4924/17 dated 22.12.2017),
60. Instructions for Revised Method of Forming, Recording and Reporting Loan Loss Provisions (December 2011, January 2013),
61. Instructions for Method of Reporting to Provisional Administrator about Bank Operations under Provisional Administration (19.07.2013),
62. Instructions for Form and Method of Additional Reporting by Banks under Provisional Administration (19.07.2013),
63. Instructions for Method of Reporting to Liquidation Administrator about Implementation of Liquidation in Bank (19.07.2013).

Decisions and Instructions issued by the FBA governing bank resolution

1. Decision on Resolvability Assessment of Bank and Banking Group ("Official Gazette of the FBiH", no. 26/18),
2. Decision on Business Reorganisation Plan for a Bank ("Official Gazette of the FBiH", no. 26/18),
3. Decision on conditions and manner for conducting independent valuation of assets and liabilities of the bank before and during resolution proceedings of the bank ("Official Gazette of the FBiH", no. 26/18),
4. Decision on sale of shares, assets, rights, and liabilities of bank under resolution ("Official Gazette of the FBiH", no. 26/18),
5. Decision on data and information bank submits to the Banking Agency of the Federation of Bosnia and Herzegovina for the purpose of drawing and updating of the bank resolution plan ("Official Gazette of the FBiH", no. 26/18),
6. Decision on establishment, conditions, and manner of issuance consent for asset management company ("Official Gazette of the FBiH", no. 26/18),
7. Decision on procedure and manner of performing write down or conversion of capital instruments and liabilities of a bank ("Official Gazette of the FBiH", no. 26/18),
8. Decision on establishing a bridge bank ("Official Gazette of the FBiH", no. 26/18),
9. Decision on types of financial collateral arrangements and financial instruments to which protective measures for counterparties shall apply ("Official Gazette of the FBiH", no. 26/18),
10. Decision on minimum requirements for own funds and eligible liabilities of banks ("Official Gazette of the FBiH", no. 26/18),
11. Instruction on the manner of compiling reports bank submits for the purpose of drawing resolution plan (No.: 01-1998/18 of 21.05.2018).

Decisions and Instructions issued by the FBA governing operations and supervision of MCOs

1. Decision on fees tariffs for microcredit organisations („Official Gazette of the FBiH“, no. 46/18),

2. Decision on conditions and procedure for issuing and revoking an operating license and other APPROVALs to microcredit organisations („Official Gazette of the FBiH“, no. 103/18),
3. Decision on conditions and other operational standards and limitations in microcredit organisation („Official Gazette of the FBiH“, no. 103/18),
4. Decision on supervision of microcredit organisations and procedures of the Banking Agency of the Federation of Bosnia and Herzegovina („Official Gazette of the FBiH“, no. 103/18),
5. Decision on Uniform Method of Calculation and Disclosure of Effective Interest Rate on Loans and Deposits („Official Gazette of the FBiH“, no. 81/17),
6. Decision on conditions and procedure for issuance of operating license to microcredit foundation created as change of microcredit organisational form („Official Gazette of the FBiH“, no. 27/07 i 31/18),
7. Decision on the Form and Contents of Reports Microcredit Organizations Submit to the Banking Agency of the Federation of Bosnia and Herzegovina and Reporting Deadlines („Official Gazette of the FBiH“, no. 27/07, 110/12 i 15/13),
8. Decision on the amount and method of forming and maintainace of loan loss provisions for microcredit organizations („Official Gazette of the FBiH“, no. 27/07),
9. Decision on Minimum Standards for Microcredit organisations Activities on Prevention of Money Laundering and Terrorism Financing (“Official Gazette of the FBiH”, no. 48/12),
10. Decision on Minimum Standards for Documenting Lending Activities of Microcredit Organisations and Assessing Creditworthiness („Official Gazette of the FBiH“, no. 23/14),
11. Instruction for calculation of weighted and effective interest rate,
12. Instrution for calculation of adjusted return on assets,
13. Instruction for calculation of operational efficiency indicators,
14. Instruction for preparing MCO reports.

FBA Decision and Instruction related to operations and supervision of leasing companies

1. Decision on Conditions and Manner of Handling Client Complaints in Banks, Microcredit Organisations and Leasing Companies („Official Gazette of the FBiH“, no. 81/17),
2. Decision on outsourcing of business process of leasing companies („Official Gazette of the FBiH“, no. 58/17),
3. Decision on Form and Content of the Reports that the Leasing Companies Submit to the Banking Agency of the Federation of Bosnia And Herzegovina and Reporting Deadlines („Official Gazette of the FBiH“, no. 46/09, 48/12 i 110/12),
4. Decision on conditions and procedure in issuing and revoking license to a leasing company („Official Gazette of the FBiH“, no. 46/09, 58/17 i 31/18),
5. Decision on conditions and procedure for issuance and revoking approval to leasing company (Official Gazette of the FBiH“, no. 46/09, 46/11 i 58/17),
6. Decision on Uniform Method and Disclosure of Effective Interest Rate in financial leasing contracts („Official Gazette of the FBiH“, no. 46/18),
7. Decision on Fee Tariffs for leasing companies(“Official Gazette of the FBiH“, no. 46/18),
8. Decision on Uniform Manner and Method for Calculating and Reporting the Leasing Fee for Operational Leasing Arrangements („Official Gazette of the FBiH“, no. 46/09 i 48/12),

9. Decision on Minimum Level and Manner of Forming, Managing and Maintaining Loss Reserves and Risk Management in Leasing Companies („Official Gazette of the FBiH“, no. 46/09),
10. Decision on supervision of leasing companies („Official Gazette of the FBiH“, no. 46/09, 58/17 i 31/18),
11. 9. Decision on Minimum Standards for leasing companies' Activities on Prevention of Money Laundering and Terrorism Financing („Official Gazette of the FBiH“, no. 48/12),
12. 11. Decision on Minimum Standards for Documenting Financing under Leasing Arrangements and Assessing Creditworthiness („Official Gazette of the FBiH“, no. 46/14),
13. Instruction for completing reports of leasing companies (31.01.2013).

Decisions and Instructions issued by the FBA related to operations and supervision of factoring companies

1. Decision on Minimum Standards for Content of Factoring Agreements („Official Gazette of the FBiH“, no. 70/16),
2. Decision on Minimum Standards for Conditions and Manner of Performing Activities of Factoring Companies („Official Gazette of the FBiH“, no. 70/16),
3. Decision on Minimum Standards for Criteria, Rules and Additional Requirements for Capital of Factoring Companies („Official Gazette of the FBiH“, no. 70/16),
4. Decision on Minimum Standards for Criteria and Procedures of Making Decisions about Issuing Approvals for Acquisition or Increase of Qualified Stake in Factoring Companies and of Factoring Companies in Another Legal Entity („Official Gazette of the FBiH“, no. 70/16),
5. Decision on Minimum Standards for Closer Conditions and Manner of Issuing Operating Licences of Factoring Companies in Domestic Factoring („Official Gazette of the FBiH“, no. 70/16),
6. 6. Decision on Minimum Standards for Requirements Supervisory Board and Management Members of Factoring Companies Must Meet („Official Gazette of the FBiH“, no. 70/16),
7. Decision on Minimum Standards for Criteria and Manner of Risk Management in Factoring Companies („Official Gazette of the FBiH“, no. 70/16),
8. Decision on Minimum Standards for Performing Internal Audit Operations in Factoring Companies („Official Gazette of the FBiH“, no. 70/16),
9. Decision on Minimum Standards for Structure, Content, Manner and Deadlines for Submission of Information and Reports of Factoring Companies to the Banking Agency of the Federation of Bosnia and Herzegovina („Official Gazette of the FBiH“, br 70/16, 85/16-ispr., 104/16),
10. Decision on Fees Factoring Companies Pay to the Banking Agency of the FBiH („Official Gazette of the FBiH“, no. 46/18),
11. Instructions for Filling Out Financial and Other Reports Factoring Companies Are Required to Draft for Purposes of the Banking Agency of the Federation of BiH (no.: 4203/16 dated 24.10.2016),
12. 12. Instructions for Drafting Reports on Calculation of Capital in Factoring Companies (no. 4204/16 dated 24.10.2016).

Decisions and Instructions of the FBA Relating to the Operations of the Ombudsman for the Banking System

1. Decision on Conditions and Manner of Handling Guarantors' Requests for Release from the Guarantor's Obligation („Official Gazette of the FBiH“, no. 31/18),
2. Rulebook on the Ombudsman for the Banking System of the Federation of Bosnia and Herzegovina (“Official Gazette of the FBiH” no. 46/18),
3. Code of Conduct of the Ombudsman for the Banking System (“Official Gazette of the FBiH”, no. 62/14 i 93/15),
4. Decision on Minimum Requirements in Terms of Content, Comprehensibility and Accessibility of General and Special Operating Conditions of Providers of Financial Services (Official Gazette of the Federation of BiH (“Official Gazette of the FBiH”, no. 62/14),
5. Decision on conditions and method of handling clients complaints for banks, microcredit organisations and leasing companies („Official Gazette of the FBiH“, no. 81/17).

Other regulations:

Development Bank of the FBiH

1. Decree on Criteria and Manner of Supervision of the Development Bank of the FBiH, (“Official Gazette of the FBiH”, no. 57/08, 77/08 i 62/10),
2. Decision on Determining Amount of Fees for Supervision of the Development Bank of the FBiH, (“Official Gazette of the FBiH”, no. 65/09).

Foreign exchange operations

1. Rulebook on the Process of Opening and Maintaining FC Accounts and FC Savings of Resident Customers of Banks (“Official Gazette of the FBiH”, no. 56/10),
2. Rulebook on Conditions and Manner for Opening, Maintaining and Closing of Non-Resident Accounts in Banks (“Official Gazette of the FBiH”, no. 56/10),
3. Decision on Withdrawing Foreign Cash and Cheques (“Official Gazette of the FBiH”, no. 58/10),
4. Decision on Conditions and Manner of Conducting Foreign Exchange Operations (“Official Gazette of the FBiH”, no. 58/10 i 49/11),
5. Decision on Conditions for Issuing Approvals for Opening FC Accounts Abroad (“Official Gazette of the FBiH”, no. 58/10),
6. Decision on Payment, Collection and Transfer of Foreign Currency and Foreign Cash (“Official Gazette of the FBiH”, no. 58/10),
7. Decision on Manner and Conditions for Residents to Receive or Perform Payment in FCY and LCY Cash in Their Operations with Non-Residents (“Official Gazette of the FBiH”, no. 58/10),
8. Rulebook on Manner, Deadlines and Forms of Reporting on International Lending Business (“Official Gazette of the FBiH”, no. 79/10),
9. Decision on minimum standards for foreign exchange operations (“Official Gazette of the FBiH”, no. 95/13 i 99/13),
10. Decision on Examination of Currency Exchange Operations (“Official Gazette of the FBiH”, no. 95/13),
11. Decision on Examination of Foreign Currency Operations in Banks – Payment Transactions (“Official Gazette of the FBiH”, no. 95/13).

AML/CFT

1. Rulebook on risk assessment, data, information, documentation, identification methods and other minimum indicators required for efficient implementation of the provisions of the Law on the prevention of money laundering and financing of terrorist activities („Official Journal BiH“, no. 93/09),
2. Instruction for completing forms and electronical data input to report money transactions by payers („Official Journal BiH“, no. 22/11).

III. OTHER LAWS IN THE FBiH RELEVANT FOR OPERATIONS AND SUPERVISION OF BSEs

1. Law on Obligatory Relations (“Official Journal of RBiH” no. 2/92, 13/93 i 13/94, „Official Gazette of the FBiH“, no. 29/03 i 42/11),
2. Law on Payment Transactions (“Official Gazette of the FBiH”, no. 32/00 i 28/03),
3. Law for cheques (“Official Gazette of the FBiH”, no. 32/00),
4. Law on Bills of Exchange (“Official Gazette of the FBiH”, no. 32/00 i 28/03),
5. Law on the Rate of the Default Interest (“Official Gazette of the FBiH”, no. 27/98, 51/01 i 101/16),
6. Law on Amount of Default Interest for Unsettled Debts (“Official Gazette of the FBiH”, no. 56/04, 68/04, 29/05, 48/11 i 28/13),
7. Law on Amount of Default Interest for public revenues (“Official Gazette of the FBiH”, no. 48/01, 52/01, 42/06, 28/13, 66/14, 86/15 i 34/18),
8. The Company Law of the Federation of B&H (“Official Gazette of the FBiH” no. 81/15)
9. Law on Financial Consolidation of Companies in FBiH („Official Gazette of the FBiH“, no. 52/14 i 36/18),
10. Law on Takeover of Joint Stock Companies, („Official Gazette of the FBiH“, no. 77/15),
11. Law on registration of business entities in Federation of Bosnia and Herzegovina (“Official Gazette of the FBiH”, no. 27/05, 68/05, 43/09 i 63/14),
12. Law on Public Enterprises in the Federation of Bosnia and Herzegovina („Official Gazette of the FBiH“, no. 8/05, 81/08, 22/09 i 109/12),
13. The Liquidation Law (“Official Gazette of the FBiH”, no. 29/03),
14. Law on Bankruptcy Proceedings (“Official Gazette of the FBiH”, no. 29/03, 32/04, 42/06 i 52/18),
15. Law on Debt, Borrowing and Guarantees of the Federation of Bosnia and Herzegovina („Official Gazette of the FBiH“, no. 86/07, 24/09 i 44/10),
16. Accounting and Auditing Law in FBiH (“Official Gazette of the FBiH”, no. 83/09),
17. Law on Classification of Activities in the Federation of Bosnia and Herzegovina (“Official Gazette of the FBiH”, no. 64/07 i 80/11),
18. Law on classification of occupations in the FBiH (“Official Gazette of the FBiH”, no. 111/12),
19. Law on securities market (“Official Gazette of the FBiH”, no. 85/08, 109/12, 86/15 i 25/17),
20. Law on Securities Register (“Official Gazette of the FBiH”, no. 39/98, 36/99 i 33/04),
21. Law on Securities Commission (“Official Gazette of the FBiH” no. 39/98, 36/99, 33/04 i 6/17),
22. Law on labour FBiH (“Official Gazette of the FBiH”, no. 26/16 i 89/18),
23. Law on Council of employees (“Official Gazette of the FBiH”, no. 38/04),
24. Law on Employing Foreigners (“Official Gazette of the FBiH”, no. 111/12),
25. Law on Investment Funds (“Official Gazette of the FBiH”, no. 85/08 i 25/17),

26. Law on Mediation in Private Insurance (“Official Gazette of the FBiH”, no. 22/05, 8/10 i 30/16),
27. Law on Tax Authority of the Federation of BiH (“Official Gazette of the FBiH”, no. 33/02, 28/04, 57/09, 40/10, 29/11 i 27/12, 7/13, 71/14 i 91/15),
28. Law on Income Tax (“Official Gazette of the FBiH”, no. 15/16),
29. Law on Income Tax (“Official Gazette of the FBiH”, no. 10/08, 9/10, 44/11, 7/13 i 65/13),
30. Law on Contributions (“Official Gazette of the FBiH”, no. 35/98, 54/00, 16/01, 37/01, 1/02, 17/06, 14/08, 91/15, 106/16 i 34/18),
31. Law on Collection and Partial Write-Off of Past Due Social Insurance Contributions (“Official Gazette of the FBiH”, no. 25/06 i 57/09),
32. Law on Single System of Registration of Control and Collection of Contributions (“Official Gazette of the FBiH”, no. 42/09, 109/12 i 30/16),
33. Law on Opening Balance Sheet of Companies and Banks (“Official Gazette of the FBiH”, no. 12/98, 40/99, 47/06, 38/08 i 65/09),
34. Law on Audit of Privatisation of State-Owned Capital in Companies and Banks (“Official Gazette of the FBiH”, no. 55/12),
35. Law on Identifying and Realising Claims of Citizens in the Privatisation Process (“Official Gazette of the FBiH”, no. 27/97, 8/99, 45/00, 54/00, 7/01, 32/01, 27/02, 57/03, 44/04, 79/07, 65/09, 48/11, 111/12, 86/15 i 13/18),
36. Law on Identification and Manner of Settlement of Domestic Debt of the FBiH (“Official Gazette of the FBiH”, no. 66/04, 49/05, 5/06, 35/06, 31/08, 32/09, 65/09 i 42/11 i 35/14),
37. 38. Law on Settlement of Liabilities Based on Pre-War FC Savings in the FBiH (“Official Gazette of the FBiH”, no. 62/09 i 42/11, 91/13 i 101/16),
38. Law on Associations and Foundations (“Official Gazette of the FBiH”, no. 45/02),
39. Law on Crafts and similar services in the Federation of Bosnia and Herzegovina. (“Official Gazette of the FBiH”, no. 35/09 i 42/11),
40. Expropriation Law (“Official Gazette of the FBiH”, no. 70/07, 36/10, 25/12 i 34/16),
41. Law Rendering Ineffective the Law on Construction (“Official Gazette of the FBiH”, no. 55/02 i 34/07),
42. Law on Construction Land in the FBiH (“Official Gazette of the FBiH”, no. 67/05),
43. Law on Temporary Restriction over Disposing with State Property in the FBiH (“Official Gazette of the FBiH”, no. 20/05, 17/06, 62/06, 40/07, 70/07, 94/07 i 41/08),
44. Law on Freedom of Access to Information in FBiH („Official Gazette of the FBiH“, no. 32/01 i 48/11),
45. Regulatory Offence Law of the FBiH (“Official Gazette of the FBiH”, no. 63/14),
46. Law on Notaries Public (“Official Gazette of the FBiH”, no. 45/02),
47. Law on Court Appraisers (“Official Gazette of the FBiH”, no. 49/05 i 38/08),
48. Law on Agencies and Internal Departments for Personal and Property Protection (“Official Gazette of the FBiH”, no. 78/08 i 67/13),
49. Law on Land Books in the FBiH (“Official Gazette of the FBiH”, no. 58/02, 19/03 i 54/04),
50. Law on foreign investments (“Official Gazette of the FBiH”, no. 61/01, 50/03 i 77/15)
51. Mediation Law (“Official Gazette of the FBiH”, no. 49/07),
52. 53. Law on Treasury of the FBiH (“Official Gazette of the FBiH”, no. 26/16),
53. Law on the Government of the Federation of Bosnia and Herzegovina („Official Gazette of the FBiH“, no. 1/94, 8/95, 58/02, 19/03, 2/06 i 8/06),
54. Law on Prosecutor's Office of the FBiH (“Official Gazette of the FBiH”, no. 42/02 i 19/03),
55. Law on Courts in the FBiH ("Official Gazette of the FBiH", no. 38/05, 22/06, 63/10, 72/10-amend., 7/13 i 52/14),

56. Law on Enforcement Proceedings ("Official Gazette of the FBiH", no. 32/03, 52/03, 33/06, 39/06 - amend., 39/09, 74/11, 35/12 i 46/16),
57. Law on Temporary Postponement of Fulfillment of Receivables Based on Executive Decisions Issued in Relation to the FBiH Budget ("Sl. novine FBiH", no. 9/04 i 30/04),
58. Law on Administrative Procedure ("Official Gazette of the FBiH", no. 2/98 i 48/99),
59. Law on Administrative Dispute Proceedings ("Official Gazette of the FBiH", no. 9/05),
60. Civil Procedure Code ("Official Gazette of the FBiH", no. 53/03, 73/05, 19/06 i 98/15),
61. Law on Non-Civil Proceedings („Official Gazette of the FBiH“, no. 2/98, 39/04, 73/05 i 80/14),
62. Criminal Code of the FBiH („Official Gazette of the FBiH“, no. 36/03, 37/03, 21/04, 69/04, 18/05, 42/10 i 42/11, 59/14, 76/14, 46/16 i 75/17),
63. Law on the Criminal Procedure Code FBiH ("Official Gazette of the FBiH", no. 35/03, 37/03, 56/03, 78/04, 28/05, 55/06, 27/07, 53/07, 9/09 i 12/10, 8/13, 59/14),
64. Law on Enforcement of Criminal Sanctions in the FBiH ("Official Gazette of the FBiH", no. 44/98, 42/99, 12/09 i 42/11),
65. Law on Conflict of Interest in Government Bodies in the FBiH ("Official Gazette of the FBiH", no. 70/08),
66. Financial–intelligence Agency ("Official Gazette of the FBiH", no. 80/11),
67. Law on Fiscal Systems ("Official Gazette of the FBiH", no. 81/09),
68. Law on privatization of banks ("Official Gazette of the FBiH", no. 12/98, 29/00, 37/01 i 33/02),
69. Law on Archive Materials of the FBiH ("Official Gazette of the FBiH", no. 45/02),
70. Law on Recognition of Public Identification Documents on Territory of the FBiH ("Official Gazette of the FBiH", no. 4/98),
71. Law on Strike ("Official Gazette of the FBiH", no. 14/00),
72. Law on Federal Administrative Taxes and Tariffs of Federal Administrative Taxes ("Official Gazette of the FBiH", no. 6/98, 8/00, 45/10, 43/13 i 98/17),
73. Law on Internal Trade ("Official Gazette of the FBiH", no. 40/10 i 79/17),
74. Property Law („Official Gazette of the FBiH“, no. 66/13 i 100/13),
75. Law on Budgets of the FBiH („Official Gazette of the FBiH“, no. 102/13, 9/14-ispr. 13/14, 8/15, 91/15, 102/15, 104/16 i 5/18),
76. Law on Citizenship of the Federation BiH („Official Gazette of the FBiH“, no. 34/16),
77. Law on voluntary pension funds („Official Gazette of the FBiH“, no. 104/16),
78. Law on Financial Operations („Official Gazette of the FBiH“, no. 48/16),
79. Law on Salaries and Remunerations in Government Bodies of the Federation of Bosnia and Herzegovina („Službene novine Federacije BiH“, no. 45/10, 111/12 i 20/17),
80. Law on Single Registry of Users of Cash Benefits with no Fee Payment („Official Gazette of the FBiH“, no. 25/17),
81. Law on Insurance („Official Gazette of the FBiH“, no. 23/17),
82. Law on Development Planning and Management in the Federation of Bosnia and Herzegovina („Official Gazette of the FBiH“, no. 32/17),
83. Law on Pension and Disability Insurance („Official Gazette of the FBiH“, no. 13/18).

IV. OTHER LAWS IN BIH RELEVANT OFR OPERATIONS AND SUPERVISION OF THE BSEs

1. Law on Central Bank BiH ("Official Journal BiH", no. 1/97, 29/02, 8/03, 13/03, 14/03, 9/05, 76/06 i 32/07),
2. Law on Consumer Protection in BiH („Official Journal BiH“, no. 25/06),

3. Law on Market Surveillance in BiH ("Official Journal BiH", no. 45/04, 44/07 i 102/09),
4. Law on competition („Official Journal BiH“, no. 48/05, 76/07 i 80/09),
5. Law on the Policy of Foreign Direct Investment in Bosnia and Herzegovina ("Official Journal BiH", no. 4/98, 17/98, 13/03, i 48/10),
6. Law on Protection of Personal Data („Official Journal BiH“, no. 49/06, 76/11 i 89/11-corr.),
7. Law on Protection of Classified Data of BiH („Official Journal BiH“, no. 54/05 i 12/09),
8. Law on Electronic Signature („Official Journal BiH“, no. 91/06),
9. Decision on Use of Electronic Signature and Documents Certification Services („Official Journal BiH“, no. 21/09),
10. Law on classification of activities in Bosnia and Herzegovina („Official Journal BiH“, no. 76/06, 100/08 i 32/10),
11. Law on Civil Service in the Institutions of Bosnia and Herzegovina ("Official Journal BiH", no. 12/02, 19/02, 8/03, 35/03, 4/04, 17/04, 26/04, 37/04, 48/05, 2/06, 32/07, 43/09, 8/10, 40/12 i 93/17),
12. Law on Work in Institutions of BiH ("Official Journal BiH", no. 26/04, 7/05, 48/05, 60/10, 32/13 i 93/17),
13. Law on Borrowing, Debt and Guarantees of Bosnia and Herzegovina („Official Journal BiH“, no. 52/05, 103/09 i 90/16),
14. Law on Settlement of Obligations arising from Old Foreign Currency Savings of BiH („Official Journal BiH“, no. 28/06, 76/06, 72/07, 97/11 i 100/13),
15. Law on Accounting and Auditing of BiH ("Official Journal BiH", no. 42/04),
16. Law on Determination and Manner of Settlement of the Internal Debt BiH ("Official Journal BiH", no. 44/04),
17. Framework Law on Pledges ("Official Journal BiH", no. 28/04 i 54/04),
18. Law on Value added tax ("Official Journal BiH", no. 9/05, 35/05, 100/08 i 33/17),
19. Law on Public Procurements BiH („Official Journal BiH“, no. 39/14),
20. Law on Customs Tariff ("Official Journal BiH", no. 58/12),
21. Law on Customs Violations in BiH ("Official Journal BiH", no. 88/05),
22. Law on Patents ("Official Journal BiH", no. 53/10),
23. Law on Freedom of Access to Information Act in Bosnia and Herzegovina ("Official Journal BiH", no. 28/00, 45/06, 102/09, 62/11 i 100/13),
24. Law on Personal Identification Number ("Official Journal BiH", no. 32/01, 63/08 i 103/11),
25. Law on Associations and Foundations in BiH ("Official Journal BiH", no. 32/01, 42/03, 63/08, 76/11 i 94/16),
26. Law of Ministries and other government authorities of Bosnia and Herzegovina ("Official Journal BiH", no. 5/03, 42/03, 26/04, 42/04, 45/06, 88/07, 35/09, 59/09, 103/09, 87/12, 6/13, 19/16 i 83/17),
27. Law on the Temporary Prohibition of Disposal of State Property of Bosnia and Herzegovina ("Official Journal BiH", no. 18/05, 29/06, 85/06, 32/07, 41/07, 74/07, 99/07 i 58/08),
28. Law on Use and Protection of Names of BiH ("Official Journal BiH", no. 30/03, 42/04, 50/08 i 76/11),
29. Law on Fiscal Council of Bosnia and Herzegovina („Official Journal BiH“, no. 63/08),
30. Law on the Treasury of Institutions of BiH ("Official Journal BiH", no. 27/00 i 50/08),
31. Law on Payments into the Single Account and Distribution of Revenues ("Official Journal BiH", no. 55/04, 34/07, 49/09 i 91/17),

32. Law on the Indirect Taxation System in Bosnia and Herzegovina ("Official Journal BiH", no. 44/03, 52/04, 34/07, 4/08, 49/09, 32/13 i 91/17),
33. Law on Mediation Procedure ("Official Journal BiH", no. 37/04),
34. Law on Transfer of Mediation Business to Association of Mediators ("Official Journal BiH", no. 52/05),
35. Law on excises in Bosnia and Herzegovina ("Official Journal BiH", no. 49/09, 49/14, 60/14 i 91/17)
36. Law on Enforced Collection of Indirect Taxes ("Official Journal BiH", no. 89/05 i 62/11),
37. 38. Regulatory Offence Law ("Official Journal BiH", no. 41/07, 18/12 i 36/14),
38. Law on the Court of BiH ("Official Journal BiH", no. 49/09-prečišćeni tekst, 74/09-ispr. i 97/09),
39. Law on High Judicial and Prosecutorial Council of Bosnia and Herzegovina ("Official Journal BiH", no. 35/02, 39/03, 42/03, 10/04, 25/04, 93/05, 32/07 i 48/07),
40. Law on Prosecutor's Office of Bosnia and Herzegovina ("Official Journal BiH", no. 49/09-prečišćeni tekst i 97/09),
41. Law on Administrative procedure ("Official Journal BiH", no. 29/02, 12/04, 88/07 i 93/09, 41/13 i 53/16),
42. Law on Administrative Disputes of Bosnia and Herzegovina ("Official Journal BiH", no. 19/02, 88/07, 83/08 i 74/10),
43. Law on civil procedure before court of BiH ("Official Journal BiH", no. 36/04, 84/07, 58/13 i 94/16),
44. Law on enforcement procedure before the court of BiH ("Official Journal BiH", no. 18/03),
45. Law on Administration ("Official Journal BiH", no. 32/02, 102/09 i 72/17),
46. Law on Temporary Postponement of Fulfillment of Claims Based on Executive Decisions Issued in Relation to Budget of BiH Institutions and International Obligations of BiH ("Official Journal BiH", no. 43/03 i 43/04),
47. Criminal Code of BiH ("Official Journal BiH", no. 3/03, 32/03, 37/03, 54/04, 61/04, 30/05, 53/06, 55/06, 32/07, 8/10, 47/14 i 35/18),
48. Criminal Procedure Code of Bosnia and Herzegovina ("Official Journal BiH", no. 3/03, 32/03, 36/03, 26/04, 63/04, 13/05, 48/05, 46/06, 76/06, 29/07, 32/07, 53/07, 76/07, 15/08, 58/08, 12/09, 16/09, 93/09, 72/13 i 65/18),
49. Law on Conflict of Interests in Governmental Institutions of Bosnia and Herzegovina ("Official Journal BiH", no. 13/02, 16/02, 14/03, 12/04, 63/08 i 18/12, 87/13 i 41/16),
50. Law on Archive Materials and Archives of BiH ("Official Journal BiH", no. 16/01),
51. Law on Free Legal Aid ("Official Journal BiH", no. 83/16),
52. Law on Prohibition of Discrimination („Official Journal BiH", no. 59/09 i 66/16),
53. Law on Employee Strike in Institutions of BiH („Official Journal BiH", no. 41/16),
54. Law on Execution of Criminal Sanctions, Detention and other Measures („Official Journal BiH", no. 22/16 – consolidated text),
55. Law on Citizenship of Bosnia and Herzegovina („Official Journal BiH", no. 22/16 – consolidated text),
56. Law on Salaries and Allowances in the institutions of B&H („Official Journal BiH", no. 50/08, 35/09, 75/09, 32/12, 42/12, 50/12, 32/13, 87/13, 75/15, 88/15, 16/16, 94/16, 72/17 i 25/18),
57. Asylum Law („Official Journal BiH", no. 11/16).

ANNEXES FOR THE BANKING SECTOR

Annex 2- General Information on Banks in the FBiH as of 31.12.2018.

no.	Bank	Web site	No. of employees	Head of Managemnt
1.	ADDIKO BANK dd - SARAJEVO	www.addiko.ba	393	Sanela Pašić
2.	ASA BANKA dd - SARAJEVO	www.asabanka.ba	213	Samir Mustafić
3.	BOSNA BANK INTERNATIONAL dd - SARAJEVO	www.bbi.ba	429	Amer Bukvić
4.	INTESA SANPAOLO BANKA dd BOSNA I HERCEGOVINA	www.intesasanpaolobanka.ba	562	Almir Krkalić
5.	KOMERCIJALNO-INVESTICIONA BANKA dd V.KLADUŠA	www.kib-banka.com.ba	77	Hasan Porčić
6.	NLB BANKA dd - SARAJEVO	www.nlb.ba	455	Lidija Žigić
7.	PRIVREDNA BANKA SARAJEVO dd – SARAJEVO	www.pbs.ba	163	Hamid Pršeš
8.	PROCREDIT BANK dd – SARAJEVO	www.procreditbank.ba	147	Edin Hrnjica
9.	RAIFFEISEN BANK dd BiH – SARAJEVO	www.raiffeisenbank.ba	1.389	Karlheinz Dobnigg
10.	SBERBANK BH dd - SARAJEVO	www.sberbank.ba	440	Jasmin Spahić
11.	SPARKASSE BANK dd BOSNA I HERCEGOVINA- SARAJEVO	www.sparkasse.ba	522	Sanel Kusturica
12.	UNICREDIT BANK dd - MOSTAR	www.unicreditbank.ba	1.250	Dalibor Čubela
13.	UNION BANKA dd - SARAJEVO	www.unionbank.ba	195	Vedran Hadžiahmetović
14.	VAKUFСКА BANKA dd - SARAJEVO	www.vakuba.ba	172	Denis Čivgin
15.	ZIRAATBANK BH dd - SARAJEVO	www.ziraatbosnia.com	332	Yusuf Dilaver
TOTAL			6739	

Annex 3- Balance Sheet of Banks in the FBiH According to the FBA Model (Active SubBalance)

-in 000 BAM-

no.	Description	31.12.2017.		31.12.2018.		Index
1	2	3	4	5	6	7=5/3
	ASSETS	Amount	% in total assets	Amount	% in total assets	
1.	Cash and deposit accounts with deposit-taking institutions	5.794.664	28,7%	6.591.117	29,8%	114
1.a.	Cash and non-interest bearing deposit accounts	2.654.978	13,1%	2.975.624	13,4%	112
1.b.	Interest-bearing deposits accounts	3.139.686	15,5%	3.615.493	16,4%	115
2.	Securities designated at fair value through profit or loss and fair value through other comprehensive income	1.092.254	5,4%	1.150.050	5,2%	105
3.	Loans to other banks	350.980	1,7%	270.604	1,2%	77
4.	Loans, receivables based on leasing facilities and past due receivables	13.178.860	65,2%	14.325.634	64,8%	109
4.a.	Loans	12.012.214	59,4%	13.211.045	59,8%	110
4.b.	Receivables based on leasing facilities	98.617	0,5%	92.282	0,4%	94
4.c.	Past due receivables based on loans and leasing facilities	1.068.029	5,3%	1.022.307	4,6%	96
5.	Held to maturity securities	136.178	0,7%	154.576	0,7%	114
6.	Business premises and other fixed assets	480.500	2,4%	477.533	2,2%	99
7.	Other real estate	49.441	0,2%	54.234	0,2%	110
8.	Investments in unconsolidated related companies	18.401	0,1%	12.065	0,1%	66
9.	Other assets	332.157	1,6%	328.117	1,5%	99
10.	MINUS: value adjustments	1.223.584	6,1%	1.270.169	5,7%	104
10.a.	Value adjustments for Item 4. of the Assets	1.166.804	5,8%	1.190.760	5,4%	102
10.b.	Value adjustments for Assets items, except for the Item 4.	56.780	0,3%	79.409	0,4%	140
11.	TOTAL ASSETS	20.209.851	100%	22.093.761	100%	109
	LIABILITIES					
12.	Deposits	15.814.723	78,3%	17.604.487	79,7%	111
12.a.	Interest-bearing deposits	11.358.832	56,2%	12.429.484	56,3%	109
12.b.	Non-interest bearing deposits	4.455.891	22,0%	5.175.003	23,4%	116
13.	Borrowings – liabilities due	150	0%	150	0%	100
13.a.	Past due liabilities	0	0%	0	0%	0
13.b.	Past due – invoked off-balance sheet liabilities	150	0%	150	0%	100
14.	Borrowings from other banks	0	0%	0	0%	0
15.	Liabilities to the Government	0	0%	0	0%	0
16.	Loan commitments and other borrowings	835.667	4,1%	862.931	3,9%	103
16.a.	With remaining maturity of up to one year	184.551	0,9%	178.386	0,8%	97
16.b.	With remaining maturity of more than one year	651.116	3,2%	684.545	3,1%	105
17.	Subordinated debts and subordinated bonds	129.299	0,6%	124.181	0,6%	96
18.	Other liabilities	564.963	2,8%	531.807	2,4%	94
19.	TOTAL LIABILITIES	17.344.802	85,8%	19.123.556	86,6%	110
	CAPITAL					
20.	Permanent preferred shares	14.828	0,1%	8.828	0%	60
21.	Common shares	1.210.961	6,0%	1.290.872	5,8%	107
22.	Issue premiums	137.290	0,7%	137.290	0,6%	100
22.a.	Over permanent preferred shares	88	0%	88	0%	100
22.b.	Over common shares	137.202	0,7%	137.202	0,6%	100
23.	Undistributed profit and capital reserves	946.263	4,7%	1.096.380	5,0%	116
24.	Foreign exchange rate differences	0	0%	0	0%	
25.	Other capital	239.973	1,2%	255.355	1,2%	106
26.	Loan loss provisions formed from profit	315.734	1,6%	181.480	0,8%	57
27.	TOTAL CAPITAL: (20. do 25.)	2.865.049	14,2%	2.970.205	13,4%	104
28.	TOTAL LIABILITIES AND CAPITAL: (19. + 27.)	20.209.851	100%	22.093.761	100%	109
	PASSIVE AND NEUTRAL SUB-BALANCE	700.018	0	707.503	0	101
	TOTAL	20.909.869	0	22.801.264	0	109

Annex 4- Overview of Assets, Loans, Deposits and Financial Results of Banks in the FBiH as of 31.12.2018.

no.	Bank	Assets		Loans		Deposits		Financial result
		Amount	%	Amount	%	Amount	%	Amount
1.	ADDIKO BANK d.d. - SARAJEVO	892.276	4,0%	590.692	4,1%	654.352	3,7%	8.760
2.	ASA BANKA d.d. - SARAJEVO	496.159	2,2%	345.360	2,4%	424.840	2,4%	5.235
3.	BOSNA BANK INTERNATIONAL d.d. - SARAJEVO	1.000.711	4,5%	703.054	4,9%	735.640	4,2%	9.117
4.	INTESA SANPAOLO BANKA d.d. BOSNA I HERCEGOVINA	2.071.313	9,4%	1.508.709	10,5%	1.550.514	8,8%	36.340
5.	KOMERCIJALNO-INVESTICIONA BANKA d.d. V.KLADUŠA	105.365	0,5%	55.607	0,4%	74.260	0,4%	1.591
6.	NLB BANKA d.d. - SARAJEVO	1.155.624	5,2%	768.372	5,4%	940.562	5,3%	15.507
7.	PRIVREDNA BANKA SARAJEVO d.d. - SARAJEVO	484.340	2,2%	275.688	1,9%	385.771	2,2%	3.508
8.	PROCREDIT BANK d.d. - SARAJEVO	500.527	2,3%	379.047	2,6%	251.299	1,4%	49
9.	RAIFFEISEN BANK d.d. BiH - SARAJEVO	4.414.419	20,0%	2.608.323	18,2%	3.599.676	20,5%	84.459
10.	SBERBANK BH d.d. - SARAJEVO	1.437.085	6,5%	995.047	6,9%	1.204.780	6,8%	7.163
11.	SPARKASSE BANK d.d. BOSNA I HERCEGOVINA- SARAJEVO	1.466.857	6,6%	1.042.599	7,3%	1.187.703	6,8%	19.503
12.	UNICREDIT BANK d.d. - MOSTAR	5.970.379	27,0%	3.904.729	27,3%	4.959.922	28,2%	97.210
13.	UNION BANKA d.d. - SARAJEVO	775.490	3,5%	210.942	1,5%	699.804	4,0%	533
14.	VAKUFСКА BANKA d.d. - SARAJEVO	308.336	1,4%	209.388	1,5%	267.403	1,5%	1.123
15.	ZIRAATBANK BH d.d.- SARAJEVO	1.014.880	4,6%	728.077	5,1%	667.961	3,8%	-34.743
	TOTAL	22.093.761	100%	14.325.634	100%	17.604.487	100%	255.355

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Annex 5 - Report on Capital Position and Adequacy of Banks in the FBiH -31.12.2018.

- ACTIVE BALANCE –

-in 000 BAM-

no.	Description	Amount
1.	REGULATORY CAPITAL	2.478.985
1.1.	TIER 1 CAPITAL	2.351.425
1.1.1.	COMMON EQUITY TIER 1 CAPITAL	2.351.425
1.1.1.1.	Paid up capital instruments	1.290.878
1.1.1.2.	Share premium	137.290
1.1.1.3.	(-) Own Common Equity Tier 1 instruments	-215
1.1.1.4.	Previous years retained earnings	238.344
1.1.1.5.	Gain or loss recognised	-34.743
1.1.1.6.	Accumulated other comprehensive income	10.296
1.1.1.7.	Other reserves	876.626
1.1.1.8.	(-)Other intangible assets	-56.116
1.1.1.9.	(-) Deferred tax assets which depends on future profitability and does not arise from temporary differences reduced by connected tax obligations	-101
1.1.1.10.	(-)Deferred tax assets which could be deducted and depend on future profitability and arise from temporary differences	-1.625
1.1.1.11.	(-)Common Equity Tier 1 instruments of the financial sector entity if the bank has a material investment	-12.118
1.1.1.12.	CET1 capital elements or deductions – other	-97.091
1.1.2.	ADDITIONAL TIER 1 CAPITAL	0
1.2.	TIER 2 CAPITAL	127.560
1.2.1.	Paid up capital instruments and subordinated debts	105.592
1.2.2.	(-) Own Tier 2 instruments	-14
1.2.3.	General Credit Risk Adjustments under the standardised approach	153.706
1.2.4.	T2 capital elements or deductions - other	-131.724

Annex 6 - Classification of Balance Sheet Assets of Banks in the FBiH as of 31.12.2018

– CLASSIFICATION OF BALANCE SHEET ASSETS ITEMS –

-in 000 BAM-

no.	Balance sheet assets items	CLASSIFICATION					Total
		A	B	C	D	E	
1.	Short-term loans	2.470.537	156.782	4.701	1.557	582	2.634.159
2.	Long-term loans	9.551.211	553.727	120.324	94.710	13.046	10.333.018
3.	Other facilities	508.881	598	24	135	2.276	511.914
4.	Accrued interest and fees	39.323	3.368	1.888	5.611	41.479	91.669
5.	Past due receivables	25.008	14.339	8.699	238.305	705.826	992.177
6.	Receivables based on paid guarantees	0	8	240	58	29.821	30.127
7.	Other balance sheet assets being classified	786.819	2.851	555	358	44.542	835.125
8.	TOTAL BALANCE SHEET ASSETS BEING CLASSIFIED (sum of items 1 through 7 – calculation basis for regulatory loan loss provisions)	13.381.779	731.673	136.431	340.734	837.572	15.428.189
9.	CALCULATED REGULATORY RESERVES FOR LOAN LOSSES BASED ON BS ASSETS	263.541	60.897	39.393	201.152	837.571	1.402.554
10.	VALUE ADJUSTMENT FOR BS ASSETS	225.015	64.174	71.758	191.399	711.070	1.263.416
11.	REQUIRED REGULATORY RESERVES FORMED AGAINST PROFIT FOR PURPOSE OF ASSESSED LOSSES BASED ON BS ASSETS	146.333	33.295	4.704	44.827	126.031	355.190
12.	FORMED REGULATORY RESERVES FORMED AGAINST PROFIT RELATED TO ASSESSED LOSSES BASED ON BS ASSETS	89.849	21.402	4.355	9.461	23.288	148.355
13.	SHORTFALL OF REGULATORY RESERVE FORMED AGAINST PROFIT RELATED TO ASSESSED LOSSES BASED ON BS ASSETS						216.699
14.	BALANCE SHEET ASSETS NOT BEING CLASSIFIED (gross book value)						7.935.741
15.	TOTAL BALANCE SHEET ASSETS (gross book value)						23.363.930

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

14.a	Cash in cash desk and vault and cash funds at the account with the Central Bank of BiH, gold and other precious metals	4.913.303
14.b	Demand deposits and term deposits up to one month located on accounts of banks with defined investment rating	1.670.897
14.c	Tangible and intangible assets	499.822
14.d	Financial and tangible assets acquired in the process of collection of receivables (within one year upon such acquisition)	6.708
14.e	Own (treasury) shares	0
14.f	Receivables based on overpaid taxes	22.233
14.g	Trading securities	80.329
14.h	Receivables from the BiH Government, FBiH Government and RS Government, securities issued by the BiH Government, FBiH Government and RS Government and receivables secured with unconditional guarantees payable upon the first call	742.449
	TOTAL Item 14	7.935.741
8a.	Facilities secured with a cash deposit	204.811

Annex 6a - Assets Classification of Off-Balance Sheet Risk-Weighted Items of Banks in the FBiH as of 31.12.2018.

– CLASSIFICATION OF OFF-BALANCE SHEET ITEMS –

-in 000 BAM-

no.	Off-balance sheet items	Classification					Total
		A	B	C	D	E	
1.	Payment guarantees	396.868	29.741	2.227	89	0	428.925
2.	Performance guarantees	682.351	66.219	1.379	4.576	122	754.647
3.	Uncovered letters of credit	52.272	2.332	40	0	0	54.644
4.	Irrevocably approved, but undrawn loans	1.960.318	88.909	293	127	255	2.049.902
5.	Other contingent liabilities of the bank	17.070	245	406		16	17.737
6.	TOTAL OFF-BALANCE SHEET ITEMS BEING CLASSIFIED (sum of items 1 through 5 – calculation basis for regulatory loan loss provisions)	3.108.879	187.446	4.345	4.792	393	3.305.855
7.	CALCULATED REGULATORY RESERVES FOR LOAN LOSSES RELATED TO OFF-BALANCE SHEET ITEMS	60.971	12.075	796	2.865	393	77.100
8.	LOSS RESERVES FOR OFF-BALANCE SHEET ITEMS	32.336	2.548	1.230	4.495	253	40.862
9.	REQUIRED REGULATORY RESERVES FORMED AGAINST PROFIT RELATED TO ASSESSED LOSSES BASED ON OFF-BALANCE SHEET ITEMS	38.499	10.477	100	132	141	49.349
10.	REGULATORY RESERVES FORMED AGAINST PROFIT RELATED TO ASSESSED LOSSES BASED ON OFF-BALANCE SHEET ITEMS	24.697	8.413	13	1	1	33.125
11.	SHORTFALL OF REGULATORY RESERVES FORMED AGAINST PROFIT RELATED TO ASSESSED LOSSES BASED ON OFF-BALANCE SHEET ITEMS						17.322
12.	OFF-BALANCE SHEET ITEMS NOT BEING CLASSIFIED						673.232
13.	TOTAL OFF-BALANCE SHEET ITEMS						3.979.087
6a.	Contingent liabilities secured with a cash deposit						60.299
6b.	Approved undisbursed loans with a clause on unconditional cancellation						647.982

Annex 7 - Income Statement of Banks in the FBiH According to the FBA Model 31.12.2018.

-in 000 BAM-

no	Description	31.12.2017.	%	31.12.2018.	%	Index
1	2	3	4	5	6	7=5/3
1.	INTEREST INCOME AND EXPENSES	Amount	%	Amount	%	
a)	Interest income and similar income					
1)	Interest-bearing deposit accounts with deposit-taking institutions	2.653	0,3%	4.525	0,4%	171
2)	Loans to other banks	1.481	0,1%	2.461	0,2%	166
3)	Loans and leasing facilities	669.651	65,3%	657.927	62,6%	98
4)	Held to maturity securities	3.260	0,3%	3.515	0,3%	108
5)	Equity securities	812	0,1%	0	0,0%	0
6)	Receivables based on paid-off balance sheet liabilities	3	0,0%	1	0,0%	33
7)	Other interest income and similar income	76.688	7,5%	72.937	6,9%	95
8)	TOTAL INTEREST INCOME AND SIMILAR INCOME	754.548	73,6%	741.366	70,4%	98
b)	Interest expenses and similar expenses					
1)	Deposits	124.706	12,1%	104.053	9,9%	83
2)	Borrowings from other banks	0	0%	0	0,0%	0
3)	Borrowings taken – liabilities due	0	0%	0	0,0%	0
4)	Liabilities based on loans and other borrowings	10.846	1,1%	9.089	0,9%	84
5)	Subordinated debt and subordinated bonds	7.895	0,8%	7.790	0,7%	99
6)	Other interest and similar expenses	6.538	0,6%	9.121	0,9%	140
7)	TOTAL INTEREST EXPENSES AND SIMILAR EXPENSES	149.985	14,6%	130.053	12,4%	87
c)	NET INTEREST AND SIMILAR INCOME	604.563	59,0%	611.313	58,0%	101
2.	OPERATING INCOME					
a)	FX income	53.539	5,2%	60.374	5,8%	113
b)	Loan fees	11.710	1,1%	10.707	1,0%	91
c)	Fees based on off-balance sheet items	21.759	2,1%	22.530	2,1%	104
d)	Service fees	269.292	26,3%	294.707	28,0%	109
e)	Trading income	438	0%	308	0,0%	70
f)	Other operating income	64.802	6,3%	51.169	4,9%	79
g)	TOTAL OPERATING INCOME a) to f)	421.540	41,0%	439.795	41,8%	104
3.	NON-INTEREST EXPENSES					
a)	Business and direct expenses					
1)	Costs of value adjustments, risk-weighted assets, provisions for contingent liabilities and other value adjustments	112.074	10,9%	108.662	10,3%	97
2)	Other business and direct expenses	114.096	11,1%	126.225	12,0%	111
3)	TOTAL BUSINESS AND DIRECT EXPENSES 1) + 2)	226.170	22,0%	234.887	22,3%	104
b)	Operating expenses					
1)	Costs of salaries and contributions	248.113	24,2%	256.407	24,4%	103
2)	Costs of business premises, other fixed assets and utilities	157.670	15,4%	153.348	14,6%	97
3)	Other operating expenses	121.689	11,9%	116.784	11,1%	100
4)	TOTAL OPERATING EXPENSES 1) to 3)	527.472	51,5%	526.539	50,1%	100
c)	TOTAL NON-INTEREST EXPENSES	753.642	73,5%	761.426	72,4%	101
4.	PROFIT BEFORE TAXES	279.658	27,2%	324.384	30,9%	116
5.	LOSS	7.197	0,7%	34.702	3,3%	482
6.	TAXES	32.452	0%	34.293	0,0%	106
7.	PROFIT BASED ON INCREASE OF DEFERRED TAX FUNDS AD REDUCTION OF DEFERRED TAX LIABILITIES	712	0%	407	0,0%	57
8.	LOSS BASED ON REDUCTION OF DEFERRED TAX FUNDS AND INCREASE OF DEFERRED TAX LIABILITIES	748	0%	441	0,0%	59
9.	NET PROFIT⁴. - 6.	247.261	24,1%	290.098	27,6%	117
10.	NET LOSS⁴. - 6.	7.288	0,7%	34.743	3,3%	477
11.	FINANCIAL RESULT⁹-10.	239.973	0	255.355	0	106

ANNEXES FOR THE MICROCREDIT SECTOR

Annex 8- General Information on MCOs in the FBiH as of 31.12.2018

no.	Name of microcredit organisation	Director	Date of issuing a licence	Number of employees	Web site
1.	MKD "EKI" d.o.o. Sarajevo	Alma Delić v.d.	04.02.2008.	288	www.eki.ba
2.	MKF "EKI" Sarajevo	Sadina Bina v.d.	20.08.2007.	212	www.eki.ba
3.	MKF "LIDER" Sarajevo	Džavid Sejfović	04.02.2008.	75	www.lider.ba
4.	"LOK MKF" Sarajevo	Elma Čardaklija - Bašić	04.02.2008.	74	www.lok.ba
5.	MKF "MELAHA" Sarajevo	Jakob Finci	09.10.2007.	6	www.melaha.ba
6.	MKF "MI-BOSPO" Tuzla	Safet Husić	09.07.2007.	174	www.mi-bospo.org
7.	MKF "MIKRA" Sarajevo	Sanin Čampara	19.03.2008.	125	www.mikra.ba
8.	MKF "MIKRO ALDI" Goražde	Ferida Softić	20.08.2007.	30	www.mikroaldi.org
9.	"PARTNER MKF" Tuzla	Senad Sinanović	20.08.2007.	294	www.partner.ba
10.	"PRVA ISLAMSKA MKF" Sarajevo	Edina Hadžimurtezić	10.12.2007.	9	www.mfi.ba
11.	MKF "SANI" Zenica	Sulejman Haračić	09.10.2007.	5	-
12.	MKF "SUNRISE" Sarajevo	Samir Bajrović	20.08.2007.	169	www.microsunrise.ba
Total				1461	

Annex 9- Aggregated Balance Sheet of MCFs-31.12.2018.

-in 000 BAM-

no.	Description	31.12.2017.	%	31.12.2018.	%	Index
1	2	3	4	5	6	7=5/3
ASSETS		Amount	%	Amount	%	
1.	Cash (1a+1b)	21.989	5,2	48.291	11,1	220
1a)	Cash and non-interest bearing deposit accounts	9.516	2,3	33.993	7,7	357
1b)	Interest-bearing deposit accounts	12.473	3,0	14.298	3,4	115
2.	Facilities to banks	1.210	0,3	210	0,0	17
3.	Loans	329.758	78,6	322.370	74,4	98
3a)	Loan loss provisions	-2.716	-0,7	-2.232	-0,5	82
3b)	Net loans (3-3a)	327.042	77,9	320.137	73,9	98
4.	Business premises and other fixed assets	28.383	6,8	24.918	5,8	88
5.	Long-term investments	33.061	7,9	33.061	7,6	100
6.	Other assets	8.062	1,9	6.900	1,6	86
7.	Minus: provisions for other assets items, except loans	-158	-0,0	-135	-0,0	85
8.	Total Assets	419.589	100	433.382	100	103
LIABILITIES						
9.	Short-term loan commitments	86.518	20,6	69.189	16,0	80
10.	Long-term loan commitments	90.622	21,6	108.781	25,1	120
11.	Other liabilities	21.215	5,1	21.647	5,0	102
12.	Total liabilities	198.355	47,3	199.617	46,1	101
13.	Donated capital	45.851	10,9	48.076	11,1	105
14.	Core capital	3.820	0,9	3.820	0,9	100
15.	Surplus of income over expenses	231.183	55,1	243.189	56,1	105
15a)	For previous years	214.123	51,0	230.646	53,2	108
15b)	For current year	17.060	4,1	12.543	2,9	74
16.	Deficit of income over expenses	61.352	14,6	62.021	14,3	101
16a)	For previous years	61.279	14,6	61.278	14,1	100
16b)	For current year	73	0,0	743	0,2	1018
17.	Other reserves	1.732	0,4	701	0,1	40
18.	Total capital	221.234	52,7	233.765	53,9	106
19.	Total liabilities	419.589	100	433.382	100	103
Off-balance sheet records						
	- written-off loans	110.188		105.151		95
	- agent businesses	366		421		115

Annex 10- Aggregated Balance Sheet of MCCs -31.12.2018.

-in 000 BAM-

no.	Description	31.12.2017.	%	31.12.2018.	%	Index
	2	3	4	5	6	7=5/3
ASSETS		Amount	%	Amount	%	
1.	Cash (1a+1b)	24.841	23,1	9.107	6,2	37
1a)	Cash and non-interest bearing deposit accounts	24.841	23,1	9.107	6,2	37
1b)	Interest-bearing deposit accounts	0	0,0	0	0,0	-
2.	Facilities to banks	0	0,0	0	0,0	-
3.	Loans	81.396	75,8	134.551	91,6	165
3a)	Loan loss provisions	-542	-0,5	-672	-0,5	124
3b)	Net Loans (3-3a)	80.854	75,3	133.879	91,1	166
4.	Business premises and other fixed assets	430	0,4	1.751	1,2	407
5.	Long-term investments	0	0,0	0	0,0	-
6.	Other assets	1.243	1,2	2.270	1,5	183
7.	Minus: provisions for other assets items, except loans	30	0,0	36	0,0	120
8.	Total Assets	107.338	100	146.971	100	137
LIABILITIES						
9.	Short-term loan commitments	18.273	17,0	33.197	22,6	182
10.	Long-term loan commitments	50.583	47,1	68.515	46,6	135
11.	Other liabilities	4.656	4,4	6.155	4,2	132
12.	Total liabilities	73.512	68,5	107.867	73,4	147
13.	Donated capital	0	0,0	0	0,0	-
14.	Core capital	30.600	28,5	30.600	20,8	100
15.	Issue premiums	0	0,0	0	0,0	-
16.	Unallocated profit (16a+16b)	1.317	1,2	6.504	4,4	494
16a)	Of previous years	1.017	0,9	1.225	0,8	120
16b)	Of current year	300	0,3	5.279	3,6	1760
17.	Legal reserves	1.909	1,8	2.000	1,4	105
18.	Other reserves	0	0,0	0	0,0	-
19.	Total Capital	33.826	31,5	39.104	26,6	116
20.	Total liabilities	107.338	100	146.971	100	137
Off-balance sheet records						
	- written-off loans	420		1.506		359
	- agent businesses	0		0		n/a

Annex 11- Review of the Key Financial Indicators of MCOs - 31.12.2018.

-in 000 BAM-

No.	Name of microcredit organisation	Assets (000 BAM)	Gross portfolio amount (000 BAM)	Capital (000 BAM)	Surplus/deficit of income over expensesk/net profit (loss) (000 BAM)	Facilities in period 01.01.-31.12.2018 (000 BAM)
1.	MKD "EKI" d.o.o. Sarajevo	146.971	134.551	39.104	5279	130.964
2.	MKF "EKI" Sarajevo	87.319	25.929	67.275	-505	12.506
3.	MKF "LIDER" Sarajevo	20.771	20.103	11.321	361	21.331
4.	"LOK MKF" Sarajevo	10.084	5.708	2.855	137	3.437
5.	MKF "MELAHA" Sarajevo	1.293	814	523	8	706
6.	MKF "MI-BOSPO" Tuzla	64.790	59.436	23.909	1.955	63.406
7.	MKF "MIKRA" Sarajevo	38.611	30.704	8.752	1.295	34.286
8.	MKF "MIKRO ALDI" Goražde	6.929	6.486	4.967	207	6.718
9.	"PARTNER MKF" Tuzla	146.447	128.862	85.590	9.753	117.440
10.	"PRVA ISLAMSKA MKF" Sarajevo	1.885	1.733	1.554	-168	2.362
11.	MKF "SANI" Zenica	466	407	225	1	562
12.	MKF "SUNRISE" Sarajevo	54.787	42.187	26.794	2.595	55.954
Total		580.353	456.920	272.869	20.918	449.672

Annex 12- Aggregated Income Statement of MCFs -31.12.2018.

-in 000 BAM-

no.	Description	For period 01.01. - 31.12.2017.	%	For period 01.01. - 31.12.2018.	%	Index
1	2	3	4	5	6	7=(5/3)
I	FINANCIAL INCOME AND EXPENSES	Amount	%	Amount	%	
1.	Interest income and similar income					
1.1.	Interest by interest-bearing deposit accounts with deposit institutions	13	0,0	12	0,0	92
1.2.	Interest on facilities to banks	10	0,0	13	0,0	130
1.3.	Loan interest	66.468	97,9	62.360	98,0	94
1.4.	Other financial income	1.425	2,1	1.225	2,0	86
1.5.	Total interest income and similar income (1.1. do 1.4.)	67.916	100	63.610	100	94
2.	Interest expenses and similar expenses					
2.1.	Interest on borrowed funds	8.125	93,9	7.727	91,8	95
2.2.	Other financial expenses	531	6,1	692	8,2	130
2.3.	Total interest expenses and similar expenses (2.1. to 2.2.)	8.656	100	8.419	100	97
3.	Net financial income (1.5. - 2.3.)	59.260	n/a	55.191	n/a	93
II	OPERATING INCOME AND EXPENSES					
4.	Operating income					
4.1.	Fees for services performed	7.368	90,6	6.631	95,1	90
4.2.	Other operating income	768	9,4	345	4,9	45
4.3.	Total operating income (4.1. do 4.2.)	8.136	100	6.976	100	86
5.	Operating expenses					
5.1.	Salary and contributions costs	36.912	64,9	36.698	64,7	99
5.2.	Costs of business premises, other fixed assets and utility costs	10.999	19,3	10.178	17,8	92
5.3.	Other operating expenses	8.939	15,8	9.837	17,5	111
5.4.	Total operating expenses (5.1. do 5.3.)	56.850	100	56.713	100	100
6.	Loan loss provisions and provisions for other losses	3.528	n/a	2.760	n/a	78
7.	Surplus/deficit of income over expenses from regular operations(3.+4.3.-5.4.-6.)	7.018	n/a	2.694	n/a	39
8.	Extraordinary income	11.975	n/a	13.737	n/a	115
9.	Extraordinary expenses	725	n/a	792	n/a	108
10.	Surplus/deficit of income over expenses (7.+8.-9.)	18.268	n/a	15.639	n/a	86

Annex 13- Aggregated Income Statement of MCCs -31.12.2018.

-in 000 BAM-

no.	Description	For period 01.01. - 31.12.2017.	%	For period 01.01. - 31.12.2018.	%	Index
1	2	3	4	5	6	7=(5/3)
I	FINANCIAL INCOME AND EXPENSES	Amount	%	Amount	%	
1.	Interest income and similar income					
1.1.	Interest by interest-bearing deposit accounts with deposit institutions	0	0,0	0	0	n/a
1.2.	Interest on facilities to banks	0	0,0	0	0	n/a
1.3.	Loan interest	9.146	99,9	19.701	99,9	215
1.4.	Other financial income	8	0,1	13	0,1	163
1.5.	Total interest income and similar income (1.1. to 1.4.)	9.154	100	19.714	100	215
2.	Interest expenses and similar expenses					
2.1.	Interest on borrowed funds	2.459	95,2	3.514	93,5	143
2.2.	Other financial expenses	125	4,8	246	6,5	197
2.3.	Total interest expenses and similar expenses (2.1. do 2.2.)	2.584	100	3.760	100	146
3.	Net financial income (1.5. - 2.3.)	6.570	n/a	15.954	n/a	243
II	OPERATING INCOME AND EXPENSES					
4.	Operating income					
4.1.	Fees for services performed	723	91,6	1.578	90,7	218
4.2.	Other operating income	66	8,4	162	9,3	245
4.3.	Total operating income (4.1. to 4.2.)	789	100	1.740	100	221
5.	Operating expenses					
5.1.	Salary and contributions costs	3.745	66,8	7.095	68,1	189
5.2.	Costs of business premises, other fixed assets and utility costs	873	15,6	1.606	15,4	184
5.3.	Other operating expenses	987	17,6	1.719	16,5	174
5.4.	Total operating expenses (5.1. to 5.3.)	5.605	100	10.420	100	186
6.	Loan loss provisions and provisions for other losses	614	n/a	1.271	n/a	207
7.	PROFIT/LOSS FROM REGULAR BUSINESS OPERATIONS (3.+4.3.-5.4.-6.)	1.140	n/a	6.003	n/a	527
8.	Extraordinary income	57	n/a	65	n/a	114
9.	Extraordinary expenses	850	n/a	169	n/a	20
10.	PROFIT/LOSS BEFORE TAXES	347	n/a	5.899	n/a	1.700
11.	TAXES	47	n/a	620	n/a	1.343
12.	Net profit / loss	300	n/a	5.276	n/a	1.756

ANNEXES FOR THE LEASING SECTOR

Annex 14- General Information on Leasing Companies as of 31.12.2018.

no.	Name of leasing company	Director	Date of issuing a license	No. of employees	Web site
1.	ASA LEASING d.o.o. Sarajevo	Aida Rifelj	22.03.2010.	7	www.asa-leasing.ba
2.	MOGO d.o.o. Sarajevo	Kreics Maris	01.06.2018.	19	www.mogo.ba
3.	NLB LEASING d.o.o. Sarajevo	Denis Silajdžić	19.03.2010.	7	www.nbleasing.ba
4.	PORSCHE LEASING d.o.o.	Dejan Stupar	28.05.2015.	18	www.porscheleasing.ba
5.	RAIFFEISEN LEASING d.o.o. Sarajevo	Munir Čengić	19.01.2010.	35	www.rlbh.ba
6.	SPARKASSE LEASING d.o.o. Sarajevo	Elma Hošo	11.02.2010.	21	www.s-leasing.ba
7.	VB LEASING d.o.o Sarajevo	Slobodan Vujić	12.01.2010.	11	www.vbleasing.ba
Total				118	

Annex 15- Overview of the Ownership Structure of Leasing Companies -31.12.2018.

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

Annex 16- Aggregated Balance Sheet of Leasing Companies -31.12.2018.

- in 000 BAM -

no.	Description	31.12.2017.		31.12.2018.		Index
1.	2.	3.	4.	5.	6.	7=5/3
	ASSETS	Amount	% in the total assets	Amount	% in the total assets	31.12.2018/ 31.12.2017
1.	Cash and cash equivalents	13.738	5,3%	13.969	4,7%	102
2.	Placements with banks	16.953	6,5%	17.235	5,8%	102
3.	Receivables for financial leasing, net (3a-3b-3c-3d)	176.007	67,6%	214.674	72,2%	122
3a)	Receivables for financial leasing, gross	192.488	74,0%	233.535	78,6%	121
3b)	Loss provisions	2.078	0,8%	897	0,3%	43
3c)	Deferred interest income	14.275	5,5%	17.794	6,0%	125
3d)	Deferred fee income	128	0,0%	170	0,1%	133
4.	Receivables from subsidiaries	2	0,0%	2	0,0%	100
5.	Tangible and intangible assets, net (5a+5b-5c-5d)	29.606	11,4%	36.485	12,3%	123
5a)	Tangible and intangible assets – own assets	4.864	1,9%	4.848	1,6%	100
5b)	Tangible and intangible assets – operational leasing	43.673	16,8%	48.482	16,3%	111
5c)	Value adjustment – own assets	3.874	1,5%	3.748	1,3%	97
5d)	Value adjustment – operational leasing	15.057	5,8%	13.097	4,4%	87
6.	Long-term investments	291	0,1%	203	0,1%	70
7.	Other assets (7a+7b)	23.607	9,1%	14.586	4,9%	62
7a)	Loans, net (7a1-7a2)	13.449	5,2%	6.253	2,1%	46
7a1)	Loans (due receivables + non-due principal)	15.345	5,9%	12.130	4,1%	79
7a2)	Loan reserves	1.896	0,7%	5.877	2,0%	310
7b)	Inventories	3.087	1,2%	1.339	0,5%	43
7c)	Other assets	7.071	2,7%	6.994	2,4%	99
	TOTAL ASSETS	260.204	100,0%	297.154	100,0%	114
	LIABILITIES					
9.	Receivables due for taken loans, net	209.085	80,4%	252.389	84,9%	121
9a)	Receivables due for short-term loans	0	0,0%	0	0,0%	100
9b)	Receivables due for long-term loans	209.275	80,4%	252.729	85,0%	121
9c)	Prepaid costs and fees	190	0,1%	340	0,1%	179
10.	Other liabilities	10.329	4,0%	7.997	2,7%	77
	Total liabilities	219.414	84,3%	260.386	87,6%	119
11.	Core capital	34.004	13,1%	33.925	11,4%	100
12.	Reserves	576	0,2%	4.547	1,5%	789
13.	Accumulated profit/loss	6.210	2,4%	-1.704	-0,6%	n/a
	Total capital	40.790	15,7%	36.768	12,4%	90
	Total liabilities	260.204	100,0%	297.154	100,0%	114
	Written-off receivables (initial balance)	95.111	36,6%	84.175	28,3%	89
	New write-off (+)	995	0,4%	896	0,3%	90
	Collection (-)	6.069	2,3%	4.101	1,4%	68
	Permanent write-off (-)	5.862	2,3%	8.033	2,7%	137
	Written-off receivables (final balance)	84.175	32,3%	72.937	24,5%	87

Annex 17- Overview of assets, receivables of financial and operating leasing and the financial result of leasing companies as of 31.12.2018.

no.	Leasing company	Balance sum		Receivables on fin. leasing		Receivables on oper. leasing		Financial result
		Amount	%	Amount	%	Amount	%	Amount
1.	ASA Leasing d.o.o. Sarajevo	2.405	0,8%	50	0,0%	0	0,0%	-805
2.	Mogo d.o.o. Sarajevo	1.734	0,6%	1.388	0,7%	0	0,0%	-1.007
3.	NLB Leasing d.o.o. Sarajevo	9.377	3,1%	268	0,1%	0	0,0%	2.085
4.	Porsche Leasing d.o.o. Sarajevo	87.363	29,4%	62.656	29,2%	21.128	59,7%	754
5.	Raiffeisen Leasing d.o.o. Sarajevo	121.259	40,8%	85.304	39,7%	10.641	30,1%	1.414
6.	Sparkasse Leasing d.o.o. Sarajevo	65.296	22,0%	59.259	27,6%	3.331	9,4%	1.454
7.	VB Leasing Leasing d.o.o. Sarajevo	9.720	3,3%	5.749	2,7%	285	0,8%	-598
	Total	297.154	100%	214.674	100%	35.385	100%	3.297

Annex 18 - Overview of Key Financial Indicators of Leasing Companies and Banks which perform Financial Leasing Operations - 31.12.2018.

-in 000BAM-

no.	Leasing company/ bank	Total capital (000 BAM)	Rank based on total capital	Net profit/loss (000 BAM)	Rank based on net profit/loss dobit/gubitak	Facilities in first three quarters of 2018 (000 BAM)	Rank based on facilities in first three quarters of 2018	No. of arrangements in first three quarters of 2018	Rank based on no. of arrangements
1.	Asa Aleasing d.o.o. Sarajevo	2.200	4.	-805	5.	0	-	0	-
2.	Mogo d.o.o. Sarajevo	466	7.	-1.007	7.	1.474	5.	209	5.
3.	NLB Leasing d.o.o. Sarajevo	9.082	2.	2.085	1.	0	-	0	-
4.	Porsche Leasing d.o.o. Sarajevo	2.371	6.	754	4.	65.957	1.	1.790	1.
5.	Raiffeisen Leasing d.o.o. Sarajevo	12.865	1.	1.414	3.	54.139	2.	1.190	2.
6.	Sparkasse Leasing d.o.o. Sarajevo	7.091	3.	1.454	2.	37.424	3.	687	3.
7.	VB Leasing d.o.o. Sarajevo	2.693	5.	-598	6.	0	-	0	-
	Total (sector)	36.768		3.297		158.994		3.876	
8.	UniCredit Bank d.d. Mostar	-	-	-	-	33.752	4.	492	4.
	Total (system)					192.746	-	4.368	-

Annex 19- Overview of Reserves for Financial Leasing -31.12.2018.

-in 000 BAM-

Days past due	Provisioning rate for financial leasing (movables)	Provisioning rate for financial leasing (immovables)	Amount of receivables for movables	Amount of receivables for immovable	Principal amount for movables	Principal amount for immovable	Reserves			
							For move-ables	For immove-ables	Additional calculated and allocated reserves	Total reserves
1	2	3	4	5	6	7	8=6*3	9=7*3	10	11=8+9+10
0-60	0,50%	0,50%	210.609	2.280	33.721	880	169	4	152	325
60-90	10%	10%	1.734	0	191	0	19	0	0	19
90-180	50%	50%	414	41	60	19	30	10	80	120
Over 180	100%	75%	427	0	427	0	427	6	0	433
Over 360	100%	100%	0	66	0	6	0	0	0	0
Total			213.184	2.387	34.399	905	645	20	232	897

Annex 20- Overview of Loans Reserves -31.12.2018.

-in 000 BAM-

Days past due	Provisioning rate	Amount of receivables	Reserves	Additional calculated allocated reserves	Total reserves
1	2	3	4=3*2	5	6=4+5
0-60	0,05%	6.256	3	0	3
60-90	5%	0	0	0	0
90-180	10%	0	0	0	0
180-270	30%	0	0	0	0
270-360	50%	0	0	0	0
over 360	100%	5.874	5.874	0	5.874
Total		12.130	5.877	0	5.877

Annex 21- Aggregated Income Statement of Leasing Companies-31.12.2018.

- in 000 BAM -

no.	Description	31.12.2017.		31.12.2018.		Index
1.	2.	3.	4.	5.	6.	7=5/3
		Amount	% in total income/expenses	Amount	% in total income/expenses	31.12.2018/ 31.12.2017
	FINANCIAL INCOME AND EXPENSES					
1.	Interest income	14.192	42,3%	11.189	34,5%	79
1a)	Interest for financial leasing	10.074	30,0%	9.223	28,4%	92
1b)	Interest on placements with banks	220	0,7%	318	1,0%	145
1c)	Fees (for processing leasing arrangements, etc.)	661	2,0%	625	1,9%	95
1d)	Other interest income	3.237	9,6%	1.023	3,2%	32
2.	Interest expenses	3.369	12,1%	3.234	11,4%	96
2a)	Interest on borrowed funds	3.261	11,7%	3.135	11,0%	96
2b)	Fees for loan processing	105	0,4%	99	0,3%	94
2c)	Other interest expenses	3	0,0%	0	0,0%	0
3.	Net interest income	10.823	32,3%	7.955	24,5%	74
	OPERATING INCOME AND EXPENSES					
4.	Operating income	19.356	57,7%	21.250	65,5%	110
4a)	Fees for services	4	0,0%	5	0,0%	125
4b)	Fee for operational lease	10.723	32,0%	12.614	38,9%	118
4c)	Income from sale of leasing facilities	1	0,0%	128	0,4%	n/a
4d)	Other operating income	8.628	25,7%	8.503	26,2%	99
4d1)	Income from collected written-off receivables	3.751	11,2%	3.901	12,0%	104
4d2)	Income from notifications	359	1,1%	179	0,6%	50
4d3)	Other	4.518	13,5%	4.423	13,6%	98
5.	Operating expenses	24.566	87,9%	25.240	88,9%	103
5a)	Salaries and contributions	5.102	18,2%	6.295	22,2%	123
5b)	Costs of business premises	8.771	31,4%	9.681	34,1%	110
5c)	Other costs	10.693	38,2%	9.264	32,6%	87
6.	Costs of loan loss provisions	22	0,1%	-98	n/a	n/a
7.	Profit before taxes	5.591	20,0%	4.063	12,5%	73
8.	Profit tax	599	1,8%	766	2,4%	128
9.	Net profit	4.992	14,9%	3.297	10,2%	66

ANNEXES FOR THE FACTORING SECTOR

Annex 22- General Information on Factoring Company and Ownership structure as of 31.12.2018.

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



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