



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

**INFORMATION  
ON THE MICROCREDIT SYSTEM  
OF THE FEDERATION OF BOSNIA AND HERZEGOVINA  
AS OF 30.06.2012.**

Sarajevo, August 2012

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## **1. INTRODUCTION**

The law on micro-credit organizations („Official Gazette of the Federation of BiH“, number: 59/06) (Law on MCOs) regulates the establishment, registration, activities, form of organization, business operations, manner of management, termination of operations and supervision of micro-credit organization performance (MCO), that is micro credit foundation (MCF) and micro-credit companies (MCC) in the Federation of BiH. The authorities of the Banking Agency of the Federation of BiH (Agency) over these activities are regulated by the Law on the Banking Agency of Federation of Bosnia and Herzegovina („Official Gazette of the Federation of BiH“, number: 9/96, 27/98, 20/00, 45/00, 58/02, 13/03, 19/03, 47/06, 59/06, 48/08 and 34/12) and internal acts of the Agency, furthermore all the listed activities are performed within the Department for supervision of micro-credit organizations.

The function of supervision of the MCOs, the Agency performs through on site examinations and analyses of the reports that the MCOs submit to the Agency (*off-site*), in accordance with the Law on MCOs and regulations of the Agency. The reporting base is made of quarterly reports on balance sheet, capital, loans, loan loss reserves, performance results and other reports about individual performance segments, as well as a monthly report on interest rates.

During the six months of 2012, the Agency continued the regular supervision of the MCOs, and in on-site examinations controlled 50,1% of the assets of the entire microcredit system in the Federation of BiH. On site examinations were performed in accordance with the determined examination plan and priority, in the cases of the significantly irregular performance of MCOs. The Agency had in place a special control of the significantly irregular performance of a MCO. In this period the Agency especially supervised the lending department, in other words the credit risk management and liquidity risk, the performance of the clients' and guarantors' objections and complaints department, accrual and manner of reporting of effective interest rates, capital and performance with the donated funds of MCOs, as well as the compliance with the standards in performance defined by the decision on other general conditions of performance, compliance with the Law on the micro credit organizations, Law on the organizations and foundations (ZUF) and other regulations

The irregularities noticed in the on-site examination of the MCO performed in the six month of 2012 are mainly in reference to the lack of compliance with the provisions of the Law on Micro credit organizations and implemented provisions of the Agency, especially in regard to establishment and maintenance of the reserves for loan losses, and especially in the cases of a repeated loan agreement, inadequate establishment and management of the off-balance sheet records, inadequate accrual of the past due interest and interest which is not past due, etc. Additional irregularities determined in the on-site examinations of MCOs, referred to violations of the Decision on other general conditions for performance of MCOs in regard to the prescribed standards of the Agency for performance of MCOs. Especially recorded is the event of untimely repayment of a large number of loans after which, in a short period of time, the same clients were granted new loans for the amount needed to close the past due unpaid installments of the previous loans, with included fees for untimely repayment of loans, default interest for the default on the previous loans and fees for the processing of the new loan. The noted practice, since the payments and pay outs of loans are performed in cash through tellers, present one of the manners that such loans are reported as sound, although the previous ones (which were subject of a repayment before due date) were in default, which in the case of a renewal of contract would lead to additional provisioning for such loans for another reporting period. In such manner also avoided is the write off of loans and additional expenses for the

MCO, and problem loans are reported as quality assets, while at the same time the clients have too much debt, which leads to enhancing of the debt crises.

### **1.1. Agency's regulations regarding business operations of MCOs**

The business operations of MCOs are more closely regulated by Agency's regulations, namely the decisions adopted by the Management Board of the Agency, and instructions for business operations of MCOs adopted by the Director of the Agency.

| <i>Agency's decisions regarding the business operations of MCOs</i>                                                                                                                                                     | <b>Official Gazette of the Federation of BiH</b> |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------|
| 1. Decision on conditions and the procedure for issuing the business operation license to micro-credit foundation established through the change of micro-credit organization form;                                     | 27/07                                            |
| 2. Decision on conditions and the procedure for issuing and revoking the business operation license and other approvals to micro-credit organizations;                                                                  | 27/07 and 46/11                                  |
| 3. Decision on conditions and procedure for issuing the business operation license and approval for acquisition of ownership participation through investments and transfer of property of the micro-credit foundation; | 27/07                                            |
| 4. Decision on supervision of the business operations of the micro-credit organizations;                                                                                                                                | 27/07                                            |
| 5. Decision on the form and content of reports that the micro-credit organizations submit to the Banking Agency of Federation of Bosnia and Herzegovina and the reporting deadlines;                                    | 27/07                                            |
| 6. Decision on the amount and manner for allocating and maintaining reserves for covering the loan losses of micro-credit organizations;                                                                                | 27/07                                            |
| 7. Decision on unified manner of accrual and recording of effective interest rates on loans and deposits;                                                                                                               | 27/07, 46/09 and 46/11                           |
| 8. Decision on other general conditions for business operations of the macro-credit organizations;                                                                                                                      | 27/07                                            |
| 9. Decision on conditions and the manner of micro credit organization's acting on client's complaints;                                                                                                                  | 32/10                                            |
| 10. Decision on fees that the micro-credit organizations pay to the Banking Agency of the Federation of BiH.                                                                                                            | 46/11                                            |

| <b>Agency's instructions for the business operations of MCOs</b>                                                                                 |
|--------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. Instructions for implementation of the Decision on unified manner of accrual and recording of effective interest rates on loans and deposits; |
| 2. Instruction for accrual of the risk weighed nominal and effective interest rates;                                                             |
| 3. Instruction for accrual of the adjusted return on assets;                                                                                     |
| 4. Instruction for accrual of the operational efficiency indicators and                                                                          |
| 5. Instruction for development of the micro-credit organization reports                                                                          |

### **1.2. Performance trend of MCOs in BiH Federation in the six months of 2012**

In comparison to the end of the previous year, at the end of the second quarter of 2012, recorded is a slight increase of the gross portfolio of MCOs. MCOs are exposed to the pressure of the competition from larger MCOs as well as from the banks, therefore the smaller MCOs are faced with a lack of funds for financing the credit portfolio.

During the six months of 2012 written off were 5,7 million KM in principal, which is 1,38% of total gross loans. Micro credit organizations are investing more efforts in collecting the receivables from written off loans, which is evident from the reported extraordinary income at

the end of the first quarter of 2012, which increased by 12% in comparison to the end of the previous year.

Table 1. Off balance sheet records: receivables from written off principal and interest in 000 KM

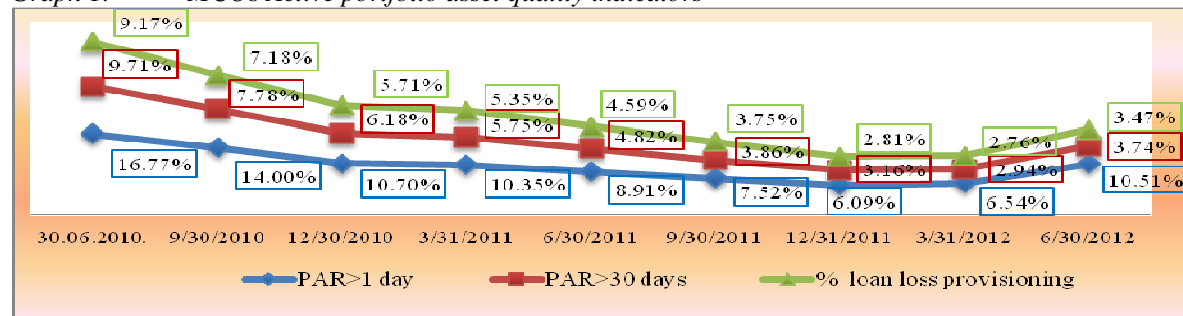
| DESCRIPTION                         | INDIVIDUALS           |                      | LEGAL ENTITIES        |                       | TOTAL                |                       |
|-------------------------------------|-----------------------|----------------------|-----------------------|-----------------------|----------------------|-----------------------|
|                                     | Principal written off | Interest written off | Principal written off | Principal written off | Interest written off | Principal written off |
| 1                                   | 2                     | 3                    | 4                     | 5                     | 6=2+4                | 7=3+5                 |
| Initial balance as of 01.01.2012.   | 138.633               | 24.856               | 2.655                 | 466                   | 141.289              | 25.322                |
| <i>Changes in 2012.:</i>            |                       |                      |                       |                       |                      |                       |
| New write off (in the current year) | 5.671                 | 1.848                | 101                   | 8                     | 5.772                | 1.856                 |
| Collected in the current year       | 4.975                 | 1.536                | 75                    | 14                    | 5.050                | 1.550                 |
| Permanent write off                 | 130                   | 20                   | 3                     | 0                     | 133                  | 20                    |
| <b>Balance as of 30.06.2012.</b>    | <b>139.199</b>        | <b>25.148</b>        | <b>2.678</b>          | <b>460</b>            | <b>141.877</b>       | <b>25.607</b>         |

For the MCOs which still record the decline of the credit portfolio, the loss of the market segment, are not honored with the trust from creditors, under the negative trend of performance, the lack of reaching the prescribed standards, it is important, in order to maintain the performance substance, and especially donated funds, to negotiate about the consolidation which presents an important step in the protection of the sector.

So far, the negotiations of larger MCOs in the Federation of BiH about establishing a joint company through transfer of property from microcredit foundation did not give results, and majority of MCOs see their chance in establishing a company through one of the foundations, which would multiply the number of legal subject performing microcredit lending in the Federation of BiH. In contrast with the position of the MCOs in the Federation of BiH, the consequences of the loan expansion in the past, current economic atmosphere, significant debt of clients and congestion of the local markets in which there are several microcredit organizations, as well as general opinion of the public about the sector require urgent consolidation at the level of the microcredit foundations in the Federation through a joint establishment of microcredit companies by more micro credit foundations. That would make the investment process in the microcredit companies easier, and improve the segment of the corporate management, which presents the weakest link in most of the industries.

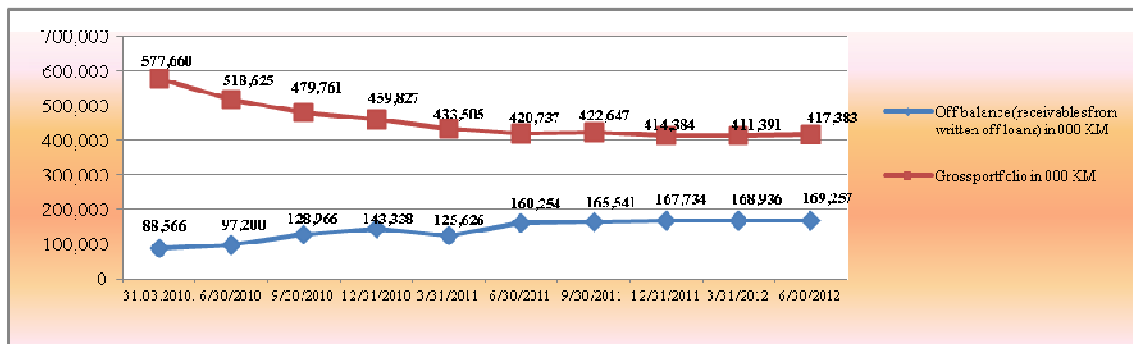
With an aim to prevent and overcome the excessive debt problem, the Agency ordered to the MCOs a full implementation of the regulations in the obligatory exchange of information at the level of the sector and Central loan registry of the CBBiH. In the recent period, most of MCOs invested additional efforts to implement the practice of responsible lending and realization of the mission and aims of the micro credit sector.

Graph 1. MCOs Active portfolio asset quality indicators



In spite of the slight incline of the micro credit portfolio by 1% in comparison to the end of the previous year, the results of the larger MCOs, based on the reports about the reserves show decline of the quality of the active credit portfolio in comparison to the same period last year. The decline of the active portfolio quality is reflected in the increase of the rate for the loan loss reserves from 2,81% (as of 31.12.2011) to 3,47%. Portfolio in risk over 30 days of delinquency also increased from 3,16 to 3,74%. Portfolio in the risk over 30 days of delinquency also increased from 3,16% to 3,74%. The total result of the sector in regard to risk in portfolio is within the standards prescribed by the Agency, while of 16 MCOs, 7 MCFs do not fulfill the standard of the Agency in regard to the risk in the portfolio which should be under 5%. Portfolio in risk over one day of delinquency recorded a significant increase (by 4,42 percent), from 6,09% (at the end of the previous year) increased to 10,51%. The analyses of the reports of the MCOs, determined that the deterioration of the sector indicators for the active portfolio quality as of 30.06.2012, was caused by the additional significant provisioning by one of the largest MCOs in the Federation of BiH.

Graph 2. Receivables from written off loans and gross portfolio of MCOs



However, of concern is the fact that the off balance sheet records of the total written off loans continues to increase and at the end of the second quarter of 2012, the total receivables from written off loans of MCOs were 169,3 million KM, which is 41% of the total credit portfolio.

There are significant differences in portfolio quality among the different MCOs, which is evident in the data that four MCOs have over 80% of total written off loans in relation to the total gross portfolio (in one MCO the total amount of receivables from written off loans, which are in the off balance sheet, is by 23% higher than the amount of assets), which is a direct consequence of the credit expansion in the past, while three MCOs reported a total write off under 15% of total gross portfolio

### 1.3. Measures necessary on the level of MCOs sector to eradicate the adverse effects of business operations

The consolidation on the level of micro-credit organizations, especially the medium size MCOs, is necessary for the stabilization of the micro credit sector, with an aim to increase the economy of volume, improve the performance efficiency of MCFs through significant savings in expenses and decreasing the interest rates, as well as increasing the competence of the management boards, management and other personnel of MCOs. The consolidation would facilitate the strengthening of capital base of a smaller number of stronger and sounder MCOs. Also, a significant amount of the loan in the macro credit organizations' liabilities will

mature in the coming year, and with a lack of creditors' support, the organizations may be exposed to a liquidity problem.

The Agency expects that the changes to the Law on micro credit organizations will correct the incomplete regulations, provide adequate instruments for MCOs performance supervision, allow a more efficient correction of the noted problems in the performance of MCOs, and eradicate possible misuse. The expected changes to the Law on micro credit organizations would enable space for additional improvements of the Agency's regulations with an aim to protect donated funds which directly provide for lending to a large number of clients which do not have access to traditional sources of financing.

## **2. THE STRUCTURE OF MICRO-CREDIT ORGANIZATIONS**

As of 30.06.2011., there are 16 MCOs in the Federation of Bosnia and Herzegovina, of that 15 MCF (nonprofit organizations) and 1 MCF's (profit organization), as well as 27 MCCs organization units which head offices are in Republic Srpska. Currently, the Agency is conducting the procedure for terminating the performance of one MCO. All MCFs that received the Agency's operating license performed the registration in compliance with the Law on MCOs, that is they were created through the change of MCOs form established in accordance with the Law on micro-credit organizations („Official Gazette of the Federation of BiH, number: 24/00) (Law on MCOs from 2000.). Therefore, all the MCOs are legal successors of the property, rights and obligations of MCOs established in accordance with the Law on MCOs from 2000. In the Attachment 1., there are basic data on MCFs and MCCs to which the Agency issued the operating license for operations regarding the micro-credit lending.

In the first six months of 2012, the trend of closing of the organizational units of MCOs with head offices in the Federation slowed down and as of 30.06.2012 have a total of 344 organizational units, of which in the Federation of BiH 228, Republic Srpska 113 and District Brčko 3, so the total number of the organizational units of the MCOs with the head office in the Federation of BiH increased by 3 organizational units, or 1% in comparison to the end of the previous year. A total of 187 organizational units of MCFs with head offices in the Federation of BiH have authorization to grant micro-credits, and as such are registered in the appropriate Registry. During the six months of 2012, the Agency issued 7 consents for establishing organizational units of MCOs, 7 consents for changes of address of the organizational units and 4 consents for the closing of organizational units of MCOs. There are 9 MCFs that have organizational units outside of the Federation of BiH

Agency issued licenses for operations of organizational units of one MCC which has a head office in republic Srpska, and which operates in Federation through 27 branches and field offices.

## 2.1. Personnel

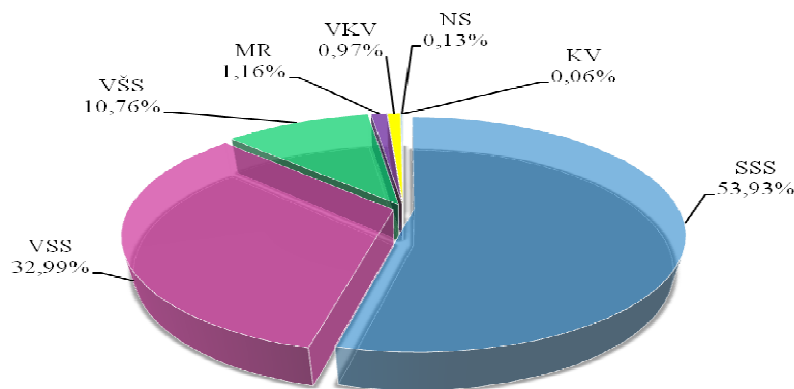
Table 1. Qualification structure of employees

| No.          | Qualification <sup>1</sup> | 31.12.2011.  |          | Total        | Partic. (%)   | 30.06.2012.  |          | Total        | Part. (%)     | Ratio      |
|--------------|----------------------------|--------------|----------|--------------|---------------|--------------|----------|--------------|---------------|------------|
|              |                            | MCF          | MCO      |              |               | MCF          | MCO      |              |               |            |
| 1            | 2                          | 3            | 4        | 5=(3+4)      | 6             | 7            | 8        | 9=(7+8)      | 10            | 11=9/5     |
| 1.           | NS                         | 3            | 0        | 3            | 0,20          | 2            | 0        | 2            | 0,13          | 67         |
| 2.           | KV                         | 1            | 0        | 1            | 0,07          | 1            | 0        | 1            | 0,06          | 100        |
| 3.           | VKV                        | 15           | 0        | 15           | 0,99          | 15           | 0        | 15           | 0,97          | 100        |
| 4.           | SSS                        | 817          | 4        | 821          | 54,41         | 834          | 3        | 837          | 53,93         | 102        |
| 5.           | VŠS                        | 183          | 0        | 183          | 12,13         | 167          | 0        | 167          | 10,76         | 91         |
| 6.           | VSS                        | 469          | 4        | 473          | 31,35         | 508          | 4        | 512          | 32,99         | 108        |
| 7.           | MR                         | 13           | 0        | 13           | 0,86          | 18           | 0        | 18           | 1,16          | 138        |
| <b>TOTAL</b> |                            | <b>1.501</b> | <b>8</b> | <b>1.509</b> | <b>100,00</b> | <b>1.545</b> | <b>7</b> | <b>1.552</b> | <b>100,00</b> | <b>103</b> |

As of 30.06.2012., micro-credit sector employed a total of 1.552 employees, which is an increase by 43 in comparison to 31.12.2011 or by 3%. MCFs employ 1.545 employees or 99,5%, and MCCs 7 employees or 0,5%. In the structure of employees the largest participation is of SSS of 53,93%, VSS of 32,99% and VŠS of 10,76%.

The percentage of employees with high school is increasing (by 2%), higher education (by 8%) and masters of art (by 38%), while the number of employees with VSS and NS is decreasing (by 9% and 33% respectively) in relation to 31.12.2011.

Graph 3. Qualification structure of employees in MCOs as of 30.06.2012.

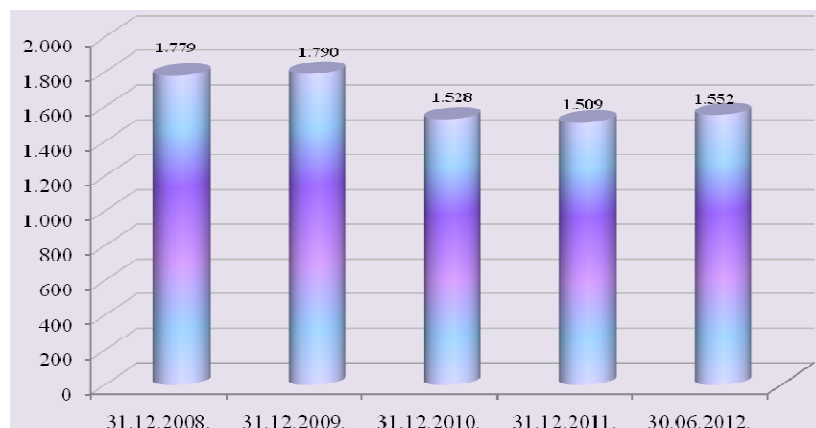


Reviewing the number of employees over the years of performance of MCOs, it can be concluded that the largest number of employees was reported at the end of 2009, when MCOs were employing 1.790 employees, which when compared with the data as of 30.06.2012 presents a decline of 13%. Comparing these two periods, in individual MCOs, two MCFs reported the largest decline of the number of employees, in which it declined by 36%, and 31%.

<sup>1</sup> NS – elementary education level, KV – vocational qualifications, VKV- higher vocational qualifications, SSS – high school degree, VŠS – two year college degree, VSS – University degree, MR – Master of Arts.



Graph 4. Number of employees in MCOs through



### 3. ANALYSES OF THE FINANCIAL CONDITION AND PERFORMANCE ACHIEVEMENT OF MCOs

#### 3.1 Balance Sheet

As of 30.06.2012., the MCOs balance sheet amount is 493,8 million KM and it decreased by 8,7 million KM or 2% in relation to 31.12.2011. The balance sheet growth, in comparison to the end of previous year, was recorded by 5 MCF and the decline by 10 MCFs and 1 MCC. The decline of the balance sheet of 10% in relation to 31.12.2011 is recorded by 8 MCFs and 1 MCC, decline over 10% in relation to the end of the previous year was recorded by 1 MCF, decline over 20% was recorded by 1 MCF, and decline over 30% also 1 MCF. The highest participation in the total MCOs balance sheet is by six MCFs with assets in the amount of 453,1 million KM or 92%.

Table 3. Balance Sheet of MCOs

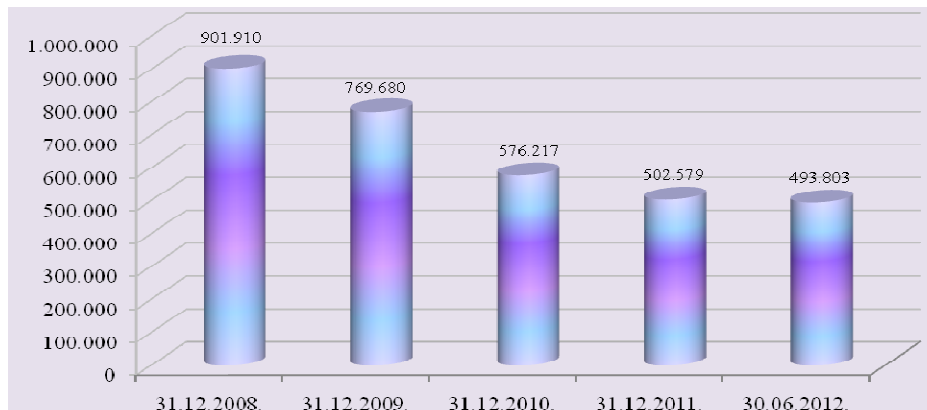
in 000 KM

| DESCRIPTION                                      | 31.12.2011.     |    |                 |    |         | 30.06.2012.     |    |                 |    |          | Ratio |
|--------------------------------------------------|-----------------|----|-----------------|----|---------|-----------------|----|-----------------|----|----------|-------|
|                                                  | Balance for MCF | %  | Balance for MCO | %  | TOTAL   | Balance for MCF | %  | Balance for MCO | %  | TOTAL    |       |
| 1                                                | 2               | 3  | 4               | 5  | 6=(2+4) | 7               | 8  | 9               | 10 | 11=(7+9) | 12    |
| <b>ASSETS</b>                                    |                 |    |                 |    |         |                 |    |                 |    |          |       |
| 1. Cash                                          | 28.973          | 6  | 270             | 14 | 29.243  | 28.694          | 6  | 119             | 7  | 28.813   | 99    |
| 2. Placements to banks                           | 14.975          | 3  | 0               | 0  | 14.975  | 4.740           | 1  | 0               | 0  | 4.740    | 32    |
| 3. Loans                                         | 412.802         |    | 1.582           |    | 414.384 | 415.847         |    | 1.536           |    | 417.383  | 101   |
| 4. Less: reserves for loan losses                | 11.647          |    | 11              |    | 11.658  | 14.441          |    | 26              |    | 14.467   | 124   |
| 5. Net loans                                     | 401.155         | 80 | 1.572           | 80 | 402.727 | 401.406         | 82 | 1.510           | 85 | 402.916  | 100   |
| 6. Business premises and other fixed assets      | 47.838          | 10 | 75              | 4  | 47.913  | 47.546          | 10 | 101             | 6  | 47.647   | 99    |
| 7. Long term investments                         | 15              | 0  | 0               | 0  | 15      | 15              | 0  | 0               | 0  | 15       | 100   |
| 8. Other assets                                  | 9.048           | 2  | 57              | 3  | 9.105   | 11.190          | 2  | 38              | 2  | 11.229   | 123   |
| 9. Less: reserves for other assets, except loans | 1.398           | 0  | 2               | 0  | 1.400   | 1.554           |    | 2               |    | 1.556    | 111   |

| TOTAL ASSETS                    | 500.606        | 100        | 1.973        | 100        | 502.579        | 492.037        | 100        | 1.766        | 100        | 493.803        | 98        |
|---------------------------------|----------------|------------|--------------|------------|----------------|----------------|------------|--------------|------------|----------------|-----------|
| <b>LIABILITIES</b>              |                |            |              |            |                |                |            |              |            |                |           |
| 10. Liabilities for loans taken | 330.981        | 66         | 1.175        | 60         | 332.156        | 318.684        | 65         | 909          | 51         | 319.593        | 96        |
| 11. Other liabilities           | 20.054         | 4          | 69           | 3          | 20.122         | 21.995         | 4          | 149          | 8          | 22.144         | 110       |
| 12. Capital                     | 149.571        | 30         | 729          | 37         | 150.301        | 151.358        | 31         | 707          | 40         | 152.066        | 101       |
| <b>TOTAL LIABILITIES</b>        | <b>500.606</b> | <b>100</b> | <b>1.973</b> | <b>100</b> | <b>502.579</b> | <b>492.037</b> | <b>100</b> | <b>1.766</b> | <b>100</b> | <b>493.803</b> | <b>98</b> |
| Off balance sheet               | 168.222        |            | 60           |            | 168.282        | 169.681        |            | 57           |            | 169.739        | 101       |

Reviewing the aggregate balance sheet of MCOs over the years, the largest amount was reported at the end of 2008, when it was 902 million KM, which in comparison to the balance as of 30.06.2012, presents a decline of 45%. Comparing these two periods, in individual MCOs, two MCFs reported the largest decline of the balance sheet, in which it declined by a high 75% and 68% .

Graph 5. The amount of assets of MCOs (in 000 KM)



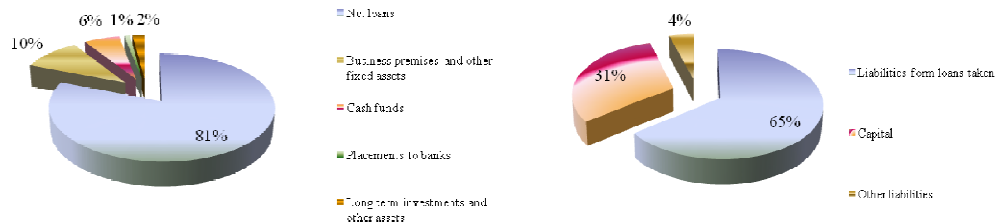
In the asset structure of MCOs, the cash funds are 28,8 million KM or 6% with a decline rate of 1% in comparison to 31.12.2011., and mainly relate to cash funds of MCF. Placements to banks are 4,7 million KM or 1%. Some MCFs can face with the liquidity risk, the investors are generally showing a higher degree of caution due to expressed business results that is the trend shown by the sector, which limit the access that the foundations might have to new loans that could cover for the short term liabilities, and that along with the poor collection of loans can lead to insolvency.

Net loans, that is, the gross loans deducted for the loan loss reserves, are 403 million KM or 81% of the total assets and increased by 189 thousand KM or 0,04% in comparison to 31.12.2011. The decline of net loans in comparison to the previous year as recorded by 7 MCFs and 1 MCC, while the growth is reported by 8 MCFs. In comparison to 31.12.2011, the decline of the net loans up to 10% is recorded by 4 MCFs and 1 MCC, decline over 10% is recorded by 1 MCF. Also, one MCF recorded a decline of the net loans over 30% and 1 MCF recorded a decline of over 60%.

The business premises and other fixed assets are 47,6 million KM or 10% of total assets and have declined by 266 thousand KM or 1% in comparison to the end of the previous year. The percentage of fixed assets in the total assets (deducted for the amount of the donated capital) on the level of the sector is 10,71%, which is slightly higher than the prescribed amount, and reviewed individually, there are six MCFs which are breaching this standard.

The amount of 9,7 million KM or 2% are long term investment (15 thousand KM) and other assets ( 9,673 thousand KM deducted for the provisioning for other items of assets apart from loans), and are composed of accrued interest, advance payments, active time reconciliation assets and other. Long term investments refer to one MCF, while the percentage of other assets in all MCOs is under 10% in comparison to the total assets.

Graph 6. Structure of assets and liabilities of MCOs



In the liability structure of MCOs, the liabilities on acquired loans are the basic source of funds and amount to 319,6 million KM or 65% of total liabilities and decreased by 4% in comparison to 31.12.2011.

Table 4. Maturity structure of loans taken

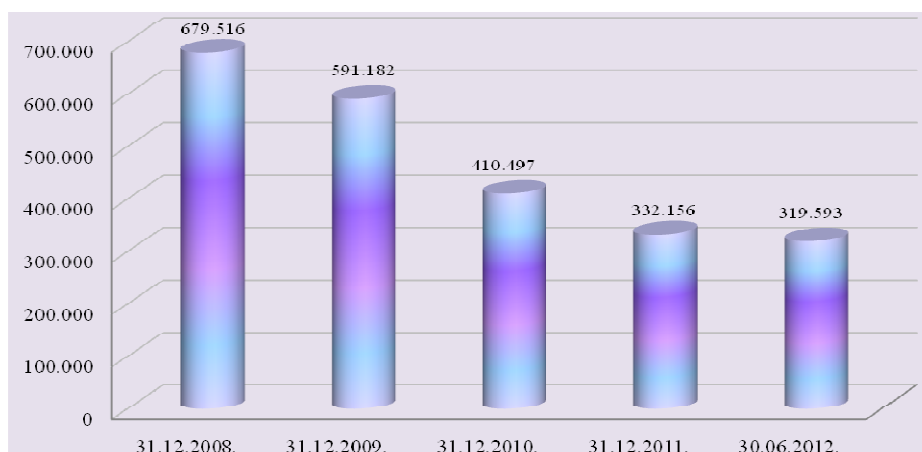
in 000 KM

| DESCRIPTION                                       | 31.12.2011.    |              |                |            | 30.06.2012.    |            |                |            | Ratio     |
|---------------------------------------------------|----------------|--------------|----------------|------------|----------------|------------|----------------|------------|-----------|
|                                                   | MCF            | MCO          | TOTAL          | %          | MCF            | MCO        | TOTAL          | %          |           |
| 1                                                 | 2              | 3            | 4=(2+3)        | 5          | 6              | 7          | 8=(6+7)        | 9          | 10=8/4    |
| <b>1. Liabilities from short term loans taken</b> | 82.347         | 723          | 83.070         | 25         | 70.477         | 458        | 70.935         | 22         | 85        |
| <b>2. Liabilities from long term loans taken</b>  | 248.634        | 452          | 249.086        | 75         | 248.207        | 451        | 248.658        | 78         | 100       |
| <b>TOTAL</b>                                      | <b>330.981</b> | <b>1.175</b> | <b>332.156</b> | <b>100</b> | <b>318.684</b> | <b>909</b> | <b>319.593</b> | <b>100</b> | <b>96</b> |

Of total liabilities on loans taken, 248,6 million KM or 78% are long term loans (4 MCFs do not have them), with a declined by 428 thousand KM or 0,17% in relation to the end of last year. Of total liabilities on loans taken 71 million KM or 22% are short term loans (5 MCFs do not have them), with a decline rate of 15% in comparison to the end of previous year. The liabilities from taken loans of MCFs amount to 318,7 million KM or 99,7% of total liabilities on loans taken.

Reviewing the amount of total liabilities of MCOs on loans taken through years of performance of MCOs, their largest amount is recorded at the end of 2008. when they were 679,5 million KM, which in comparison to the balance as of 30.06.2012. presents a decline of 53%. Comparing these two periods, in individual MCOs, two MCFs recorded the largest decline of the amount of total liabilities on loans taken, in which they declined by a high 90% and 88%, respectively.

Graph 7. The amount of liabilities of MCOs on loans taken through years (in 000 KM)



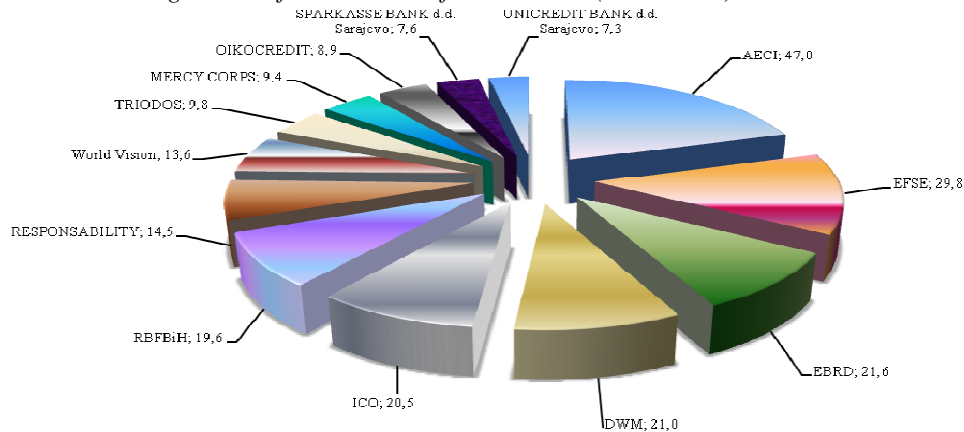
The most significant MCO creditors, with 72% of the credit liabilities, are:

- 1.) AECI – Agency for international cooperation Kingdom of Spain (47 million KM);
- 2.) EFSE – European Fund for the southeast Europe, Luxemburg (29,8 million KM);
- 3.) EBRD – European bank for reconstruction and development, Great Britain (21,6 million KM);
- 4.) DWM – Developing World Markets, USA (21 million KM);
- 5.) ICO – Instituto de Credito Oficial, Spain (20,5 million KM);
- 6.) Development bank of the Federation of BiH<sup>2</sup> (19,6 million KM);
- 7.) Responsibility SICAV, Switzerland (14,5 million KM);
- 8.) World Vision International, USA (13,6 million KM);
- 9.) Triodos – Doen, Netherlands (9,8 million KM).
- 10.) Mercy Corps, USA (9,4 million KM);
- 11.) Oikokredit, Netherlands (8,9 million KM);
- 12.) Sparkasse Bank d.d. Sarajevo, BiH (7,6 million KM) and
- 13.) UniCredit Bank d.d. Mostar, BiH (7,3 million KM).

One MCF has an exposure, in the first creditor, of 42%, and a high 63% in the fourth creditor, and since it is a large concentration in the sources of funding, it presents a danger for this MCF, as in the case of withdrawal of funds, its future could significantly be jeopardized.

<sup>2</sup> The funds are granted under the Project of local initiatives LIP I and LIP II which management by the Decision of the Government of the Federation of BiH („Official Gazette of the Federation of BiH“, number: 78/06 and 34/07) has been transferred to the Development bank of the Federation of BiH.

Graph 8. Funding sources for MCOs as of 30.06.2012. (in mil. KM)



Other liabilities are 22,1 million KM or 4% of total liabilities, and they consist of liabilities towards employees, suppliers, passive time reconcilements and other. A total of 7 MCF have a percentage of other liabilities higher than 10% in relation to the total liabilities.

The off-balance sheet is 169,7 million KM, and it consists of charged off credit receivables (169,2 million KM) and agent contracts (two MCFs have 0,5 million KM), and it increased by 1% in comparison to 31.12.2011.

### 3.2. Capital

The total capital of MCOs as of 30.06.2012., was 152,1 million KM, or 31% of total liabilities and it increased by 1,8 million KM or 1% in comparison to the end of 2011. The capital of MCFs is 151,4 million MCF or 99,5%, and the capital of one MCC is 0,7 million KM or 0,5%. Five MCFs have a percentage of the ratio of the amount of capital (deducted for the donated capital) to total assets lower than allowed.

Table 4. Structure of capital of MCOs

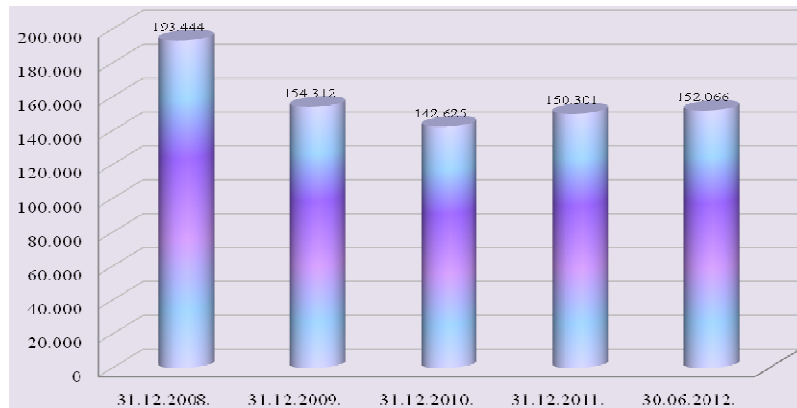
in 000 KM

| DESCRIPTION                             | 31.12.2011.     |            |                 |            |                | 30.06.2012.     |            |                 |            |                | Ratio      |
|-----------------------------------------|-----------------|------------|-----------------|------------|----------------|-----------------|------------|-----------------|------------|----------------|------------|
|                                         | Balance for MCF | %          | Balance for MCO | %          | TOTAL          | Balance for MCF | %          | Balance for MCO | %          | TOTAL          |            |
| 1                                       | 2               | 3          | 4               | 5          | 6=2+4          | 7               | 8          | 9               | 10         | 11=7+9         | 12=11/6    |
| Donated capital                         | 43.061          | 29         | 0               | 0          | 43.061         | 48.003          | 32         | 0               | 0          | 48.003         | 111        |
| Core Capital                            | 10.157          | 7          | 600             | 82         | 10.757         | 9.087           | 6          | 600             | 85         | 9.687          | 90         |
| Surplus/deficit of income over expenses | 93.411          | 62         | 0               | 0          | 93.411         | 91.358          | 60         | 0               | 0          | 91.358         | 98         |
| Issue premium                           | 0               | 0          | 0               | 0          | 0              | 0               | 0          | 0               | 0          | 0              | 0          |
| Undistributed income                    | 0               | 0          | 29              | 4          | 29             | 0               | 0          | 7               | 1          | 7              | 24         |
| Regulatory provisions                   | 0               | 0          | 100             | 14         | 100            | 0               | 0          | 101             | 14         | 101            | 101        |
| Other reserves                          | 2.942           | 2          | 0               | 0          | 2.942          | 2.910           | 2          | 0               | 0          | 2.910          | 99         |
| <b>TOTAL CAPITAL</b>                    | <b>149.571</b>  | <b>100</b> | <b>729</b>      | <b>100</b> | <b>150.301</b> | <b>151.358</b>  | <b>100</b> | <b>708</b>      | <b>100</b> | <b>152.066</b> | <b>101</b> |

Reviewing the amount of capital over the years of the MCOs performance, it can be concluded that the highest amount was reported at the end of 2008 when it was 193,4 million KM, which in comparison to the balance as of 31.03.2012 presents a decline of 21%.

Reviewing these two periods, in individual MCOs, we can conclude that two MCFs reported the largest decline in the amount of capital, which was by a high 76% and 73% respectively.

Graph 9. Amount of capital of MCOs through years (in 000 KM)



In the capital structure the most significant is the surplus of income over expenses which is 91,3 million KM, and constitutes 60% of total capital of MCFs, and it decreased by 2,053 million KM or 2% in comparison to the end of the last year. The deficit of income over expenses for the period of 01.01. to 30.06.2012 realized by 5 MCFs, and surplus of income over expenses 10 MCF, while one MCC realized a net profit.

Undivided profit of one MCC is 108 thousand KM or 15% of the total capital of MCC. Only 2 MCFs realized a surplus of income over expenses in regular operations, while one MCC realized profit from regular operations and 13 MCFs realized deficit of income over expenses. At the end of the second quarter of 2012, of those 13 MCFs, 8 have, owing to extraordinary income that is higher than the realized deficit in regular operations realized a positive result. The extraordinary income is a direct result of the increased collection of the receivables from written off loans.

Also, one MCC at the end of the first quarter of 2012, owing to extraordinary income, realized a net profit. The extraordinary income is a direct result of the increased collection of the receivables from written off loans.

The significant source of capital of MCF is the donated capital which is 48 million KM or 32% of the total capital, whereas one MCC does not have any donated capital. The donated capital, in comparison to the end of the previous year increased by 4,9 million KM that is 11% and refers to the increase of the donated capital in three MCFs in which the examination determined that the balance was incorrectly reported to the Agency in the previous periods.

Core capital of MCOs, as of 30.06.2012, was 9,7 million KM or 6% of total capital.

Other reserves are 3 million KM, or 2% of total capital and refer to 3 MCF.

### 3.3. Loan portfolio

The core activity of MCOs is the micro-crediting that refers to the amount of 417,4 million KM or 84% of the total assets of the micro credit sector. The level of the total loans of sectors

depends on the condition of loans of MCFs referring to 401,4 million KM or 99,6% of total loans, whereas MCCs relate to 1,5 million KM or 0,4% of total loans.

Net loans, total loans minus the reserves for loan losses, are presented in the Table 6.

Table 6. Net loans

in 000 KM

| No. | DESCRIPTION              | 31.12.2011.    |              |                | 30.06.2012.    |              |                | Ratio      |
|-----|--------------------------|----------------|--------------|----------------|----------------|--------------|----------------|------------|
|     |                          | MCF            | MCO          | Total          | MCF            | MCO          | Total          |            |
| 1   | 2                        | 3              | 4            | 5=(3+4)        | 6              | 7            | 8=(6+7)        | 9=8/5      |
| 1.  | Loans                    | 412.802        | 1.582        | 414.384        | 415.847        | 1.536        | 417.383        | 101        |
| 2.  | Loan loss reserves       | 11.647         | 11           | 11.658         | 14.441         | 26           | 14.467         | 124        |
| 3.  | <b>Net loans (1.-2.)</b> | <b>401.155</b> | <b>1.572</b> | <b>402.727</b> | <b>401.406</b> | <b>1.510</b> | <b>402.916</b> | <b>100</b> |

Net loans are 403 million KM and increased by 189 thousand KM or 0,04% in comparison to 31.12.2011, while loans on gross basis also decreased by 1% in relation to the end of last year.

Loan loss reserves are 14,4 million KM and have increased by 24% in relation to 31.12.2011 which is a result of additional provisioning by one of the largest MCFs in the Federation of BiH. The ratio of the loan loss reserves and the total loan portfolio is 3,47%, and has deteriorated by 0,66% in relation to the ratio as of 31.12.2011.

Reviewing the gross portfolio of the MCOs, over the years of MCOs performance, it can be concluded that the largest amount was recorded at the end of 2008 when it was 830,2 million KM, which in comparison to the balance as of 30.06.2012 presents a decline of a high 50%. Comparing these two periods, in individual MCOs, it can be concluded that two MCFs reported the largest gross portfolio, in which it declined by a high 75% and 72% respectively.

Graph 10. The amount of gross portfolio of MCOs over the years (in 000 KM)

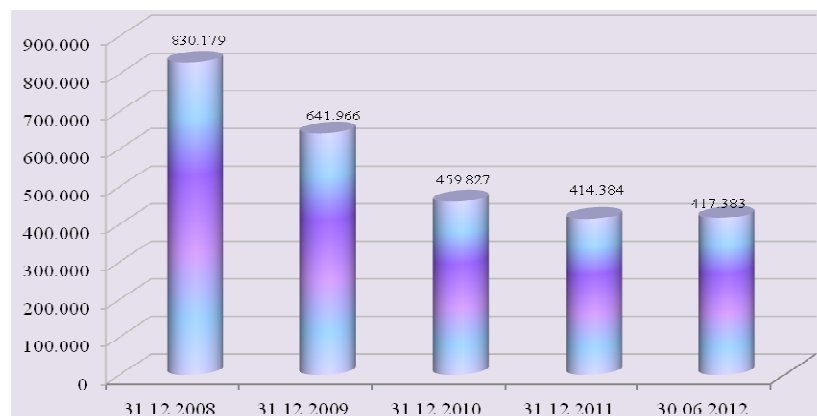


Table 7. Department and maturity structure of micro-credit MCOs as of 30.06.2012.

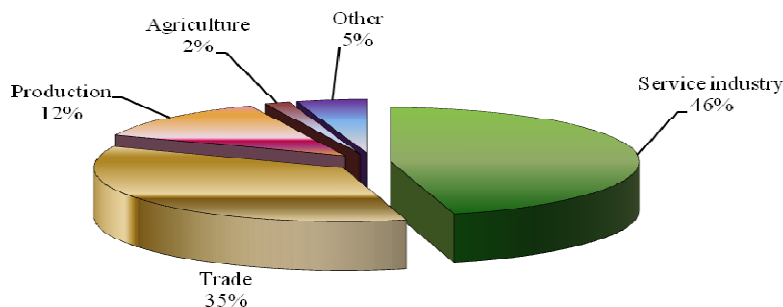
in 000 KM

| No.                 | Micro-credits         | Short term loans    | Long term loans | Past due receivables | TOTAL          | %           |
|---------------------|-----------------------|---------------------|-----------------|----------------------|----------------|-------------|
| 1                   | 2                     | 3                   | 4               | 5                    | 6=(3+4+5)      | 7           |
| <b>1.</b>           | <b>Legal entities</b> |                     |                 |                      |                |             |
| a.)                 | Service industry      | 1.426               | 3.546           | 46                   | <b>5.017</b>   | <b>46%</b>  |
| b.)                 | Trade                 | 1.382               | 2.454           | 37                   | <b>3.872</b>   | <b>35%</b>  |
| c.)                 | Agriculture           | 33                  | 143             | 2                    | <b>178</b>     | <b>2%</b>   |
| d.)                 | Production            | 561                 | 788             | 13                   | <b>1.362</b>   | <b>12%</b>  |
| e.)                 | Other                 | 133                 | 364             | 4                    | <b>501</b>     | <b>5%</b>   |
| <b>TOTAL 1:</b>     |                       | <b>TOTAL 1:</b>     | <b>7.295</b>    | <b>102</b>           | <b>10.931</b>  | <b>100%</b> |
| <b>2.</b>           | <b>Individuals</b>    |                     |                 |                      |                |             |
| a.)                 | Service industry      | 9.328               | 82.972          | 1.424                | <b>93.723</b>  | <b>23%</b>  |
| b.)                 | Trade                 | 6.315               | 43.882          | 916                  | <b>51.112</b>  | <b>13%</b>  |
| c.)                 | Agriculture           | 10.207              | 132.545         | 1.259                | <b>144.011</b> | <b>35%</b>  |
| d.)                 | Production            | 1.868               | 21.496          | 384                  | <b>23.748</b>  | <b>6%</b>   |
| e.)                 | Housing needs         | 3.010               | 46.193          | 354                  | <b>49.556</b>  | <b>12%</b>  |
| f.)                 | Other                 | 12.262              | 31.253          | 786                  | <b>44.302</b>  | <b>11%</b>  |
| <b>TOTAL 2:</b>     |                       | <b>TOTAL 2:</b>     | <b>358.340</b>  | <b>5.123</b>         | <b>406.452</b> | <b>100%</b> |
| <b>TOTAL (1+2):</b> |                       | <b>TOTAL (1+2):</b> | <b>365.634</b>  | <b>5.224</b>         | <b>417.383</b> |             |

According to the department structure of the micro-credits 406,4 million KM or 97% of total loans are granted to the individuals, and 11 million or 3% to legal entities.

In the maturity structure of the micro-credits, short term loans, which include the past due receivables, are 51,8 million KM or 12%, and long term loans are 365,6 million KM or 88%. The past due receivables alone are 5,2 million KM or 1% of the total loans and almost entirely refer to loans to individuals.

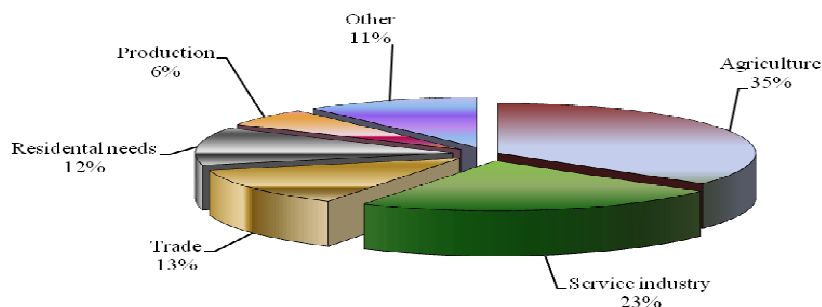
Graph 11. Sector structure of microcredit loans granted to legal entities



According to the sector structure the largest amount of total amount of micro-credits to **legal entities** has been allocated in the trade and service sector – service industry 5 million, or 46%, and trade 3,9 million KM or 35%. For production allocated is 1,4 million KM or 12% of the total amount of micro-credits granted to legal entities, then 0,2 million KM for agriculture or 2%, and 0,5 million or 5% for other purposes.



Graph 12. Sector structure of microcredit loans granted to individuals



In regard to loans to **individuals**, 144 million KM or 35% was granted to agriculture, then 93,7 million KM or 23% for service industry, whereas 51,1 million KM or 13% was granted the sector of trade, for housing needs 49,6 million KM or 12%, and for production 23,7 million KM or 6%, and for other 44,3 million KM or 11%.

Based on the analyses of the sector structure it is concluded that the micro-credit lending is in most part directed to lending to agriculture and service industry and mainly relates to long term loans to individuals, which leads to loans being granted to individuals that do not have access to traditional financing sources, partly due to the risk in the business they perform and partly due to the lack of adequate collateral.

The percentage of loans granted to individuals in service industry is also increasing, while the loans granted for housing needs and other purposes are declining, which means that the focus of the sector is on the support to the micro-entrepreneurship.

According to the Decision on the amount and manner for allocating and maintaining the loan loss reserves of MCOs („Official Gazette of the Federation of BiH“, number: 27/07), MCOs are obliged to allocate all loan funds and other receivables in certain groups by applying the days of default criteria in such a manner that each group is assigned reserves for loan and other losses on the charge of operation expenses.

The base for accrual of the amount of the reserves is the amount of unpaid loans, accrued interest and fees and all other items where MCO is exposed to risk of payment default, which is business failure. The following table shows the amounts of receivables distributed through the given groups and accrued interests in those groups as of 30.06.2012:

Table 8. Report on amount and manner of establishing the reserves for loan losses as 30.06.2012.

in 000 KM

| No.          | Days of default | Reserve rates | Loan amount    | Past due interest |                    | Amount of other items of assets | Provisioning  |                       |                           | Total provisionin g |
|--------------|-----------------|---------------|----------------|-------------------|--------------------|---------------------------------|---------------|-----------------------|---------------------------|---------------------|
|              |                 |               |                | Reserve rates     | Amount of interest |                                 | For loans     | For past due interest | For other items of assets |                     |
| 1            | 2               | 3             | 4              | 5                 | 6                  | 7                               | 8=(4x3)/100   | 9=(5x6)/100           | 10=(7x3)/100              | 11=(8+9+10)         |
| 1.           | 0               | 0%            | 373.528        | 0%                | 48                 | 287                             | 0             | 0                     | 0                         | 0                   |
| 2.           | 1 – 15          | 2%            | 11.736         | 2%                | 222                | 0                               | 234           | 5                     | 0                         | 239                 |
| 3.           | 16 – 30         | 15%           | 16.498         | 100%              | 264                | 0                               | 2.475         | 264                   | 0                         | 2.739               |
| 4.           | 31 – 60         | 50%           | 7.247          | 100%              | 262                | 0                               | 3.623         | 262                   | 0                         | 3.885               |
| 5.           | 61 – 90         | 80%           | 2.803          | 100%              | 156                | 0                               | 2.242         | 156                   | 0                         | 2.398               |
| 6.           | 91 – 180        | 100%          | 5.571          | 100%              | 865                | 0                               | 5.893         | 869                   | 0                         | 6.762               |
| <b>TOTAL</b> |                 |               | <b>417.383</b> |                   | <b>1.816</b>       | <b>287</b>                      | <b>14.467</b> | <b>1.556</b>          | <b>0</b>                  | <b>16.023</b>       |

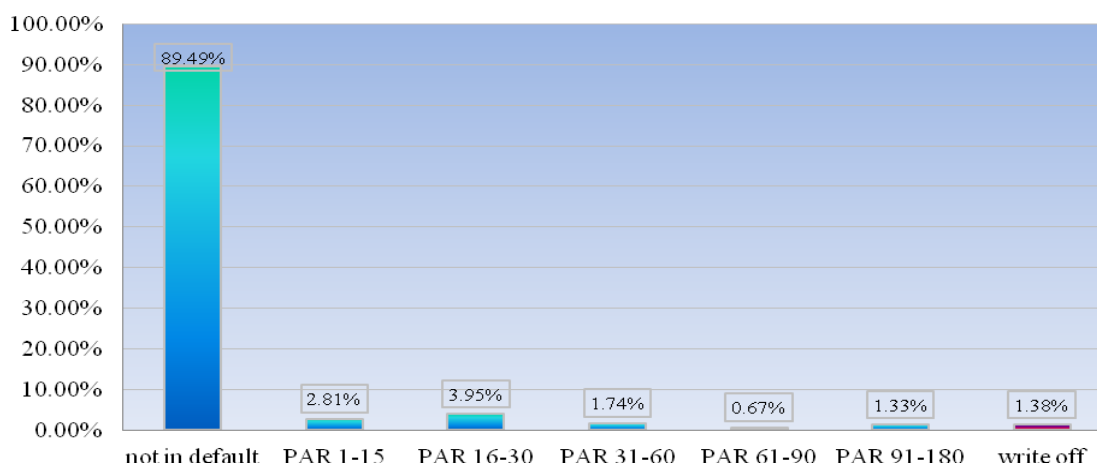
|    |          |           |       |      |       |  |  |  |  |  |
|----|----------|-----------|-------|------|-------|--|--|--|--|--|
| 7. | over 180 | Write off | 5.772 | 100% | 1.856 |  |  |  |  |  |
|----|----------|-----------|-------|------|-------|--|--|--|--|--|

Defaults in payment of longer than one day have loans in the amount of 43,8 million KM. The rate for the loans in default of more than one day, at the end of the second quarter of 2012, is 10,51%, and recorded a significant incline in relation to the end of previous year by 4,42%.

The total amount of past due interests on active loans that have a default longer than one day is 1,7 million KM.

Total amount of accrued reserves on all bases is 16 million KM and have declined by 23% in comparison to 31.12.2011, while the write off in the six months of 2012 was 5,7 million KM in principal and 1,8 million KM in interest.

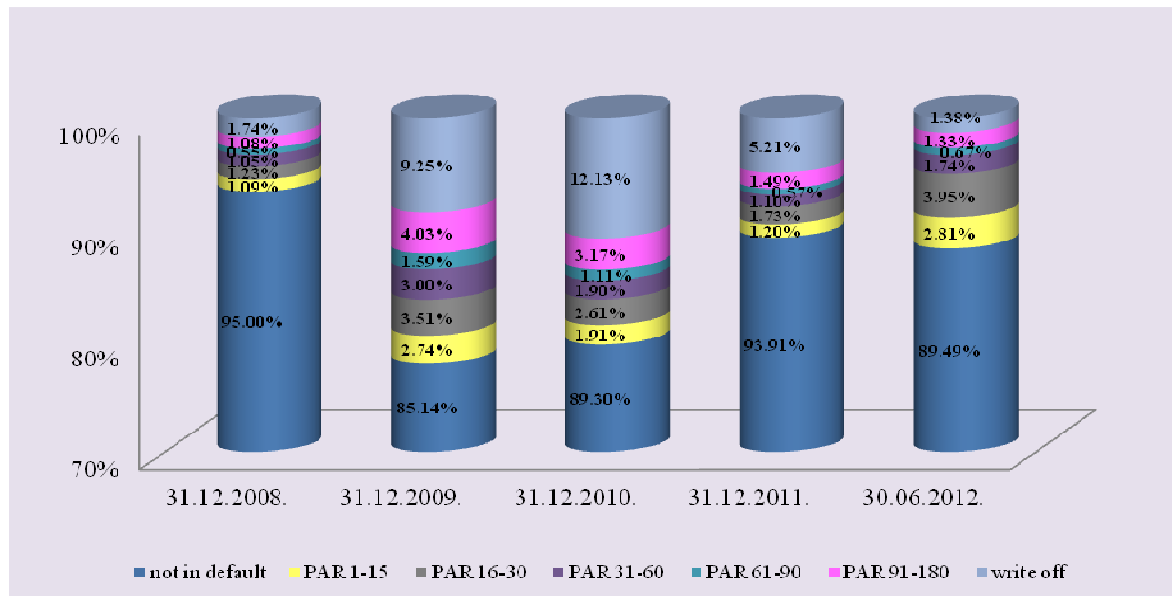
Graph 13. MCOs portfolio asset quality as of 30.06.2012.



In comparison with the previous years of the MCOs performance, in spite the microcredit portfolio decline, the micro credit sector as of 30.06.2012 is showing a deterioration in the quality of the active credit portfolio.

The deterioration of the active credit portfolio quality is reflected in the increase of the loan loss reserves rate from 2,81%, as of 21.12.2011, to 3,47%. The portfolio in the risk of over 30 days delinquency also increased from 3,16% to 3,74%. The total result of the sector in regard to the risk portfolio, is within the standards prescribed by the Agency, while 16 MCOs, 7 MCFs do not fulfill the standard the Agency set for the risk in the portfolio which should be below 5%. The portfolio in risk over one day delinquent recorded a significant incline (by 4,42%), increasing from 6,09% (at the end of the previous year) to 10,51%. The analyses of the reports of the MCOs, indicates that the deterioration of the sector active credit portfolio quality indicators as of 30.06.2012, was caused due to additional significant provisioning by one of the largest MCOs in the Federation of BiH. In the six months of 2012, MCOs wrote off 5,7 million KM of principal, which makes 1,38% of total gross loans.

Graph 14. MCOs gross portfolio classification over years



The negative impact and the consequences of the global economic crises on the financial sector are especially present in the segment of lending and credit portfolio quality of MCOs operations. Due to the trend of increase of delinquent receivables, that is the delay of clients in paying their obligations, there were activated guarantor obligations in a number of delinquent loans, which had such a security, so the repayment obligation passed on to the guarantors.

With an aim to collect, monitor and analyze the data on the loans that are being paid by the guarantors, as of 31.12.2009, the Agency issues a new reporting form OKJ – repayment of loans by the guarantor.

As of 30.06.2012, according to the reports of the MCOs in the Federation of BiH, 8.597 guarantors repaid 4,7 million KM of the total granted amount of loans of 44,8 million KM (7.759 credit units), which is by 0,5% more guarantors who repay loans of others in

comparison to 31.12.2011. (4,2 million KM, paid by 8.553 guarantors, while the amount of the total granted loans was 45,6 million KM – 7.805 credit units).

Of the total number of loan units, paid by the guarantor are 3,66% of credit units, and in comparison to the end of 2011, the participation of loan paid by the guarantors has a slight increase in the total number of loans, by 0,04%. Of 16 MCOs, two MCFs do not have recorded payments by guarantors, while two MCFs reported the largest participation of the loans paid by guarantors in comparison to the total number of loans (15,34% and 6,43%)

As of 30.06.2012., the balance of the remaining debt paid by the guarantors is 10,5 million KM, that is 2,53% of gross loans of MCOs in comparison to 31.12.2011, the participation of the remaining debt in the gross portfolio declined by 0,34% . (as of 31.12.2011., the balance of the remaining debt on the loans repaid by the guarantors was: 11,9 million KM in comparison to 414,4 million KM of gross portfolio).

### ***3.4. Risk weighted nominal and effective interest rates for micro-credits***

Effective interest rate on micro-credit loans is the actual market price of those loans, and is accrued and recorded in compliance with the Decision on the unified manner of accrual and recording of the effective interest rate on loans and deposits („Official Gazette of the Federation of BiH“, number: 27/07, 46/09 and 46/11).

The accrual of the effective interest rate includes the data on the amount of the nominal interest rate on loans, the amount of reimbursements and fees that MCOs calculate for the client in the loan approval process and the amount of reimbursements and fees known on the day of the calculation, that MCOs calculate for the client during the implementation of the loan agreement.

Weighted nominal and effective interest rates are calculated on the newly approved loans in the reporting month.

Table 9. Average nominal and effective interest rates for microcredit loans for the 2<sup>nd</sup> quarter of 2012 – through products

| No.       | DESCRIPTION                   | Weighted nominal interest rate (average) | Weighted effective interest rate (average) |
|-----------|-------------------------------|------------------------------------------|--------------------------------------------|
| <b>1.</b> | <b>Short term loans for:</b>  |                                          |                                            |
| 1.1.      | Service industry              | <b>25,40%</b>                            | <b>32,86%</b>                              |
| 1.2.      | Trade                         | <b>24,90%</b>                            | <b>32,47%</b>                              |
| 1.3.      | Agriculture                   | <b>23,75%</b>                            | <b>31,36%</b>                              |
| 1.4.      | Production                    | <b>24,09%</b>                            | <b>29,76%</b>                              |
| 1.5.      | Housing needs                 | <b>20,95%</b>                            | <b>26,85%</b>                              |
| 1.6.      | General purpose – basic needs | <b>33,24%</b>                            | <b>40,48%</b>                              |
| 1.7.      | Other                         | <b>20,93%</b>                            | <b>32,97%</b>                              |
| <b>2.</b> | <b>Long term loans for:</b>   |                                          |                                            |
| 2.1.      | Service industry              | <b>25,43%</b>                            | <b>29,94%</b>                              |
| 2.2.      | Trade                         | <b>26,46%</b>                            | <b>31,07%</b>                              |
| 2.3.      | Agriculture                   | <b>21,02%</b>                            | <b>24,52%</b>                              |
| 2.4.      | Production                    | <b>23,75%</b>                            | <b>27,30%</b>                              |
| 2.5.      | Housing needs                 | <b>21,54%</b>                            | <b>24,79%</b>                              |
| 2.6.      | General purpose - basic needs | <b>27,79%</b>                            | <b>33,24%</b>                              |
| 2.7.      | <b>Other</b>                  | <b>25,46%</b>                            | <b>31,81%</b>                              |

For short term loans, average nominal interest rates are in the range between 20,93% for other to 33,24% for general purpose loans, and for the effective interest rate in the range of 26,85% for housing needs to 40,48% for general purpose loans.

For long term loans, the average nominal interest rates are in the range between 21,02% for agriculture to 27,79% for general purpose loans, and effective interest rate in the range of 24,52% for housing needs to 33,24% for general purpose loans.

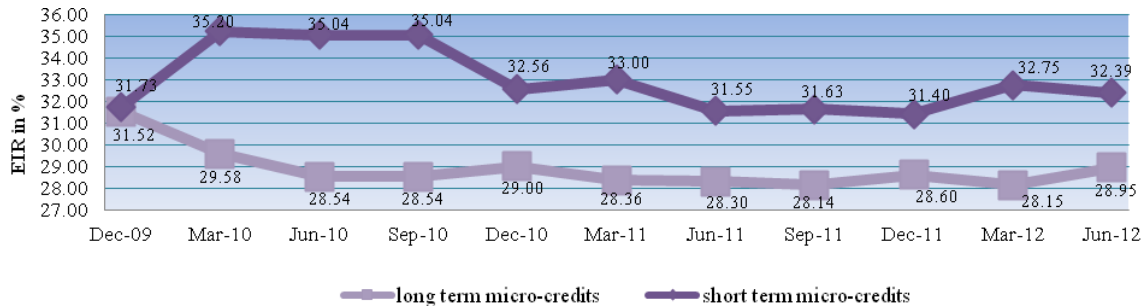
Based on the analyses of the MCOs' interest rates on lending products it can be concluded that the cheapest loans are granted to agriculture activities, and the most expensive are general purpose loans, loans for basic needs.

The average effective interest rates on short term and long term micro-credits in the Federation of BiH through quarters are presented in the Table 10.

Table 10. Trend of average effective interest rates ( EIR) on micro-credit through quarters

| AVERAGE EIR in %<br>for  | 2009.  | 2010.  |        |        |        | 2011.  |        |        |        | 2012.  |        |
|--------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
|                          | 31.12. | 31.03. | 30.06. | 30.09. | 31.12. | 31.03. | 30.06. | 30.09. | 31.12. | 31.03. | 30.06. |
| Short term micro-credits | 31,73  | 35,20  | 35,04  | 35,04  | 32,56  | 33,00  | 31,55  | 31,63  | 31,40  | 32,75  | 32,39  |
| Long term micro-credits  | 31,52  | 29,58  | 28,54  | 28,54  | 29,00  | 28,36  | 28,30  | 28,14  | 28,60  | 28,15  | 28,95  |

Graph 15. Movement trend for average effective interest rates on micro credits through quarters (in %)



At the end of the second quarter of 2012, the average effective interest rates in the microcredit sector on the long term loans recorded a slight incline (by 0,35%) in comparison to 31.12.2011, while the average effective interest rates on the short term loans are also increasing (by 0,99%).

With an aim to increase the transparency in lending and protect clients of the micro credit organizations, the Agency prevented the reporting of interest rates on the monthly bases even when reported are effective interest rates on loans, so that MCOs clients are not deceived.

The Agency expects that the implementation of the above mentioned regulation will result in additional decline of the interest rates in micro credit organizations, as the clients will be better informed about the unified reporting on interest rates for micro-credit loans in public media, advertising, as well as in the loan contracts.

The most significant item in the establishment of the interest rates for the micro-credits is the high administrative expense of the micro credit organizations. The Agency pays special attention during the examinations of MCOs to the justification of individual expenses in compliance with the Article 38 of the Law on the MCOs, which at the end influence the establishment of the interest rates for the micro credit organizations, sustainability of the organization and protection of the donated funds.

### 3.5. Income Statement

The structure of the income statement of the micro-credit sector in the Federation of BiH is presented in the Table 11.

Table 11. Income Statement MCOs

in 000 KM

| No.        | DESCRIPTION                                        | For the period 01.01. - 30.06.2011. |            |               |            | For the period 01.01. - 30.06.2012. |            |               |            | Ratio      |
|------------|----------------------------------------------------|-------------------------------------|------------|---------------|------------|-------------------------------------|------------|---------------|------------|------------|
|            |                                                    | MCF                                 | MCC        | Total         | %          | MCF                                 | MCC        | Total         | %          |            |
| 1          | 2                                                  | 1                                   | 2          | 3=(1+2)       | 4          | 5                                   | 6          | 7=(5+6)       | 8          | 9=(7/3)    |
| <b>1.</b>  | <b>INTEREST INCOME AND SIMILAR TYPES OF INCOME</b> |                                     |            |               |            |                                     |            |               |            |            |
| 1.1.       | Interest income and similar types of income        | 46.012                              | 161        | 46.173        | 92         | 43.699                              | 191        | 43.890        | 89         | 95         |
| 1.2.       | Operating income                                   | 3.873                               | 30         | 3.903         | 8          | 5.202                               | 28         | 5.230         | 11         | 134        |
| <b>2.</b>  | <b>TOTAL INCOME (1.1.+1.2.)</b>                    | <b>49.885</b>                       | <b>191</b> | <b>50.076</b> | <b>100</b> | <b>48.901</b>                       | <b>219</b> | <b>49.120</b> | <b>100</b> | <b>98</b>  |
| <b>3.</b>  | <b>EXPENSES</b>                                    |                                     |            |               |            |                                     |            |               |            |            |
| 3.1.       | Income expenses and similar expenses               | 11.791                              | 32         | 11.823        | 22         | 9.835                               | 41         | 9.876         | 18         | 84         |
| 3.2.       | Operating expenses                                 | 32.627                              | 146        | 32.773        | 62         | 35.629                              | 158        | 35.787        | 65         | 109        |
| 3.3.       | Expenses for reserves for loan and other losses    | 7.997                               | 5          | 8.002         | 15         | 9.680                               | 26         | 9.706         | 17         | 121        |
| <b>4.</b>  | <b>TOTAL EXPENSES (3.1.+3.2.+3.3.)</b>             | <b>52.415</b>                       | <b>183</b> | <b>52.598</b> | <b>100</b> | <b>55.144</b>                       | <b>225</b> | <b>55.369</b> | <b>100</b> | <b>105</b> |
| 5.         | EXTRAORDINARY INCOME                               | 7.258                               | 22         | 7.280         |            | 8.152                               | 15         | 8.167         |            | 112        |
| 6.         | EXTRAORDINARY EXPENSES                             | 294                                 | 0          | 294           |            | 638                                 | 1          | 639           |            | 217        |
| <b>7.</b>  | <b>TOTAL INCOME -EXPENSES (2+5-4-6)</b>            | <b>4.434</b>                        | <b>30</b>  | <b>4.464</b>  |            | <b>1.272</b>                        | <b>7</b>   | <b>1.279</b>  |            | <b>29</b>  |
| 8.         | SURPLUS/DEFICIT OF INCOME OVER EXPENSES            | <b>4.434</b>                        |            | <b>4.434</b>  |            | <b>1.272</b>                        |            | <b>1.272</b>  |            | <b>29</b>  |
| 9.         | INCOME BEFORE TAXES                                |                                     | <b>30</b>  | <b>30</b>     |            |                                     | <b>7</b>   | <b>7</b>      |            |            |
| 10.        | TAXES                                              |                                     | <b>3</b>   | <b>3</b>      |            |                                     | <b>1</b>   | <b>1</b>      |            |            |
| 11.        | NET INCOME/LOSS                                    |                                     | <b>27</b>  | <b>27</b>     |            |                                     | <b>6</b>   | <b>6</b>      |            |            |
| <b>12.</b> | <b>TOTAL FINANCIAL RESULT</b>                      |                                     |            | <b>4.461</b>  |            |                                     |            | <b>1.278</b>  |            |            |

The total income of MCOs for the period of 01.01. - 30.06.2012., is 49,1 million KM, of which 48,9 million KM or 99,6% refers to income of MCFs, and 0,2 million KM or 0,4% on income of one MCC. In comparison to the same period of last year, total income of MCCs is in decline by 0,9 million KM, or 2%.

The core income is interest income and it is 43,9 million KM or 89% of total income and in relation to the same period of previous year the interest income is in decline by 2,3 million KM or 5% while operating expenses are 5,2 million KM or 11% of total income and in relation to the same period last year increased by 1,3 million KM, or 34%.

The total expenses are 55,3 million KM, of which 55,1 million or 99,6% relates to expenses of MCF, and 0,2 million KM or 0,4% to expenses of one MCC. In relation to the same period of last year the total expenses have increased by 2,7 million KM or 5%.

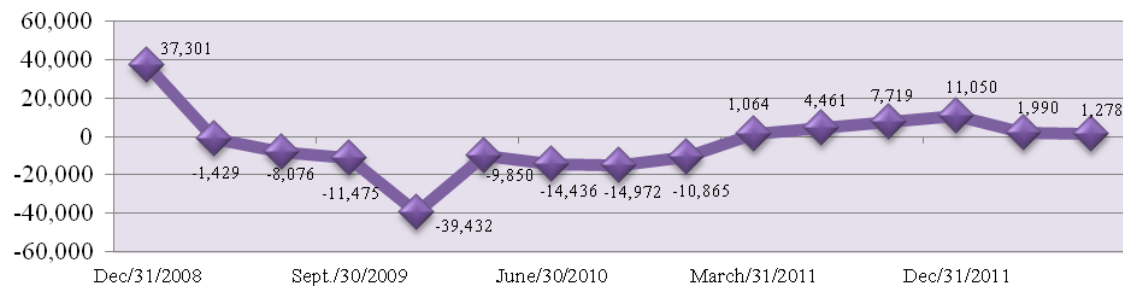
In the structure of expenses, 9,9 million KM or 18% of total expenses are expenses related to interests on acquired loans and other similar expenses, and have decreased by 1,9 million KM or 16% in regard to the same period of last year. Operational expenses are 35,7 million KM or

65% of total expenses and in relation to the same period of last year increased by 3 million KM or 9%. The operating expenses refer to expenses of salaries and contributions in the amount of 19,7 million KM (01.01. – 30.06.2011: 18,1 million KM), expenses related to the business premises, other fixed assets and utilities 8,5 million KM (01.01.-30.06.2011: 9 million KM), and other operating expenses 7,5 million KM. (01.01.-30.06.2011.: 5,7 million KM). The expenses related to the reserves for loan losses and other losses are 9,7 million or 17% of total expenses, and in comparison to the same period last year increased by 1,7 million KM or 21%.

In the period from 01.01 to 30.06.2012, the extraordinary income of MCOs was 8,1 million KM and in comparison to the same period last year was higher by 887 thousand KM, which is by 12%. Over 90% of extraordinary income, refers to the collection of receivables from written off loans. The extraordinary expenses of MCOs, realized during 2012, were 639 thousand KM, and in comparison to the same period last year they increased by 345 thousand KM that is 117%.

For the period of 01.01.-30.06.2012., the net income of one MCC was 6 thousand KM (01.01. – 30.06.2011.: 27 thousand KM). In this period MCF realized a surplus of income over expenses in a total amount of 1,272 thousand KM, while in the same period of last year the MCFs realized a deficit of income over expenses in a total amount of 4,434 thousand KM. In the period from 01.01 to 30.06.2011, of total 15 MCFs, 5 MCFs had a deficit of income over expenses in a total amount of 4,174 thousand KM, and 10 MCF realized an income surplus in the total amount of 5,446 thousand KM. For the first six months of 2012, one of the largest MCFs in the Federation of BiH realized 4 million KM in the deficit of income over expenses, while the remaining 175 thousand KM in deficit refer to 4 MCFs of a smaller scale.

Graph 16. Total financial result of MCOs through quarters (in 000 KM)



On the level of the microcredit sector in the Federation of BiH, there is realized a positive financial result in the amount of 1,278 thousand KM, which is by 3,184 thousand KM or 71% higher than in comparison to the same period last year.



#### **4. CONCLUSION AND RECOMMENDATIONS**

Analyzing the reports of MCOs as of 30.06.2012., we can conclude the following:

- As of 30.06.2012, the MCOS employ a total of 1,552 employees, which is by 43 employees or 3% more than as of 31.12.2011.
- Aggregate balance sheet of MCOs as of 30.06.2012. is 493,8 million KM, of which 492 million KM refers to MCFs or 99,6%, and 1,8 million KM to MCCs or 0,4% of the total balance sheet of MCOs;
- At the end of the second quarter of 2012, the aggregate balance sheet of MCOs decreased by 8,7 million KM or 2% in comparison to 31.12.2011;
- The total gross loans of MCOs as of 30.06.2012. are 417,4 and are 84% of total assets of MCOs, and net loans are 403 million KM. The loans on gross base increased by 1% in comparison to 31.12.2011;
- The basic source of funds for MCOs are liabilities on acquired loans that, as of 30.06.2012., are 319,6 million KM or 65% of total liabilities of MCOs and decreased by 4% in comparison to 31.12.2011;
- The total capital of MCOs as of 30.06.2012., is 152,1 million KM or 31% of total liabilities of MCOs, of which the capital of MCF is 151,4 million KM, and capital of one MCC is 0,7 million KM. The most significant items of capital of MCFs are the surplus of income over expenses in the amount of 91,3 million KM, which constitutes 60% of the total capital of MCF. The undivided profit and reserves of one MCC are 107 thousand KM or 15% of total capital of MCCs, while the core capital is 600 thousand KM or 85% of total capital of MCCs.
- In the period from 01.01. to 31.06.2012, the 10 MCFs realized a surplus in income over expenses in the amount of 5,446 thousand KM, while the deficit of income over expenses was realized by 5 MCFs in the amount of 4,174 thousand KM, which means that MCFs as of 30.06.2012., performed with a surplus income over expenses in the total amount of 1,272 thousand KM. As of 30.06.2012, one MCC realized a net profit in the amount of 6 thousand KM, which means that a positive financial result in the amount of 1,278 thousand KM was realized on the level of the micro credit sector in the Federation of BiH.

In the following period, MCOs need to intensify their work on:

- Finding partners for consolidation, the MCF which have smaller amounts of capital, and high amounts of written off loans, should adopt clear strategies for merger with larger and stronger MCFs in order to optimize resources, preserving the donated funds, provide for support from foreign creditors, as well as provide future for the employees in the MCOs;
- Decrease the performance expenses, implement the principles of good economic performance with the funds of the foundation and application of the principles of good cooperative practices;

- Further improvement of the internal audit and internal control system, improvement of the performance efficiency and optimization of the resources of MCOs through mergers with the similar MCOs with an aim to decrease interest rates;
- Adoption and full implementation of the responsible lending principles;
- Full implementation of the Article 2 of the Law on MCOs which implies performance with an aim to improve the material position of the user of microcredit, increase of the employment and providing the support for the entrepreneurship;
- Obligatory exchange of information on the level of department and the Central credit registry;
- Improving the cooperation with the Center for financial consulting with an aim to solve problems of clients and creditors with too much debt;
- Improving the institutional capacity including the improvement of the management function and governance;
- Complete implementation of the regulations that are in effect and increase of the transparency in performance.

Number: U.O.- 43-3/12  
Sarajevo, 04.09.2012.

## **ATTACHMENTS**

- Attachment 1. Basic Data on MCOs
- Attachment 2. Balance Sheet MCFs
- Attachment 3. Balance Sheet MCOs
- Attachment 4. Income Statement MCFs
- Attachment 5. Income Statement MCOs
- Attachment 6. Review of donated capital of MCFs

## Attachment 1

## BASIC DATA ON MCOs

| N<br>o.      | Micro-credit organization name            | Address and main office                           | Director            | Tel/Fax                   | E-mail and Web                                                                            | 30.06.2012.                |                            |                     |
|--------------|-------------------------------------------|---------------------------------------------------|---------------------|---------------------------|-------------------------------------------------------------------------------------------|----------------------------|----------------------------|---------------------|
|              |                                           |                                                   |                     |                           |                                                                                           | Amount of assets in 000 KM | Amount of assets in 000 KM | Number of employees |
| 1.           | MKD "ADRIA mikro" d.o.o. Mostar           | ul. Kneza Višeslava 14<br>88 000 MOSTAR           | Sena Martina Topić  | 036/ 348-891, 348-890 fax | <a href="mailto:adria.mikro@tel.net.ba">adria.mikro@tel.net.ba</a>                        | 1.766                      | 708                        | 7                   |
| 2.           | MKF "EKI" Sarajevo                        | ul. Džemala Bijedića bb<br>71 000 SARAJEVO        | Sadina Bina         | 033/ 754-370, 754-388 fax | sbina@mkoeki.com<br>www.mkoeki.com                                                        | 102.581                    | 37.592                     | 276                 |
| 3.           | MKF "LIDER" Sarajevo                      | ul. Turhanija 2<br>71 000 SARAJEVO                | Džavid Sejfović     | 033/ 250-580, 250-581 fax | dzavids@lider.ba<br><a href="http://www.lider.ba">www.lider.ba</a>                        | 11.523                     | 10.431                     | 47                  |
| 4.           | "LOK MKF" Sarajevo                        | ul. Skenderija 13<br>71 000 SARAJEVO              | Nusret Čaušević     | 033/ 564-200, 564-201 fax | central.office@lok.ba<br><a href="http://www.lok.ba">www.lok.ba</a>                       | 65.550                     | 3.946                      | 195                 |
| 5.           | MKF "MELAHA" Sarajevo                     | ul. Hamdije Kreševljakovića 59<br>71 000 SARAJEVO | Iso Abinun          | 033/ 205-737 tel/fax      | <a href="mailto:iso@melaha.ba">iso@melaha.ba</a>                                          | 979                        | 214                        | 3                   |
| 6.           | MKF "MIBA" Tuzla                          | ul. Đorđa Mihajlovića 4/III<br>75 000 TUZLA       | Mirsad Bahić        | 035/ 277-455 tel/fax      | miba@vesta.ba<br><a href="http://www.miba.ba">www.miba.ba</a>                             | 283                        | 270                        | 3                   |
| 7.           | MKF "MI-BOSPO" Tuzla                      | ul. Bosne srebrene bb<br>75 000 TUZLA             | Nejira Nalić        | 035/ 270-283, 252-448 fax | mi-bospo@mi-bospo.org<br>www.mi-bospo.org                                                 | 29.719                     | 15.548                     | 142                 |
| 8.           | MKF "MIKRA" Sarajevo                      | ul. Marka Marulića 2/VI<br>71 000 SARAJEVO        | Sanin Čampara       | 033/ 616-162, 717-141 fax | mikra@mikra.ba<br><a href="http://www.mikra.ba">www.mikra.ba</a>                          | 15.725                     | 4.438                      | 98                  |
| 9.           | MKF "MIKRO ALDI" Goražde                  | ul. Panorama bb<br>73 000 GORAŽDE                 | Ferida Softić       | 038/ 226-456, 221-004 fax | mka.aldi@bih.net.ba<br><a href="http://www.mikroaldi.org">www.mikroaldi.org</a>           | 3.529                      | 2.943                      | 22                  |
| 10.          | "PARTNER MKF" Tuzla                       | ul. 15. maja bb<br>75 000 TUZLA                   | Senad Sinanović     | 035/ 300-250, 300-269 fax | partner@partner.ba<br>www.partner.ba                                                      | 109.387                    | 42.814                     | 279                 |
| 11.          | MKF "PRIZMA" Sarajevo                     | ul. Bistrik Medresa 43<br>71 000 SARAJEVO         | Jure Žigo           | 033/ 573-320, 446-583 fax | hq@prizma.ba<br><a href="http://www.prizma.ba">www.prizma.ba</a>                          | 111.975                    | 18.293                     | 270                 |
| 12.          | "PRVA ISLAMSKA MKF" Sarajevo              | ul. Jukićeva 75<br>71 000 SARAJEVO                | Edina Hadžimurtezić | 033/ 666-233, 666-224 fax | <a href="mailto:info@mfi.ba">info@mfi.ba</a>                                              | 1.621                      | 1.393                      | 10                  |
| 13.          | MKF "SANI" Zenica                         | ul. Mehmedalije Tarabara 10<br>72 000 ZENICA      | Sulejman Haračić    | 032/ 405-606 tel/fax      | <a href="mailto:mikrosanizenica@yahoo.com">mikrosanizenica@yahoo.com</a>                  | 422                        | 270                        | 4                   |
| 14.          | MKF "SUNRISE" Sarajevo                    | ul. Hamdije Kreševljakovića 51<br>71 000 SARAJEVO | Zoran Dučić         | 033/ 278-020, 278-032 fax | sunrise@microsunrise.ba<br><a href="http://www.microsunrise.ba">www.microsunrise.ba</a>   | 33.913                     | 10.274                     | 146                 |
| 15.          | MKF "VORTT-INVEST" Sarajevo               | ul. Azize Šaćirbegović 128<br>71 000 SARAJEVO     | Mustafa Kapić       | 033/720-949, 720-941 fax  | <a href="mailto:vorttdoo@yahoo.com">vorttdoo@yahoo.com</a>                                | 233                        | 149                        | 2                   |
| 16.          | MKF "ŽENE ZA ŽENE International" Sarajevo | ul. Džemala Bijedića 130<br>71 000 SARAJEVO       | Seida Sarić         | 033/ 770-010, 770-012 fax | general@zenezazene.ba<br><a href="http://www.womenforwomen.org">www.womenforwomen.org</a> | 4.597                      | 2.783                      | 48                  |
| <b>TOTAL</b> |                                           |                                                   |                     |                           |                                                                                           | <b>493.803</b>             | <b>152.066</b>             | <b>1.552</b>        |

## Attachment 2.

**BALANCE SHEET OF MCFs***in 000 KM*

| No.                      | DESCRIPTION                                                | 31.12.2011.    | %          | 30.06.2012.    | %          | Ratio      |
|--------------------------|------------------------------------------------------------|----------------|------------|----------------|------------|------------|
| 1                        | 2                                                          | 3              | 4          | 5              | 6          | 7=5/3      |
| <b>ASSETS</b>            |                                                            |                |            |                |            |            |
| <b>1.</b>                | <b>Cash (1a+1b)</b>                                        | <b>28.973</b>  | <b>6</b>   | <b>28.694</b>  | <b>6</b>   | <b>99</b>  |
| 1a)                      | Cash and noninterest –bearing deposit accounts             | 20.935         | 4          | 23.226         | 5          | 111        |
| 1b)                      | Interest-bearing deposit accounts                          | 8.038          | 2          | 5.468          | 1          | 68         |
| 2.                       | Placement to banks                                         | 14.975         | 3          | 4.740          | 1          | 32         |
| 3.                       | Loans                                                      | 412.802        |            | 415.847        |            | 101        |
| 3a)                      | Reserves for loan losses                                   | 11.647         |            | 14.441         |            | 124        |
| <b>3b)</b>               | <b>Net loans (3-3a)</b>                                    | <b>401.155</b> | <b>80</b>  | <b>401.406</b> | <b>82</b>  | <b>100</b> |
| 4.                       | Premises and other fixed assets                            | 47.838         | 10         | 47.546         | 10         | 99         |
| 5.                       | Long term investments                                      | 15             | 0          | 15             | 0          | 100        |
| 6.                       | Other assets                                               | 9.048          | 2          | 11.190         | 2          | 124        |
| 7.                       | Less: reserves for other items of the assets, except loans | 1.398          |            | 1.554          |            | 111        |
| <b>8.</b>                | <b>TOTAL ASSETS</b>                                        | <b>500.606</b> | <b>100</b> | <b>492.037</b> | <b>100</b> | <b>98</b>  |
| <b>LIABILITIES</b>       |                                                            |                |            |                |            |            |
| 9.                       | Liabilities on taken short term loans                      | 82.347         | 16         | 70.477         | 14         | 86         |
| 10.                      | Liabilities on taken long term loans                       | 248.634        | 50         | 248.207        | 50         | 100        |
| 11.                      | Other liabilities                                          | 20.054         | 4          | 21.995         | 4          | 110        |
| <b>12.</b>               | <b>TOTAL LIABILITIES</b>                                   | <b>351.035</b> | <b>70</b>  | <b>340.679</b> | <b>69</b>  | <b>97</b>  |
| 13.                      | Donated capital                                            | 43.061         |            | 48.003         |            | 111        |
| 14.                      | Core capital                                               | 10.157         |            | 9.087          |            | 89         |
| <b>15.</b>               | <b>Surplus of income over expenses</b>                     | <b>114.647</b> |            | <b>116.458</b> |            | <b>102</b> |
| 15a)                     | For previous years                                         | 102.577        |            | 111.013        |            | 108        |
| 15b)                     | For current year                                           | 12.070         |            | 5.445          |            | 45         |
| <b>16.</b>               | <b>Deficit of income over expenses</b>                     | <b>21.236</b>  |            | <b>25.099</b>  |            | <b>118</b> |
| 16a)                     | For previous years                                         | 20.330         |            | 20.925         |            | 0          |
| 16b)                     | For current year                                           | 906            |            | 4.174          |            | 461        |
| 17.                      | Other reserves                                             | 2.942          |            | 2.910          |            | 99         |
| <b>18.</b>               | <b>TOTAL CAPITAL</b>                                       | <b>149.571</b> | <b>30</b>  | <b>151.358</b> | <b>31</b>  | <b>101</b> |
| <b>19.</b>               | <b>TOTAL LIABILITIES</b>                                   | <b>500.606</b> | <b>100</b> | <b>492.037</b> | <b>100</b> | <b>98</b>  |
| <b>OFF BALANCE SHEET</b> |                                                            |                |            |                |            |            |
|                          | <b>- written off loans</b>                                 | 167.674        |            | 169.199        |            | 101        |
|                          | <b>- agent contracts</b>                                   | 548            |            | 482            |            | 88         |

**Attachment 3.**

**BALANCE SHEET OF MCOs**

*in 000 KM*

| No.                      | DESCRIPTION                                                | 31.12.2011.  | %          | 30.06.2012.  | %          | Ratio     |
|--------------------------|------------------------------------------------------------|--------------|------------|--------------|------------|-----------|
| 1                        | 2                                                          | 3            | 4          | 5            | 6          | 7=5/3     |
| <b>ASSETS</b>            |                                                            |              |            |              |            |           |
| <b>1.</b>                | <b>Cash (1a+1b)</b>                                        | <b>270</b>   | <b>14</b>  | <b>119</b>   | <b>7</b>   | <b>44</b> |
| 1a)                      | Cash and noninterest –bearing deposit accounts             | 270          | 14         | 119          | 7          | 44        |
| 1b)                      | Interest-bearing deposit accounts                          | 0            | 0          | 0            | 0          | 0         |
| 2.                       | Placements to banks                                        | 0            | 0          | 0            | 0          | 0         |
| 3.                       | Loans                                                      | 1.582        |            | 1.536        |            | 97        |
| 3a)                      | Reserves for loan losses                                   | 11           |            | 26           |            | 247       |
| <b>3b)</b>               | <b>Net loans (3-3a)</b>                                    | <b>1.572</b> | <b>80</b>  | <b>1.510</b> | <b>86</b>  | <b>96</b> |
| 4.                       | Premises and other fixed assets                            | 75           | 4          | 101          | 6          | 134       |
| 5.                       | Long term investments                                      | 0            | 0          | 0            | 0          | 0         |
| 6.                       | Other assets                                               | 57           | 3          | 38           | 2          | 0         |
| 7.                       | Less: reserves for other items of the assets, except loans | 2            |            | 2            |            | 0         |
| <b>8.</b>                | <b>TOTAL ASSETS</b>                                        | <b>1.973</b> | <b>100</b> | <b>1.766</b> | <b>100</b> | <b>90</b> |
| <b>LIABILITIES</b>       |                                                            |              |            |              |            |           |
| 9.                       | Liabilities on taken short term loans                      | 723          | 37         | 458          | 26         | 63        |
| 10.                      | Liabilities on taken long term loans                       | 452          | 23         | 451          | 26         |           |
| 11.                      | Other liabilities                                          | 69           | 3          | 149          | 8          | 217       |
| <b>12.</b>               | <b>TOTAL LIABILITIES</b>                                   | <b>1.244</b> | <b>63</b>  | <b>1.058</b> | <b>60</b>  | <b>85</b> |
| 13.                      | Donated capital                                            | 0            |            | 0            |            | 0         |
| 14.                      | Core capital                                               | 600          |            | 600          |            | 100       |
| 15.                      | Issue premium                                              | 0            |            | 0            |            | 0         |
| <b>16.</b>               | <b>Undistributed profit (16a+16b)</b>                      | <b>29</b>    |            | <b>7</b>     |            | <b>24</b> |
| 16a)                     | Previous years                                             | 0            |            | 0            |            | 0         |
| 16b)                     | Current year                                               | 29           |            | 7            |            | 24        |
| 17.                      | Regulatory reserves                                        | 100          |            | 101          |            |           |
| 18.                      | Other reserves                                             | 0            |            | 0            |            | 0         |
| <b>19.</b>               | <b>Liabilities on taken short term loans</b>               | <b>729</b>   | <b>37</b>  | <b>708</b>   | <b>40</b>  | <b>97</b> |
| <b>20.</b>               | <b>TOTAL LIABILITIES</b>                                   | <b>1.973</b> | <b>100</b> | <b>1.766</b> | <b>100</b> | <b>90</b> |
| <b>OFF BALANCE SHEET</b> |                                                            |              |            |              |            |           |
|                          | <b>- written off loans</b>                                 | 60           |            | 57           |            | 95        |
|                          | <b>- agent contracts</b>                                   | 0            |            | 0            |            | 0         |

Attachment 4.

**INCOME STATEMENT OF MCFs**

in 000 KM

| No.         | DESCRIPTION                                                                                      | For period<br>01.01. -<br>30.06.2011. | %          | For period<br>01.01. -<br>30.06.2012. | %          | Ratio      |
|-------------|--------------------------------------------------------------------------------------------------|---------------------------------------|------------|---------------------------------------|------------|------------|
| 1           | 2                                                                                                | 3                                     | 4          | 5                                     | 6          | 7=(5/3)    |
| <b>I</b>    | <b>FINANCIAL INCOME AND EXPENSES</b>                                                             |                                       |            |                                       |            |            |
| <b>1.</b>   | <b>Interest income and similar income</b>                                                        |                                       |            |                                       |            |            |
| 1.1.        | Interest from interest bearing deposit accounts with depositary institutions                     | 333                                   | 1          | 59                                    | 0          | 18         |
| 1.2.        | Interest from placements to banks                                                                | 508                                   | 1          | 165                                   | 0          | 32         |
| 1.3.        | Loan interest                                                                                    | 44.765                                | 97         | 43.016                                | 98         | 96         |
| 1.4.        | Other financial income                                                                           | 406                                   | 1          | 459                                   | 1          | 113        |
| <b>1.5.</b> | <b>Total interest income and similar income (1.1. to 1.4.)</b>                                   | <b>46.012</b>                         | <b>100</b> | <b>43.699</b>                         | <b>100</b> | <b>95</b>  |
| <b>2.</b>   | <b>Interest expenses and similar expenses</b>                                                    |                                       |            |                                       |            |            |
| 2.1.        | Interest on borrowings                                                                           | 11.268                                | 96         | 9.298                                 | 95         | 83         |
| 2.2.        | Other financial expenses                                                                         | 523                                   | 4          | 537                                   | 5          | 103        |
| <b>2.3.</b> | <b>Total interest expenses and similar expenses (2.1. to 2.2.)</b>                               | <b>11.791</b>                         | <b>100</b> | <b>9.835</b>                          | <b>100</b> | <b>83</b>  |
| <b>3.</b>   | <b>Net financial income (1.5. - 2.3.)</b>                                                        | <b>34.221</b>                         |            | <b>33.864</b>                         |            | <b>99</b>  |
|             |                                                                                                  |                                       |            |                                       |            |            |
| <b>II</b>   | <b>OPERATING INCOME AND EXPENSES</b>                                                             |                                       |            |                                       |            |            |
| <b>4.</b>   | <b>Operating income</b>                                                                          |                                       |            |                                       |            |            |
| 4.1.        | Fees for completed services                                                                      | 3.524                                 | 91         | 4.461                                 | 86         | 127        |
| 4.2.        | Other operating income                                                                           | 349                                   | 9          | 742                                   | 14         | 213        |
| <b>4.3.</b> | <b>Total operating income (4.1. to 4.2.)</b>                                                     | <b>3.873</b>                          | <b>100</b> | <b>5.202</b>                          | <b>100</b> | <b>134</b> |
| <b>5.</b>   | <b>Operating expenses</b>                                                                        |                                       |            |                                       |            |            |
| 5.1.        | Cost of salaries and benefits                                                                    | 18.024                                | 55         | 19.637                                | 55         | 109        |
| 5.2.        | Costs of business premises, other fixed assets and utilities                                     | 8.915                                 | 27         | 8.495                                 | 24         | 95         |
| 5.3.        | Other operating expenses                                                                         | 5.688                                 | 17         | 7.497                                 | 21         | 132        |
| <b>5.4.</b> | <b>Total operating expenses (5.1.to 5.3.)</b>                                                    | <b>32.627</b>                         | <b>100</b> | <b>35.629</b>                         | <b>100</b> | <b>109</b> |
| 6.          | Cost of provisioning for loan and other losses                                                   | 7.997                                 |            | 9.680                                 |            | 121        |
| <b>7.</b>   | <b>Surplus/deficit of income over expenses from direct business operations (3.+4.3.-5.4.-6.)</b> | <b>-2.530</b>                         |            | <b>-6.242</b>                         |            | <b>247</b> |
| 8.          | Extraordinary income                                                                             | 7.258                                 |            | 8.152                                 |            | 112        |
| 9.          | Extraordinary expenses                                                                           | 294                                   |            | 638                                   |            | 217        |
| <b>10.</b>  | <b>Surplus/deficit of income over expenses (7.+8.-9.)</b>                                        | <b>4.434</b>                          |            | <b>1.272</b>                          |            | <b>29</b>  |

Attachment 5.

**INCOME STATEMENT OF MCOs**

in 000 KM

| No.         | DESCRIPTION                                                                  | For period<br>01.01. -<br>30.06.2011. | %          | For period<br>01.01. -<br>30.06.2012. | %          | Ratio       |
|-------------|------------------------------------------------------------------------------|---------------------------------------|------------|---------------------------------------|------------|-------------|
| 1           | 2                                                                            | 3                                     | 4          | 5                                     | 6          | 7=(5/3)     |
| <b>I</b>    | <b>FINANCIAL INCOME AND EXPENSES</b>                                         |                                       |            |                                       |            |             |
| <b>1.</b>   | <b>Interest income and similar income</b>                                    |                                       |            |                                       |            |             |
| 1.1.        | Interest from interest bearing deposit accounts with depositary institutions | 0                                     | 0          | 0                                     | 0          | N/A         |
| 1.2.        | Interest from placements to banks                                            | 0                                     | 0          | 0                                     | 0          | N/A         |
| 1.3.        | Interest from loans                                                          | 159                                   | 99         | 190                                   | 100        | 119         |
| 1.4.        | Other financial income                                                       | 2                                     | 1          | 1                                     | 0          | 46          |
| <b>1.5.</b> | <b>Total interest income and similar income (1.1. to 1.4.)</b>               | <b>161</b>                            | <b>100</b> | <b>191</b>                            | <b>100</b> | <b>118</b>  |
| <b>2.</b>   | <b>Interest expenses and similar expenses</b>                                |                                       |            |                                       |            |             |
| 2.1.        | Interest on borrowings                                                       | 31                                    | 97         | 38                                    | 92         | 123         |
| 2.2.        | Other financial expenses                                                     | 1                                     | 3          | 3                                     | 8          | 326         |
| <b>2.3.</b> | <b>Total interest expenses and similar expenses (2.1. to 2.2.)</b>           | <b>32</b>                             | <b>100</b> | <b>42</b>                             | <b>100</b> | <b>130</b>  |
| <b>3.</b>   | <b>Net financial income (1.5. - 2.3.)</b>                                    | <b>129</b>                            |            | <b>149</b>                            |            | <b>116</b>  |
|             |                                                                              |                                       |            |                                       |            |             |
| <b>II</b>   | <b>OPERATING INCOME AND EXPENSES</b>                                         |                                       |            |                                       |            |             |
| <b>4.</b>   | <b>Operating income</b>                                                      |                                       |            |                                       |            |             |
| 4.1.        | Fees for completed services                                                  | 10                                    | 33         | 28                                    | 100        | 276         |
| 4.2.        | Other operating income                                                       | 20                                    | 67         | 0                                     | 0          | 0           |
| <b>4.3.</b> | <b>Total operating income (4.1. to 4.2.)</b>                                 | <b>30</b>                             | <b>100</b> | <b>28</b>                             | <b>100</b> | <b>92</b>   |
| <b>5.</b>   | <b>Operating expenses</b>                                                    |                                       |            |                                       |            |             |
| 5.1.        | Costs of salaries and benefits                                               | 52                                    | 35         | 94                                    | 59         | 181         |
| 5.2.        | Costs of business premises, other fixed assets and utilities                 | 49                                    | 33         | 38                                    | 24         | 78          |
| 5.3.        | Other operating expenses                                                     | 46                                    | 31         | 26                                    | 16         | 56          |
| <b>5.4.</b> | <b>Total operating expenses (5.1. to 5.3.)</b>                               | <b>147</b>                            | <b>100</b> | <b>158</b>                            | <b>100</b> | <b>107</b>  |
| 6.          | Cost of provisioning for loan and other losses                               | 5                                     |            | 26                                    |            | 524         |
| <b>7.</b>   | <b>PROFIT/LOSS FROM DIRECT BUSINESS OPERATIONS (3.+4.3.-5.4.-6.)</b>         | <b>7</b>                              |            | <b>-7</b>                             |            | <b>-106</b> |
| 8.          | Extraordinary income                                                         | 22                                    |            | 15                                    |            | 69          |
| 9.          | Extraordinary expenses                                                       | 0                                     |            | 1                                     |            | N/A         |
| 10.         | INCOME/LOSS BEFORE TAXES                                                     | 30                                    |            | 7                                     |            | 22          |
| 11.         | TAXES                                                                        | 3                                     |            | 1                                     |            | 22          |
| <b>12.</b>  | <b>NET PROFIT/LOSS</b>                                                       | <b>27</b>                             |            | <b>6</b>                              |            | <b>22</b>   |



**Attachment 6.**

**REVIEW OF THE DONATED CAPITAL OF MCFs**  
*As of 30.06.2012.*

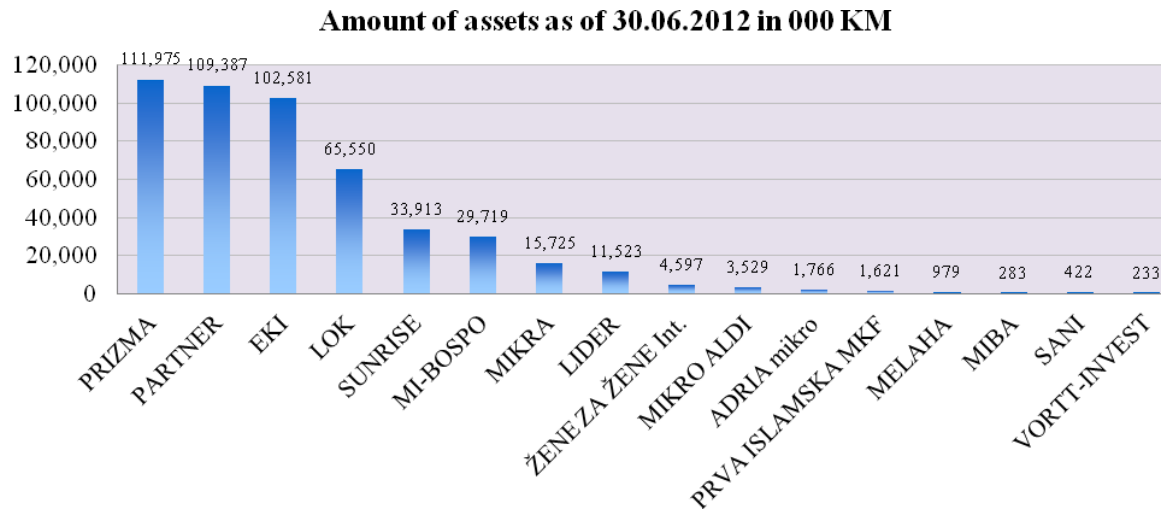
in 000 KM

| No.                                     | Name of the Donator                        | MKF EKI Sarajevo | MKF LIDER Sarajevo | MKF MIBA Tuzla | MKF MI-BOSPO Tuzla | MKF MIKRA Sarajevo | MKF MIKRO ALDI Goražde | PARTNER MKF Tuzla | MKF PRIZMA Sarajevo | PRVA ISLAMSKA MKF Sarajevo | MKF SUNRISE Sarajevo | MKF ŽENE ZA ŽENE Sarajevo | TOTAL         |
|-----------------------------------------|--------------------------------------------|------------------|--------------------|----------------|--------------------|--------------------|------------------------|-------------------|---------------------|----------------------------|----------------------|---------------------------|---------------|
| <b>Donations for the credit fund</b>    |                                            | <b>5.246</b>     | <b>5.891</b>       | <b>298</b>     | <b>2.911</b>       | <b>4.070</b>       | <b>804</b>             | <b>6.828</b>      | <b>7.490</b>        | <b>3.420</b>               | <b>1.942</b>         | <b>2.259</b>              | <b>41.159</b> |
| 1.                                      | USAID                                      | 3.046            |                    |                |                    |                    |                        | 3.046             | 3.046               |                            |                      | 543                       | 9.681         |
| 2.                                      | CHF-(SIDA, MEDI, HILP)                     |                  | 5.891              |                |                    |                    |                        |                   |                     |                            |                      |                           | 5.891         |
| 3.                                      | UNHCR                                      |                  |                    |                | 479                |                    | 200                    | 1.229             | 992                 |                            | 614                  | 450                       | 3.964         |
| 4.                                      | CRS                                        |                  |                    |                |                    | 4.070              |                        |                   |                     |                            |                      |                           | 4.070         |
| 5.                                      | LIP (sredstva Vlade FBiH)                  |                  |                    |                | 947                |                    |                        | 675               |                     |                            | 1.214                |                           | 2.836         |
| 6.                                      | PRM/USA State Department                   |                  |                    |                |                    |                    |                        |                   | 2.006               |                            |                      | 577                       | 2.583         |
| 7.                                      | UNDP                                       | 1.932            |                    |                |                    |                    |                        | 59                | 672                 |                            |                      |                           | 2.663         |
| 8.                                      | UMCOR                                      |                  |                    | 298            | 79                 |                    |                        | 316               | 774                 |                            |                      | 637                       | 2.104         |
| 9.                                      | Islamic Relief WW, Predstavništvo Sarajevo |                  |                    |                |                    |                    |                        |                   |                     | 3.420                      |                      |                           | 3.420         |
| 10.                                     | Women's World Banking                      |                  |                    |                | 1.034              |                    |                        |                   |                     |                            |                      |                           | 1.034         |
| 11.                                     | IRC                                        |                  |                    |                | 226                |                    |                        | 805               |                     |                            |                      |                           | 1.031         |
| 12.                                     | Mercy Corps                                |                  |                    |                |                    |                    |                        | 697               |                     |                            |                      |                           | 697           |
| 13.                                     | OXSfam                                     |                  |                    |                |                    |                    | 500                    |                   |                     |                            |                      |                           | 500           |
| 14.                                     | USDA Know-How Project                      | 237              |                    |                |                    |                    |                        |                   |                     |                            |                      |                           | 237           |
| 15.                                     | Church World Service                       |                  |                    |                | 146                |                    |                        |                   |                     |                            |                      |                           | 146           |
| 16.                                     | Udruga građana "ALDI"                      |                  |                    |                |                    |                    | 104                    |                   |                     |                            |                      |                           | 104           |
| 17.                                     | DK spajanje s "LORI" Orašje                |                  |                    |                |                    |                    |                        |                   |                     |                            | 98                   |                           | 98            |
| 18.                                     | Women for Women Int.                       |                  |                    |                |                    |                    |                        |                   |                     |                            |                      | 52                        | 52            |
| 19.                                     | CRIC                                       | 31               |                    |                |                    |                    |                        |                   |                     |                            |                      |                           | 31            |
| 20.                                     | SOLIDARITES                                |                  |                    |                |                    |                    |                        |                   |                     |                            | 16                   |                           | 16            |
| <b>Donations for fixed assets</b>       |                                            | <b>8</b>         | <b>0</b>           | <b>0</b>       | <b>0</b>           | <b>65</b>          | <b>0</b>               | <b>228</b>        | <b>61</b>           | <b>0</b>                   | <b>10</b>            | <b>0</b>                  | <b>373</b>    |
| 21.                                     | Mercy Corps                                |                  |                    |                |                    |                    |                        | 228               |                     |                            |                      |                           | 228           |
| 22.                                     | CRS                                        |                  |                    |                |                    | 65                 |                        |                   |                     |                            |                      |                           | 65            |
| 23.                                     | ICMC                                       |                  |                    |                |                    |                    |                        |                   | 53                  |                            |                      |                           | 53            |
| 24.                                     | SOLIDARITES                                |                  |                    |                |                    |                    |                        |                   |                     |                            | 10                   |                           | 10            |
| 25.                                     | WORLD Vision Int.                          | 8                |                    |                |                    |                    |                        |                   |                     |                            |                      |                           | 8             |
| 26.                                     | PHARE                                      |                  |                    |                |                    |                    |                        |                   | 8                   |                            |                      |                           | 8             |
| <b>Donations for operating expenses</b> |                                            | <b>2.039</b>     | <b>864</b>         | <b>0</b>       | <b>0</b>           | <b>0</b>           | <b>0</b>               | <b>1.476</b>      | <b>3.087</b>        | <b>0</b>                   | <b>709</b>           | <b>0</b>                  | <b>8.175</b>  |
| 27.                                     | SIDA Housing                               | 1.828            |                    |                |                    |                    |                        |                   |                     |                            |                      |                           | 5.891         |
| 28.                                     | IFC                                        | 104              |                    |                |                    |                    |                        |                   |                     |                            |                      |                           | 5.891         |
| 29.                                     | PRM                                        |                  |                    |                |                    |                    |                        |                   | 2.047               |                            |                      |                           | 2.047         |
| 30.                                     | UNHCR                                      |                  |                    |                |                    |                    |                        | 129               | 840                 |                            |                      |                           | 969           |
| 31.                                     | LIP (sredstva Vlade FBiH)                  |                  |                    |                |                    |                    |                        | 201               |                     |                            | 709                  |                           | 910           |
| 32.                                     | CHF                                        |                  | 864                |                |                    |                    |                        |                   |                     |                            |                      |                           | 864           |
| 33.                                     | Mercy Corps                                |                  |                    |                |                    |                    |                        | 725               |                     |                            |                      |                           | 725           |
| 34.                                     | CGAP                                       |                  |                    |                |                    |                    |                        | 45                | 150                 |                            |                      |                           | 195           |
| 35.                                     | EBRD                                       | 105              |                    |                |                    |                    |                        |                   |                     |                            |                      |                           | 105           |
| 36.                                     | WORLD BANK                                 |                  |                    |                |                    |                    |                        | 65                |                     |                            |                      |                           | 65            |
| 37.                                     | USAID                                      |                  |                    |                |                    |                    |                        | 192               |                     |                            |                      |                           | 192           |
| 38.                                     | MFC                                        |                  |                    |                |                    |                    |                        | 12                | 34                  |                            |                      |                           | 46            |
| 39.                                     | UNDP                                       |                  |                    |                |                    |                    |                        | 43                |                     |                            |                      |                           | 43            |
| 40.                                     | ADA ASBL (RATING)                          |                  |                    |                |                    |                    |                        | 21                |                     |                            |                      |                           | 21            |
| 41.                                     | Other                                      | 2                |                    |                |                    |                    |                        | 44                | 17                  |                            |                      |                           | 62            |
| <b>TOTAL DONATED CAPITAL</b>            |                                            | <b>7.293</b>     | <b>6.755</b>       | <b>298</b>     | <b>2.911</b>       | <b>4.135</b>       | <b>804</b>             | <b>8.532</b>      | <b>10.639</b>       | <b>3.420</b>               | <b>2.661</b>         | <b>2.259</b>              | <b>49.707</b> |

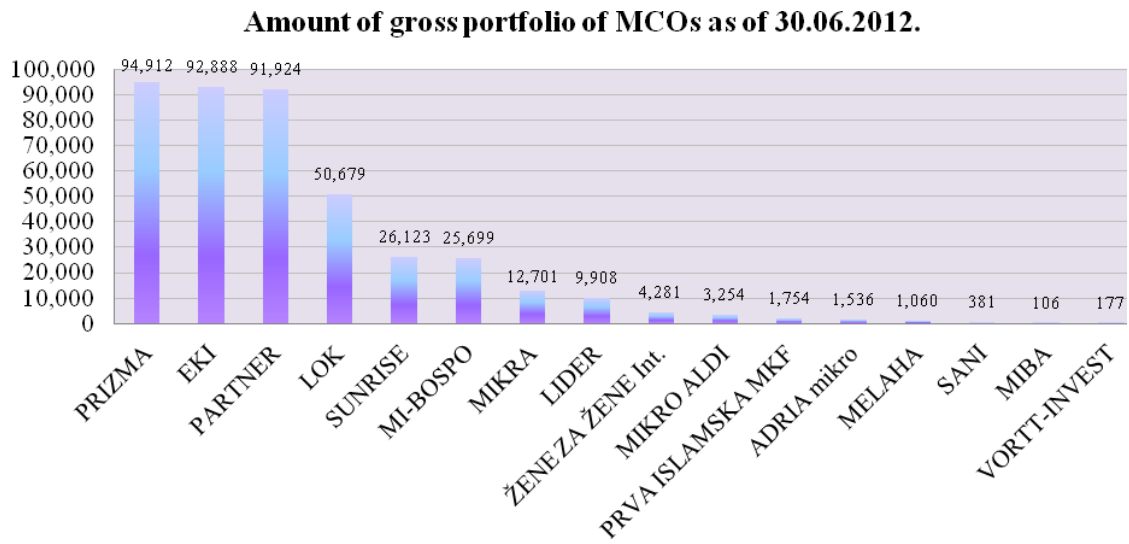
**GRAPHS:**

- Graph 1. Amount of MCO assets as of 30.06.2012.
- Graph 2. Amount of MCO gross portfolio as of 30.06.2012. in 000 KM
- Graph 3. Amount of MCO capital as of 30.06.2012.
- Graph 4. Income surplus/deficit over the expenses of MCFs that is net profit/loss of MCCs for the period from 01.01 – 30.06.2012 in 000KM.
- Graph 5. Average risk weighted EIR for short term loans for MCOs in the 2<sup>nd</sup> quarter 2011.
- Graph 6. Average risk weighted EIR for long term loans for MCOs in the 2<sup>nd</sup> quarter 2012.
- Graph 7. Number of MCO employees as of 30.06.2012.
- Graph 8. Fixed assets and capital in relation to the total assets as of 30.06.2012.
- Graph 9. Total receivables on written off loans in relation to the gross portfolio of MCOs as of 30.06.2012.
- Graph 10. Risk portfolio over 30 days as of 30.06.2012.

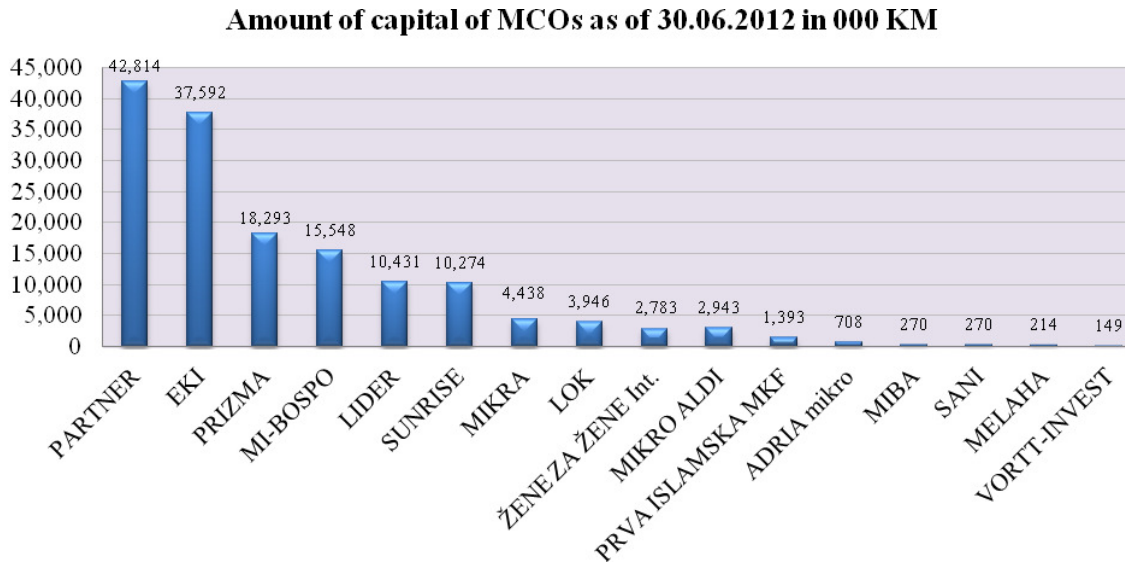
**Graph 1.**



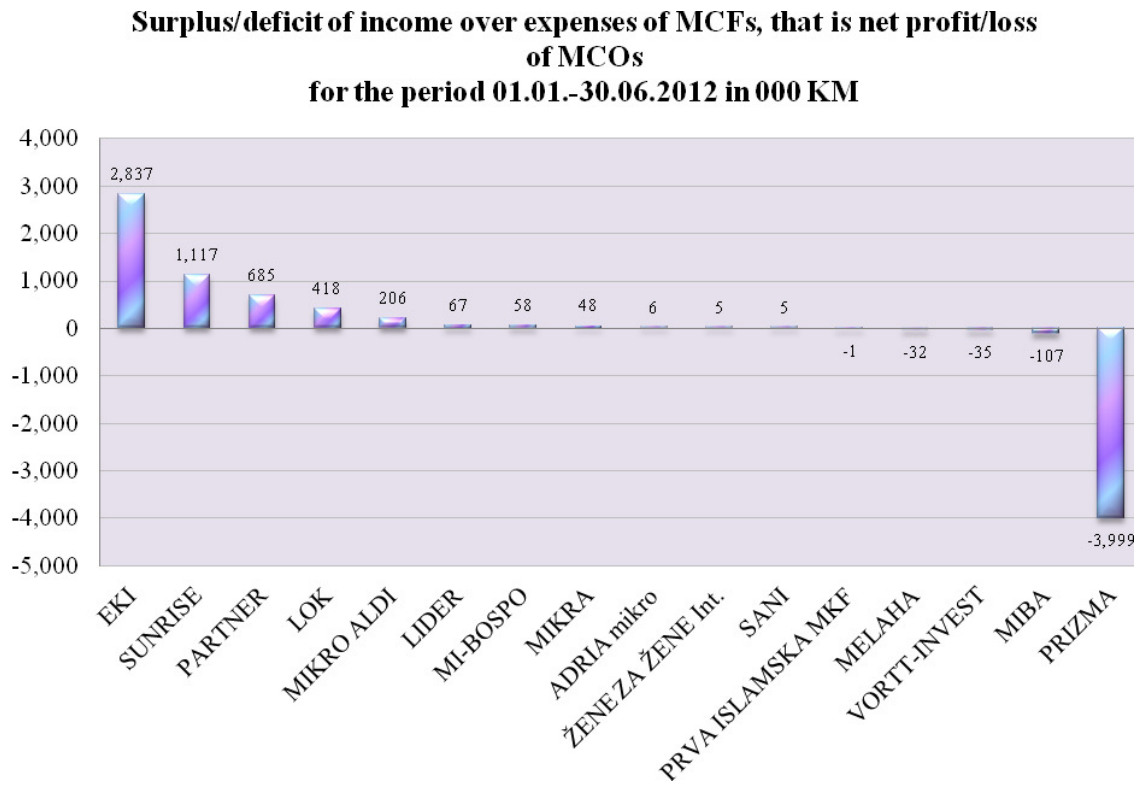
**Graph 2.**



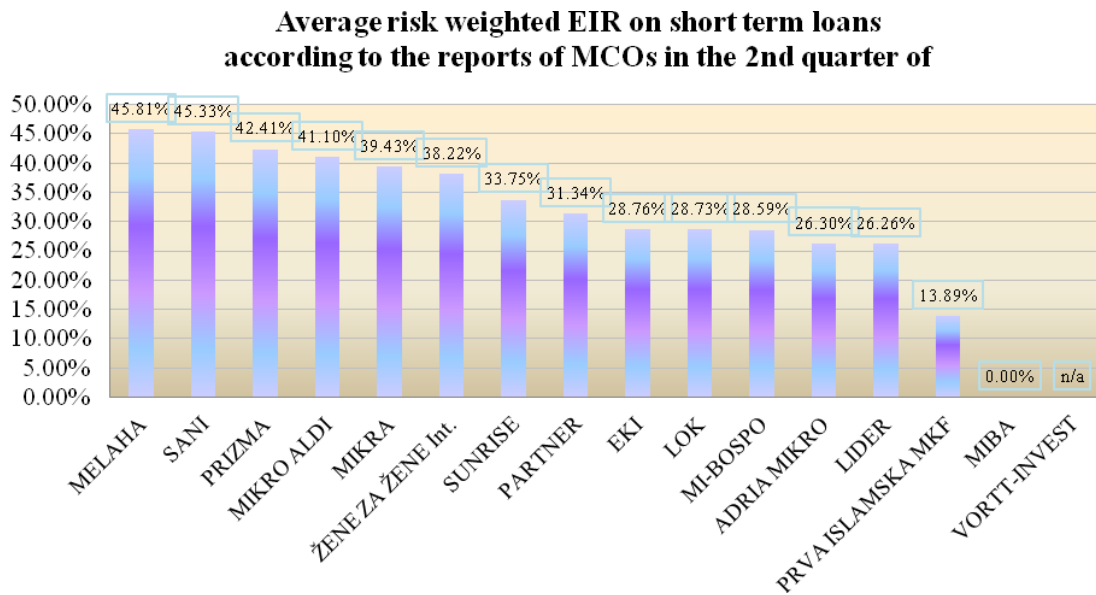
**Graph 3.**



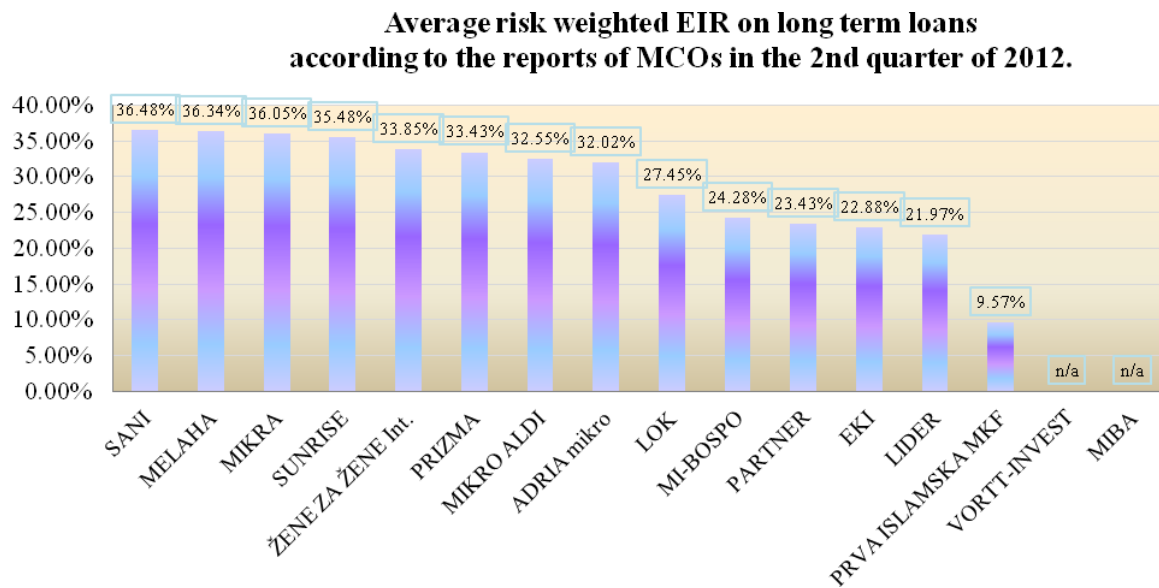
**Graph 4.**



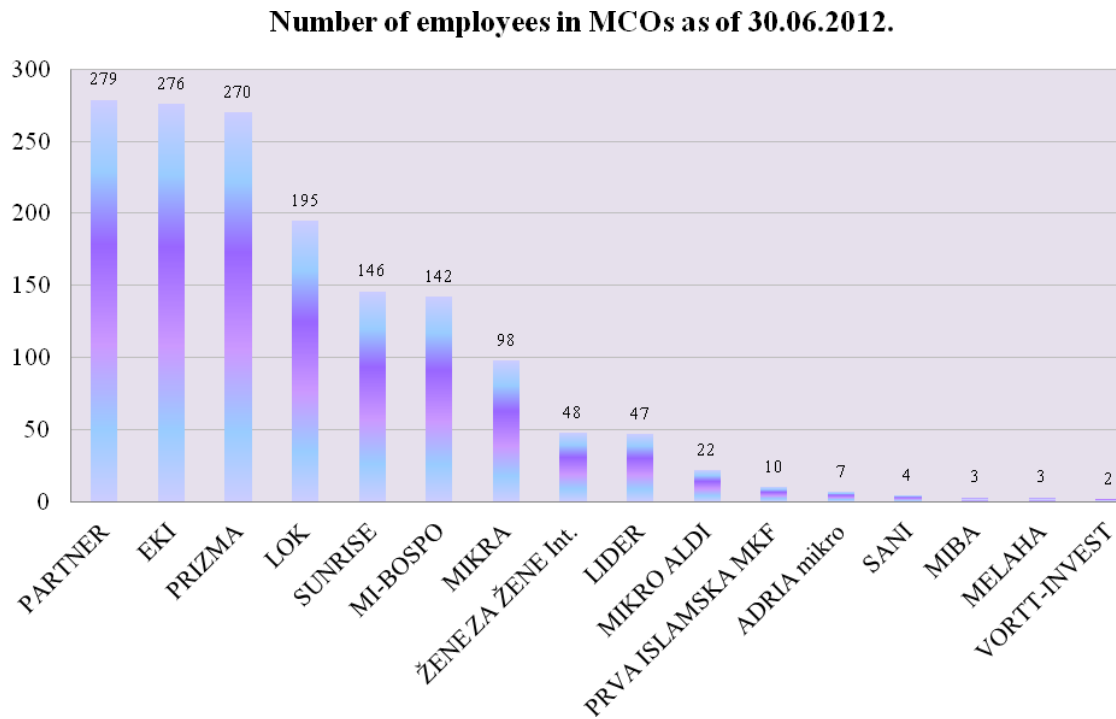
**Graph 5.**



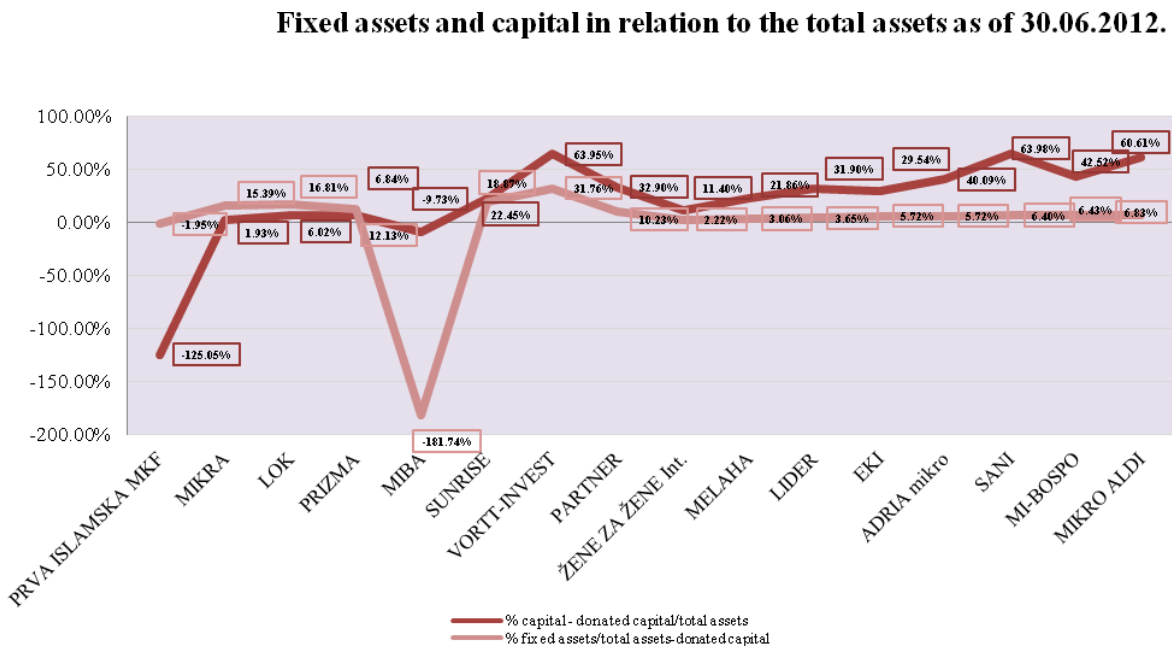
**Graph 6.**



**Graph 7.**

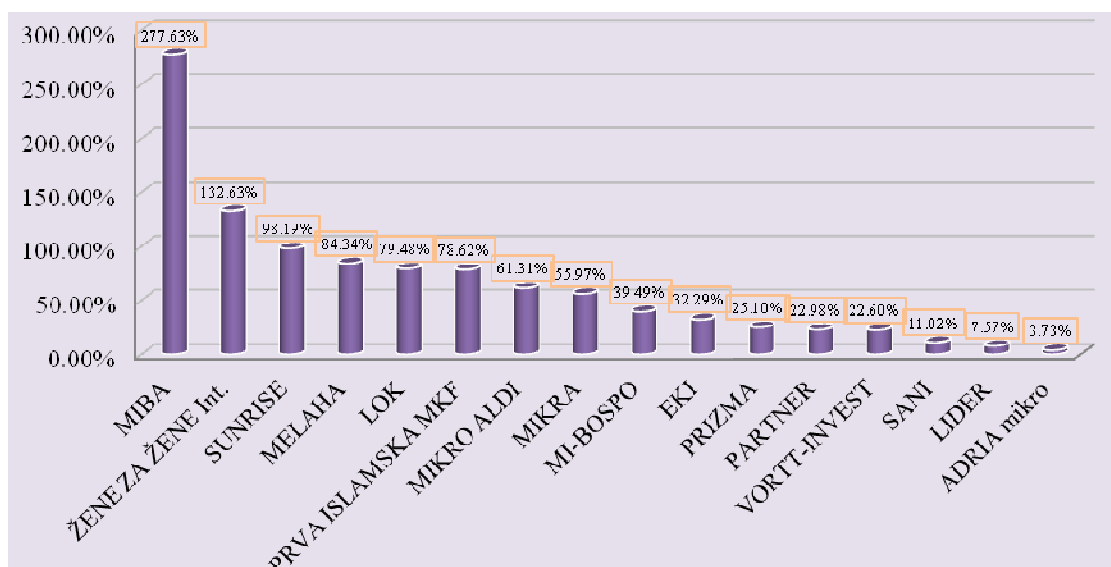


**Graph 8.**



Graph 9.

**Total receivables from written off loans in relation to the total gross portfolio of MCOs as of 30.06.2012.**



Graph 10.

**Portfolio in risk over 30 days, as of 30.06.2012.**

