



**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 30.09.2012.**

Sarajevo, November 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, 34/12 and 77/12) 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.

The direct supervision of the MCOs' performance through the enhanced and targeted examinations, - on-site examinations, is performed by the employees of the Agency who, in compliance with the internal bylaws of the Agency, fulfill the conditions for its implementation and for it have appropriate authorizations. Microcredit organizations which are the subject of the examination by the Agency, upon the coming into effect of the report, are issued orders for correction of the violations and irregularities determined during the examination of the performance, with an aim to improve the performance, the soundness and stability of the micro credit system.

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>	Official Gazette of the Federation of BiH
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;	48/12
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
11. Decision on the minimum standards for micro credit organizations in regard to prevention of money laundering and terrorism financing activities.	48/12
Agency's instructions for the business operations of MCOs	
<ol style="list-style-type: none"> 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. Key examination findings in MCOs in the period from 01.01.-30.09.2012.

In the performed examinations of the microcredit organizations it was determined that majority operates in compliance with the laws and regulations, as well as goals for which they were established. Still, in some organizations determined were significant weaknesses and irregularities in performance. The irregularities determined within nine months of 2012, mostly refer to lack of compliance with the provisions of the Law on MCOs and regulations of the Agency, specifically in regard to management of the credit and other risks, establishment and maintenance of loan loss reserves, and especially in the cases of renegotiation of loans, inadequate establishment and reporting of off-site records, inadequate accrual of past due and not past due interest, weaknesses in the procedures for processing of objections and complaints of clients and guarantors etc. All the noted had an impact on the violation of the Decision on other general conditions for MCOs performance in regard to the standards for MCOs performance prescribed by the Agency.

The examinations determined that in a smaller number of MCFs, in regard to the management of the MCFs' property, their bodies did not adhere to the good economic performance principles, or with an attention of a solid entrepreneur or expert, and that they created high, unnecessary and unjustifiable expenses which are being alimeted from high interest rates, contrary to the MCFs' foundation mission, which is granting microloans in order to improve the material position of the loan users, increase of employment and offering support to the development of the entrepreneurship.

As one of the special problems noted in the examinations of the MCOs is the question of justification of certain legal actions which are concluded by the bodies of MCFs, and which significantly burden the MCFs performance, or actions by which certain individuals are gaining benefit, usually members of the managing bodies and more often the governance bodies of MCFs, and through inappropriately high salaries, compensations and bonuses and other legal entities, damaging the property of the MCFs.

Also, noted is a disturbing pay out before due date of a large number of loans in default by clients which, simultaneously or shortly after, were granted new loans which final amount depends on receivables from the previous loan (principal, past due interest, default interest) additionally increased for the fees for the untimely payment of loans and fees for the processing of the new loan. In this manner, the clients are in a high debt which deepens the debt crises. The aim of this refinancing, performed through the tellers of the MCFs, rather than through the transaction account of the independent subjects, is exclusively reporting better performance results through decreasing the loan loss provisioning.

The Agency, within its legal framework, took all supervisory measures available and initiated needed actions in the authorized bodies, and all with and aim to sanction such incidents, and introducing the MCFs performance within legal framework in order to reach the basic goal of micro lending.

The expected changes of the Law on the MCOs will allow the Agency to take more strict and quality measures in controlling the performance of the MCOs, which will in a more efficient way put sanctions in regard to the above mentioned irregularities in the future and secure that the funds of MCOs are used for the purposes for which they are donated, and that MCFs comply with the foundation goals.

1.3. Performance trend of MCOs in BiH Federation in the nine months of 2012.

In comparison to the end of the previous year, at the end of the third 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 9,1 million KM in principal, which is 2,14% 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 third quarter of 2012, which increased by 22% in comparison to the same period 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
<i>Initial balance as of 01.01.2012.</i>	138.378	24.377	2.656	439	141.034	24.816
<i>Changes in 2012.:</i>						
<i>New write off (in the current year)</i>	8.928	2.797	146	13	9.074	2.809
<i>Collected in the current year</i>	7.574	2.203	122	19	7.695	2.222
<i>Permanent write off</i>	134	21	3	0	137	21
<i>Balance as of 30.09.2012.</i>	139.599	24.950	2.677	432	142.277	25.382

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.

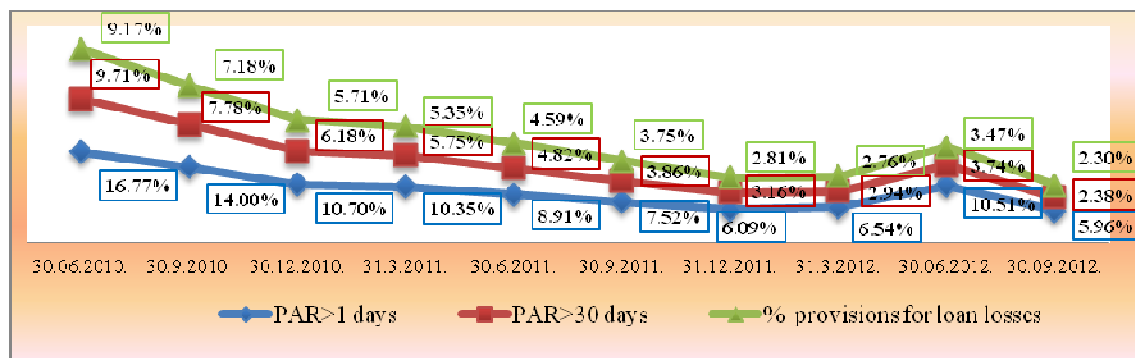
So far, the negotiations of larger MCOs in the Federation of BiH about establishing a joint company through transfer of property from microcredit foundation did not give results, and majority of MCOs see their chance in establishing a company through one of the foundations, which would multiply the number 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, do not present an environment for multiplication of the MCOs, but for a syntheses or consolidation of the sector which 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 MCOs.

The Agency in the process of the examinations orders full implementation of the MCOs regulations, as well as the implementation of the practices of a responsible lending as well realization of the mission and foundation goals of the MCO, in order to prevent and overcome the problem of excessive debt.

In comparison to the end of the previous year, with a slight increase of the microcredit portfolio of 2%, microcredit sector as of 30.09.2012. reported an improvement in the active credit portfolio quality indicators.

The improvement of the active portfolio quality is presented in the decrease of the loan losses provision rates from 2,81%, as it was on 31.12.2011, to 2,30%. The portfolio in risk over 30 days in default also decreased from 3,16% to 2,38%. The complete result of the departments in regard to the portfolio risk is within the standard prescribed by the Agency, while of 15 MCOs, 5 MCFs do not fulfill the Agency's standard in regard to the portfolio risk which must be under 5%. Portfolio in risk of over one day of default also recorded a decline, and from 6,09%, from the end of the previous year, decreased to 5,96%.

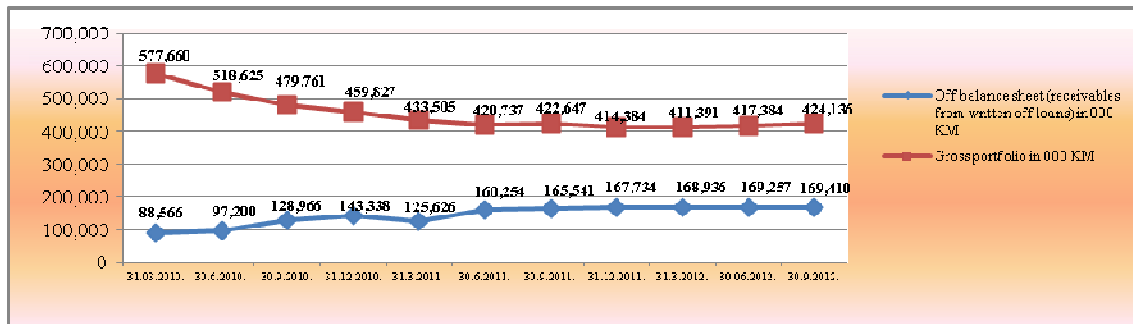
Graph 1. MCOs Active portfolio asset quality indicators



The growth of the off balance sheet, or the total receivables from written off loans, is insignificant, or it has stopped and at the end of the third quarter of 2012 was 169,4 million KM, which is 40% of the total credit portfolio.

There are significant differences in portfolio quality among the different MCOs, which is evident in the data that five MCOs have over 70% 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 4% higher than the amount of gross loans, while in one MCF the amount of written off loans is by a 56% higher than the amount of gross loans, or by 52% higher than the amount of assets), which is a direct consequence of the credit expansion in the past. Two MCFs and one MCO reported a total write off fewer than 10% of total gross portfolio.

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



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

The imperative for correcting the negative performance effects is the respect for the performance principles with a due attention of a good entrepreneur with a focus on full transparency, performance expense control and their rationalization, solid credit risk management which should result in decrease of the interest rates on microloans.

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. As 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 and for those reasons some MCOs made the decision about merger.

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 30.09.2011., there are 15 MCOs in the Federation of Bosnia and Herzegovina, of that 14 MCF (nonprofit organizations) and 1 MCF's (profit organization), as well as 27 MCCs organization units which head offices are in Republic Srpska. 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 nine months of 2012, the trend of closing of the organizational units of MCOs with head offices in the Federation stopped and as of 30.09.2012 have a total of 340 organizational units, of which in the Federation of BiH 227, Republic Srpska 110 and District Brčko 3, so the total number of the organizational units of the MCOs with the head office in the Federation of BiH decreased by 1 organizational unit in comparison to the end of the previous year. A total of 186 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 nine months of 2012, the Agency issued 8 consents for establishing organizational units of MCOs, 9 consents for the closing of organizational units of MCOs and 15 consents for changes of address of the organizational units. There are 9 MCFs that have organizational units outside of the Federation of BiH while 4 MCFs operate exclusively through their head office, in other words do not have open organizational units.

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 ¹	31.12.2011.		Total	Part. (%)	30.09.2012.		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	3	0	3	0,19	100
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	827	3	830	53,58	101
5.	VŠS	183	0	183	12,13	159	0	159	10,26	87
6.	VSS	469	4	473	31,35	518	4	522	33,70	110
7.	MR	13	0	13	0,86	19	0	19	1,23	146
TOTAL		1.501	8	1.509	100,00	1.542	7	1.549	100,00	103

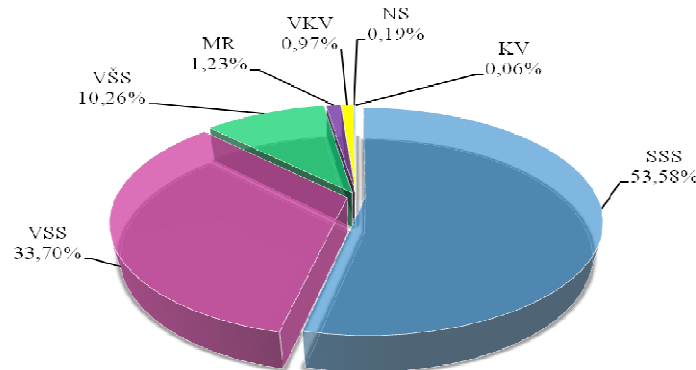
As of 30.09.2012., micro-credit sector employed a total of 1.549 employees, which is an increase by 40 in comparison to 31.12.2011 or by 3%. MCFs employ 1.542 employees or

¹ 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.

99,5%, and MCOs 7 employees or 0,5%. In the structure of employees the largest participation is of SSS of 53,58%, VSS of 33,70% and VŠS of 10,26%.

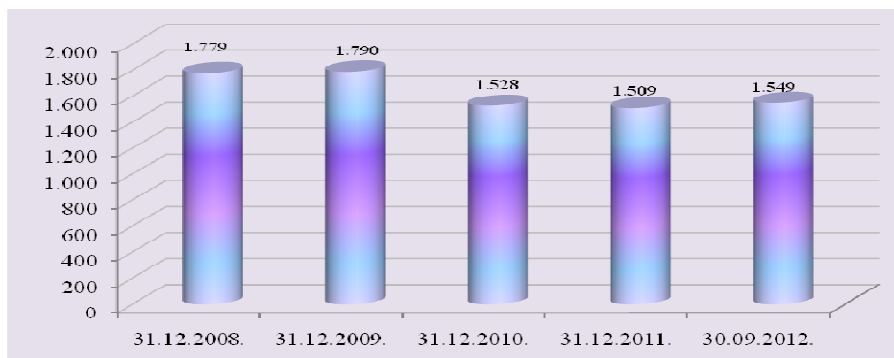
The percentage of employees with high school is increasing (by 1%), higher education (by 10%) and masters of art (by 46%), while the number of employees with VSS is decreasing (by 13%).

Graph 3. Qualification structure of employees in MCOs as of 30.09.2012.



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 30.09.2012 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 37%, and 36%.

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 30.09.2012., the MCOs balance sheet amount is 503,7 million KM and it decreased by 1,2 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 9 MCFs and 1 MCO. The decline of the balance sheet of 10% in relation to 31.12.2011 is recorded by 6 MCFs, while the decline over 10% in relation to the end of the previous year was recorded by 1 MCF and 1 MCO, 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 464,8 million KM or 92%.

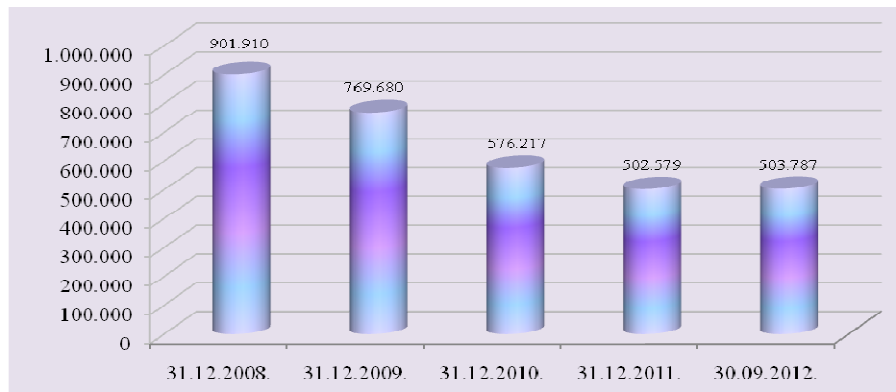
Table 3. Balance Sheet of MCOs

in 000 KM

DESCRIPTION	31.12.2011.					30.09.2012.					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
ASSETS											
1. Cash	28.973	6	270	14	29.243	28.937	6	33	2	28.970	99
2. Placements to banks	14.975	3	0	0	14.975	3.140	1	0	0	3.140	21
3. Loans	412.802		1.582		414.384	422.678		1.458		424.136	102
4. Less: reserves for loan losses	11.647		11		11.658	9.710		25		9.734	84
5. Net loans	401.155	80	1.572	80	402.727	412.968	82	1.433	90	414.402	103
6. Business premises and other fixed assets	47.838	10	75	4	47.913	47.626	9	91	6	47.717	100
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	10.696	2	35	2	10.731	118
9. Less: reserves for other assets, except loans	1.398	0	2	0	1.400	1.186		2		1.188	85
TOTAL ASSETS	500.606	100	1.973	100	502.579	502.197	100	1.590	100	503.787	100
LIABILITIES											
10. Liabilities for loans taken	330.981	66	1.175	60	332.156	319.631	64	801	50	320.432	96
11. Other liabilities	20.054	4	69	3	20.122	21.701	4	66	4	21.767	108
12. Capital	149.571	30	729	37	150.301	160.864	32	723	45	161.587	108
TOTAL LIABILITIES	500.606	100	1.973	100	502.579	502.197	100	1.590	100	503.787	100
Off balance sheet	168.222		60		168.282	169.810		55		169.865	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 30.09.2012, presents a decline of 44%. Comparing these two periods, in individual MCOs, two MCFs reported the largest decline of the balance sheet, in which it declined by a high 80% and 71% .

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



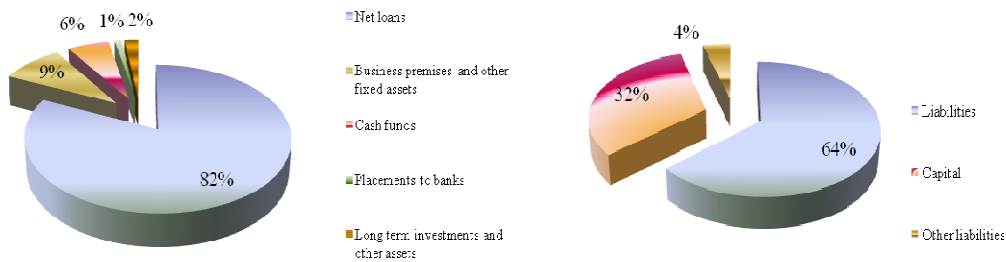
In the asset structure of MCOs, the cash funds are 29 million KM or 6% with a decline rate of 1% in comparison to 31.12.2011., and mainly relate to cash funds of MCF. Placements to banks are 3,1 million KM or 1%. Some MCFs can face with the liquidity risk, the investors are generally showing a higher 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 414,4 million KM or 82% of the total assets and increased by 11,7 million KM or 3% in comparison to 31.12.2011. The decline of net loans in comparison to the previous year as recorded by 5 MCFs and 1 MCO, while the growth is reported by 9 MCFs. In comparison to 31.12.2011, the decline of the net loans up to 10% is recorded by 2 MCFs and 1 MCC, decline over 10% is recorded by 1 MCF. Also, one MCF recorded a decline of the net loans over 23% and 1 MCF recorded a decline of over 57%.

The business premises and other fixed assets are 47,7 million KM or 9% of total assets and have declined by 196 thousand KM or 0,4% 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 10,48%, which is slightly higher than the prescribed amount, and reviewed individually, there are five MCFs which are breaching this standard.

The amount of 9,5 million KM or 2% are long term investment (15 thousand KM) and other assets (9,543 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 fewer than 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 320,4 million KM or 64% of total liabilities and decreased by 4% in comparison to 31.12.2011.

Table 4. Maturity structure of loans taken

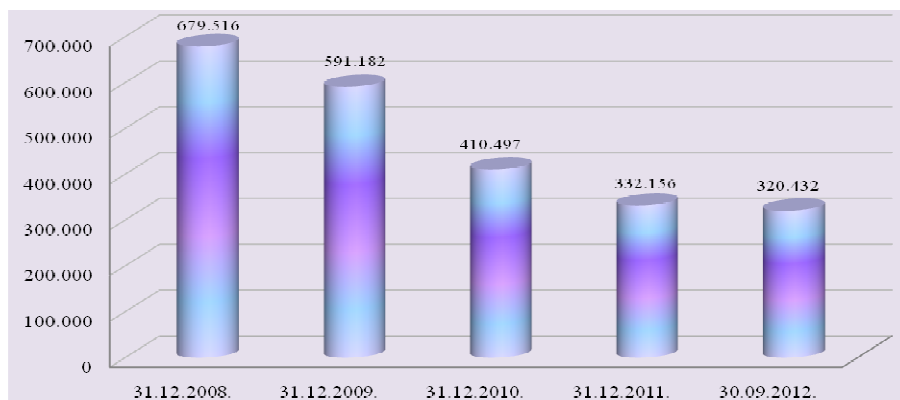
in 000 KM

DESCRIPTION	31.12.2011.				30.09.2012.				Ratio
	MCF	MCO	TOTAL	%	MCF	MCO	TOTAL	%	
1	2	3	4=(2+3)	5	6	7	8=(6+7)	9	10=8/4
1. Liabilities from short term loans taken	82.347	723	83.070	25	75.716	350	76.066	24	92
2. Liabilities from long term loans taken	248.634	452	249.086	75	243.915	451	244.366	76	98
TOTAL	330.981	1.175	332.156	100	319.631	801	320.432	100	96

Of total liabilities on loans taken, 244,3 million KM or 76% are long term loans (3 MCFs do not have them), with a decline by 2% in relation to the end of last year. Of total liabilities on loans taken 76,1 million KM or 24% are short term loans (5 MCFs do not have them), with a decline rate of 8% in comparison to the end of previous year. The liabilities from taken loans of MCFs amount to 319,6 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 30.09.2012. 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 91% and 94%, respectively. One MCF as of 30.09.2012, unlike in previous periods, did not have the liability on loans taken.

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



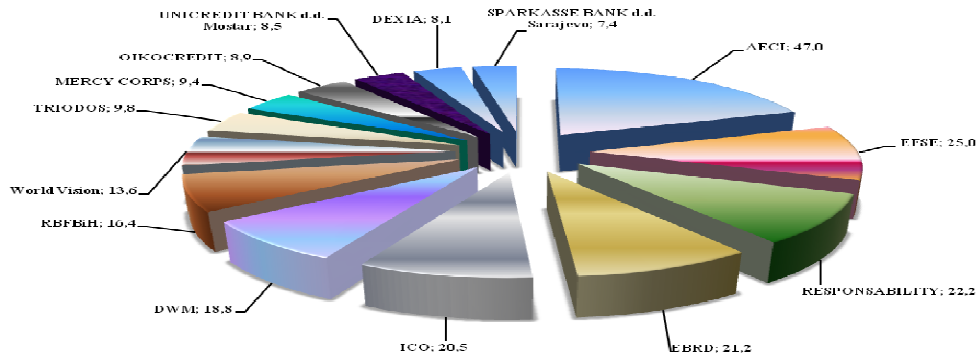
The most significant MCO creditors, with 74% of the credit liabilities, are:

- 1.) AECI – Agency for international cooperation Kingdom of Spain (47 million KM);
- 2.) EFSE – European Fund for the southeast Europe, Luxemburg (25 million KM);
- 3.) Responsibility SICAV, Switzerland (22,2 million KM);
- 4.) EBRD – European bank for reconstruction and development, Great Britain (21,2 million KM);
- 5.) ICO – Instituto de Credito Oficial, Spain (20,5 million KM);
- 6.) DWM – Developing World Markets, USA (18,8 million KM);
- 7.) Development bank of the Federation of BiH² (16,4 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.) UniCredit Bank d.d. Mostar, BiH (8,5 million KM);
- 13.) Dexia, Switzerland (8,1 million KM) and
- 14.) Sparkasse Bank d.d. Sarajevo, BiH (7,4 million KM)

One MCF has an exposure, in the first creditor, of 42%, and a high 63% in the sixth 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.

² 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 30.09.2012. (in mil. KM)



Other liabilities are 21,7 million KM or 4% of total liabilities, and they consist of liabilities towards employees, suppliers, passive time reconcilements and other. A total of 5 MCF have a percentage of other liabilities higher than 10% in relation to the total liabilities.

The off-balance sheet is 169,8 million KM, and it consists of charged off credit receivables (169,3 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 30.09.2012., was 161,6 million KM, or 32% of total liabilities and it increased by 11,3 million KM or 8% in comparison to the end of 2011. The capital of MCFs is 160,9 million MCF or 99,5%, and the capital of one MCO is 0,7 million KM or 0,5%. Four 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

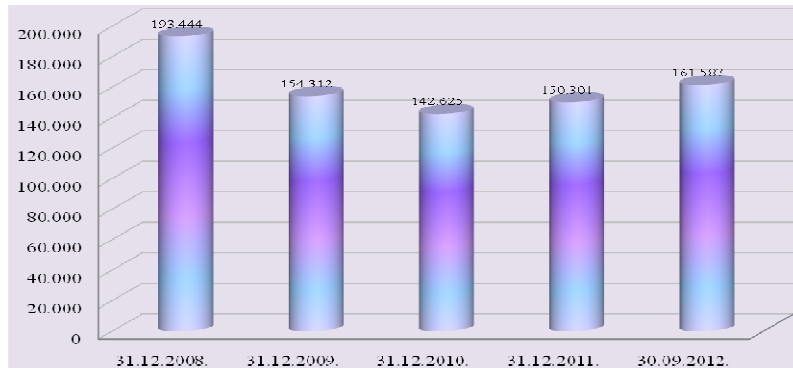
in 000 KM

DESCRIPTION	31.12.2011.					30.09.2012.					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	48.582	30	0	0	48.582	113
Core Capital	10.157	7	600	82	10.757	8.732	5	600	83	9.332	87
Surplus/deficit of income over expenses	93.411	62	0	0	93.411	100.656	63	0	0	100.656	108
Issue premium	0	0	0	0	0	0	0	0	0	0	0
Undistributed income	0	0	29	4	29	0	0	22	3	22	76
Regulatory provisions	0	0	100	14	100	0	0	101	14	101	100
Other reserves	2.942	2	0	0	2.942	2.894	2	0	0	2.894	98
TOTAL CAPITAL	149.571	100	729	100	150.301	160.864	100	723	100	161.587	108

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 30.09.2012 presents a decline of 16%.

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 67% and 77% respectively. The level of capital at the end of the third quarter of 2012 presents the largest recorded level since the end of 2009, due to the increased surplus of income over expenses realized by the MCF.

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 100,6 million KM, and constitutes 63% of total capital of MCFs, and it decreased by 7,2 million KM or 8% in comparison to the end of the last year. The deficit of income over expenses for the period of 01.01. to 30.09.2012 realized by 3 MCFs, and surplus of income over expenses 11 MCF, while one MCC realized a net profit.

Undivided profit of one MCC is 0,1 million KM or 17% of the total capital of MCC, while the core capital of the MCOs is 0,6 million KM or 83%. Still only 2 MCFs realized a surplus of income over expenses in regular operations, while one MCC realized profit from regular operations and 12 MCFs realized deficit of income over expenses. At the end of the third quarter of 2012, of those 12 MCFs, 9 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.

The significant source of capital of MCF is the donated capital which is 48,6 million KM or 30% 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 13% 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 30.09.2012, was 8,7 million KM or 5% of total capital of MCFs. Other reserves, which refer to 3 MCFs, are 3 million KM, or 2% of total capital.

3.3. Loan portfolio

The core activity of MCOs is the micro-crediting that refers to the amount of 424,1 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 422,7 million KM or 99,6% of total loans, whereas MCCs relate to 1,4 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.			30.09.2012.			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	422.678	1.458	424.136	102
2.	Loan loss reserves	11.647	11	11.658	9.710	25	9.734	83
3.	Net loans (1.-2.)	401.155	1.572	402.727	412.968	1.433	414.402	103

Net loans are 414,4 million KM and increased by 3% in comparison to 31.12.2011, while loans on gross basis also decreased by 2% in relation to the end of last year. Loan loss reserves are 9,7 million KM and have decreased by 17% in relation to 31.12.2011. The ratio of the loan loss reserves and the total loan portfolio is 2,3%, and has improved by 0,51 percent points 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 30.09.2012 presents a decline of a high 49%. 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 79% respectively.

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

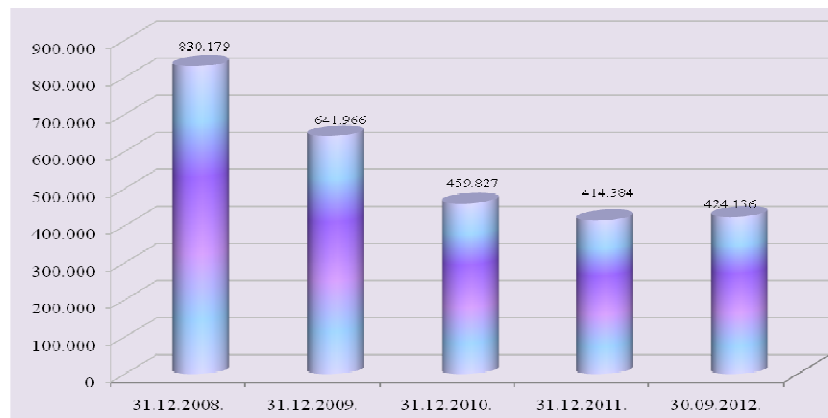


Table 7. Department and maturity structure of micro loans of MCOs as of 30.09.2012.

in 000 KM

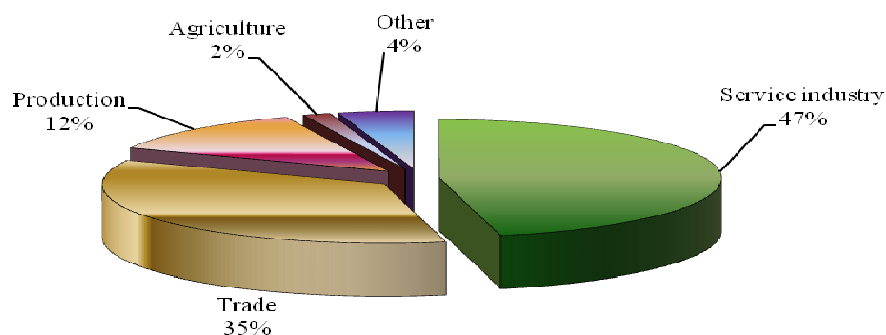
No.	Micro-credits	Short term loans	Long term loans	Past due receivables	TOTAL	%
1	2	3	4	5	6=(3+4+5)	7
1.	Legal entities					
a.)	Service industry	1.290	3.496	46	4.832	47%
b.)	Trade	1.235	2.327	88	3.650	35%
c.)	Agriculture	38	124	3	165	2%
d.)	Production	506	775	11	1.292	12%

e.)	Other	108	324	17	449	4%
TOTAL 1:		3.177	7.046	165	10.388	100%
2.	Individuals					
a.)	Service industry	8.358	90.336	1.165	99.859	24%
b.)	Trade	5.577	45.969	690	52.236	13%
c.)	Agriculture	9.266	134.116	937	144.319	35%
d.)	Production	1.448	21.490	248	23.186	5%
e.)	Housing needs	3.105	46.543	283	49.931	12%
f.)	Other	12.218	31.332	667	44.217	11%
TOTAL 2:		39.972	369.786	3.990	413.748	100%
TOTAL (1+2):		43.149	376.832	4.155	424.136	

According to the department structure of the micro-credits 10,4 million KM or 2% of total loans are granted to the legal entities, and 413,7 million or 98% to individuals.

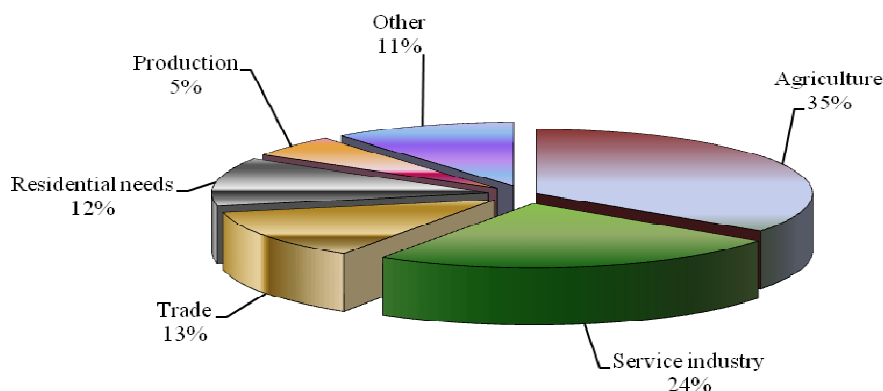
In the maturity structure of the micro-credits, short term loans, which include the past due receivables, are 47,3 million KM or 11%, and long term loans are 376,8 million KM or 89%. The past due receivables alone are 4,2 million KM or 1% of the total loans and almost entirely refer to loans to individuals.

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 4,8 million, or 47%, and trade 3,6 million KM or 35%. For production allocated is 1,3 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 4% for other purposes.

Graph 12. Sector structure of microcredit loans granted to individuals



In regard to loans to **individuals**, 144,3 million KM or 35% was granted to agriculture, then 99,8 million KM or 24% for service industry, whereas 52,2 million KM or 13% was granted the sector of trade, for housing needs 50 million KM or 12%, and for production 23,2 million KM or 5%, and for other 44,2 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.

In relation to the end of the previous year, the percentage of loans granted to individuals in service industry and agriculture is 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 30.09.2012:

Table 8. Report on amount and manner of establishing the reserves for loan losses as 30.09.2012.

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%	398.841	0%	37	267	0	0	0	0
2.	1 – 15	2%	6.177	2%	125	0	124	2	0	126
3.	16 – 30	15%	9.028	100%	166	0	1.354	166	0	1.520
4.	31 – 60	50%	3.310	100%	176	0	1.655	176	0	1.831
5.	61 – 90	80%	1.960	100%	147	0	1.568	147	0	1.715
6.	91 – 180	100%	4.820	100%	693	0	5.034	697	0	5.730
TOTAL			424.136		1.343	267	9.734	1.188	0	10.922

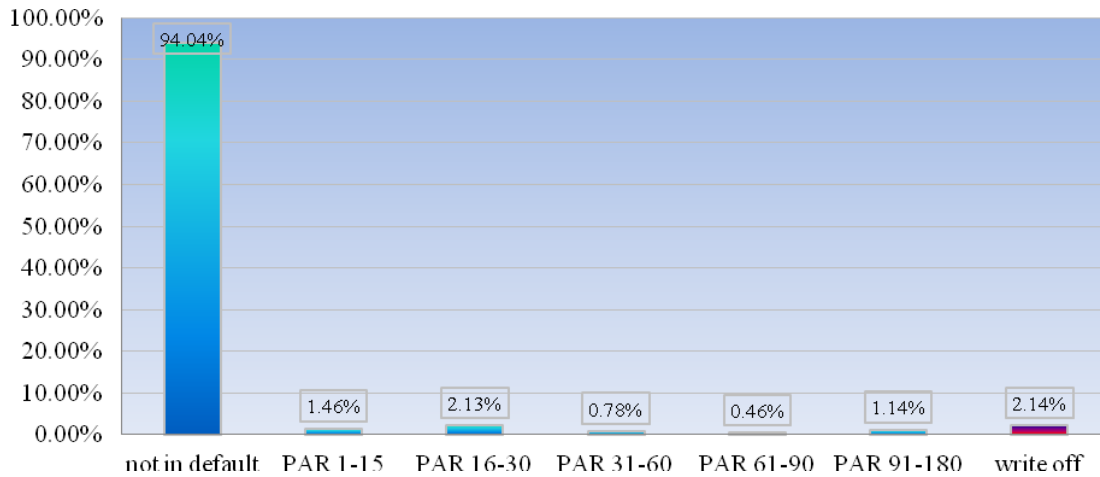
7.	over 180	Write off	9.074	100%	2.809					
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Defaults in payment of longer than one day have loans in the amount of 25,3 million KM. The rate for the loans in default of more than one day, at the end of the third quarter of 2012, is 5,96%, and recorded a decrease in relation to the end of previous year by 0,13 percent points.

The total amount of past due interests on active loans that have a default longer than one day is 1,3 million KM.

Total amount of accrued reserves on all bases is 11 million KM and have declined by 16% in comparison to 31.12.2011, while the write off in the six months of 2012 was 9,1 million KM in principal and 2,8 million KM in interest.

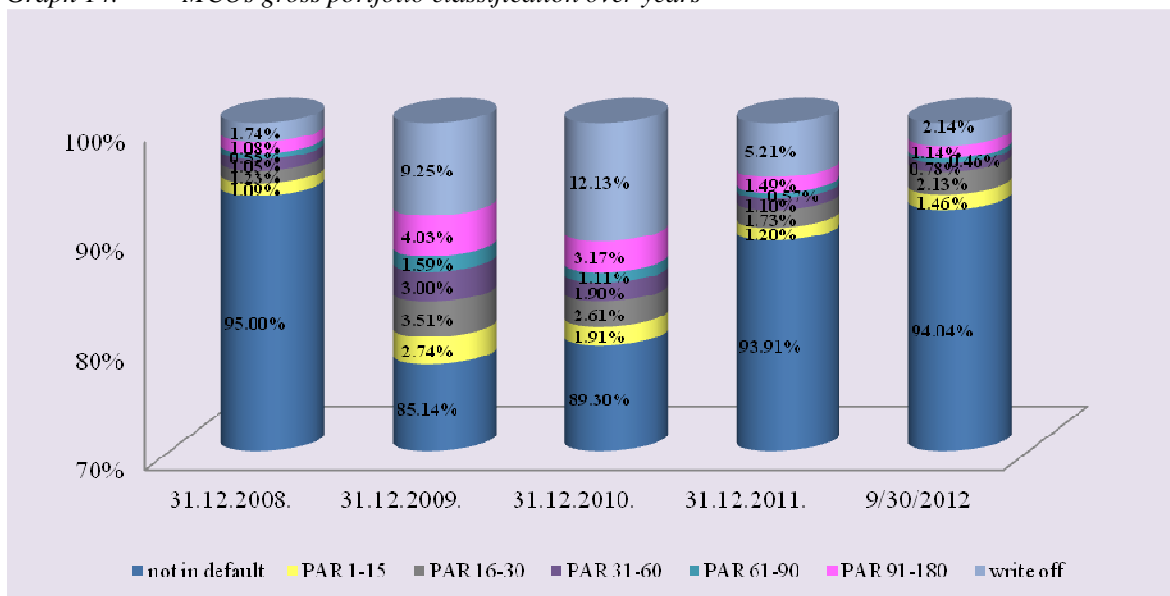
Graph 13. MCOs portfolio asset quality as of 30.09.2012.



In comparison with the previous years of the MCOs performance, in spite the microcredit portfolio decline, the micro credit sector as of 30.09.2012 is showing a deterioration in the quality of the active credit portfolio.

The improvement of the active credit portfolio quality is reflected in the increase of the loan loss reserves rate from 2,81%, as of 31.12.2011, to 2,30%. The portfolio in the risk of over 30 days delinquency also decreased from 3,16% to 2,38%. The total result of the sector in regard to the risk portfolio, is within the standards prescribed by the Agency, while 15 MCOs, 5 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 also recorded a decline and from 6,09% (at the end of the previous year) decreased to 5,96%. In the nine months of 2012, MCOs wrote off 9,1 million KM of principal, which makes 2,14% 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 30.09.2012, according to the reports of the MCOs in the Federation of BiH, 6.578 guarantors repaid 3,2 million KM of the total granted amount of loans of 37,8 million KM (5.954 credit units), which is by 23% less 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). The significant decrease of the number of guarantors who pay loans of others of almost by one fourth is a result of an incorrect reporting of data in certain MCOs in the previous years.

Of the total number of loan units, paid by the guarantor are 2,82% 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 0,8%. Of 15 MCOs, one MCF does 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 (11,32% and 10,42%).³

As of 30.09.2012., the balance of the remaining debt paid by the guarantors is 10,9 million KM, that is 2,57% of gross loans of MCOs in comparison to 31.12.2011, the participation of the remaining debt in the gross portfolio declined by 0,3 percent points. (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).

Based on the reports of MCOs, in compliance with the Decision on the conditions and manner in which the microcredit organizations act in regard to the clients' complaints („Official Gazette of the Federation of BiH“, Number: 32/10), in the period from 01.07.-30.09.2012, the MCOs' clients filed a total of 94 complaints, and all refer to complaints towards the MCFs. Of 14 MCFs with a license for operations from the Agency, 8 do not have recorded complaints, and one MCO.

The largest number of complaints, based on the complaints, refers to the accrual of interest, a total of 44 complaints, then from the category „other“, of which there are a total of 38 complaints, based on the changes in the lending conditions, a total of 8 complaints, and based on the fees for the lending operations, a total of 4 complaints. Guarantors filed 48, clients 27, and other interested parties 19 complaints. MCF resolved in a positive manner 29 complaints, negatively 23, while 42 complaints are being processed or in the resolution.

³ Note: One MCF submitted an incomplete report as of 30.09.2012, therefore for this MCF included is the data on total number of credit units from the previous quarter.

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 3rd quarter of 2012 – through products

No.	DESCRIPTION	Weighted nominal interest rate (average)	Weighted effective interest rate (average)
1.	Short term loans for:		
1.1.	Service industry	26,63%	34,52%
1.2.	Trade	25,23%	32,71%
1.3.	Agriculture	25,00%	33,00%
1.4.	Production	24,58%	30,52%
1.5.	Housing needs	21,15%	27,58%
1.6.	General purpose – basic needs	27,56%	36,44%
1.7.	Other	26,30%	35,41%
2.	Long term loans for:		
2.1.	Service industry	28,38%	33,70%
2.2.	Trade	28,81%	33,93%
2.3.	Agriculture	21,88%	25,48%
2.4.	Production	24,65%	28,48%
2.5.	Housing needs	21,52%	25,01%
2.6.	General purpose - basic needs	28,25%	36,03%
2.7.	Other	26,70%	32,43%

For short term loans, average nominal interest rates are in the range between 21,15% for housing needs to 27,56% for general purpose loans, and for the effective interest rate in the range of 27,58% for housing needs to 36,44% for general purpose loans.

For long term loans, the average nominal interest rates are in the range between 21,52% for housing needs to 28,81% for trade, and effective interest rate in the range of 25,01% for housing needs to 36,03% for general purpose loans.

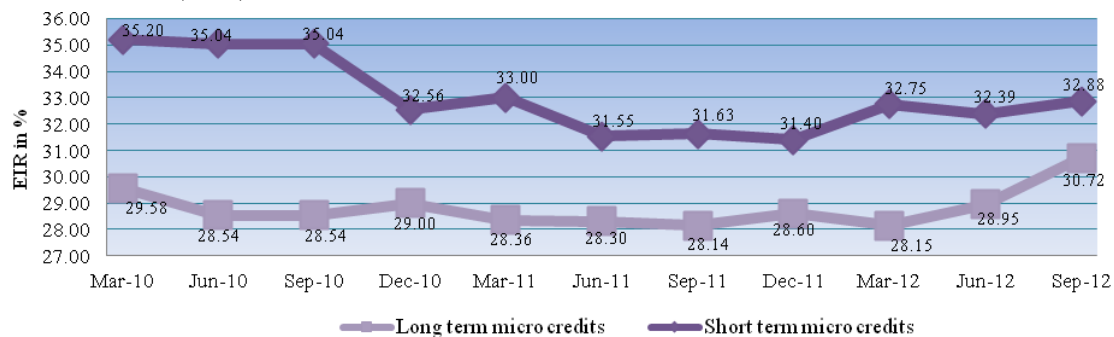
Based on the analyses of the MCOs' interest rates on lending products it can be concluded that the cheapest loans are granted to agriculture activities, and the most expensive are general purpose loans, loans for basic needs.

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 % for	2010.				2011.				2012.		
	31.03.	30.06.	30.09.	31.12.	31.03.	30.06.	30.09.	31.12.	31.03.	30.06.	30.09.
Short term micro-credits	35,20	35,04	35,04	32,56	33,00	31,55	31,63	31,40	32,75	32,39	32,88
Long term micro-credits	29,58	28,54	28,54	29,00	28,36	28,30	28,14	28,60	28,15	28,95	30,72

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



At the end of the third quarter of 2012, the average effective interest rates in the microcredit sector on the long term loans recorded a significant incline (by 2,12%) in comparison to 31.12.2011, while the average effective interest rates on the short term loans are also increasing (by 1,48 percent points).

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.

Since one MCF in the third quarter granted 32% of loans of the total quarterly placements of the sector with an average effective interest rate on total loans of over 37%, the data of this MCF significantly influence the average of interest rates in the microcredit system.

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. - 30.09.2011.				For the period 01.01. - 30.09.2012.				Ratio
		MCF	MCO	Total	%	MCF	MCO	Total	%	
1	2	1	2	3=(1+2)	4	5	6	7=(5+6)	8	9=(7/3)
1.	INTEREST INCOME AND SIMILAR TYPES OF INCOME									
1.1.	Interest income and similar types of income	68.786	248	69.034	92	66.309	280	66.589	89	96
1.2.	Operating income	6.140	44	6.184	8	8.094	41	8.135	11	132
2.	TOTAL INCOME (1.1.+1.2.)	74.926	292	75.218	100	74.403	321	74.724	100	99
3.	EXPENSES									
3.1.	Income expenses and similar expenses	17.082	50	17.132	22	14.554	58	14.612	19	85
3.2.	Operating expenses	50.379	231	50.610	65	53.438	234	53.672	70	106
3.3.	Expenses for reserves for loan and other losses	10.219	5	10.224	13	8.310	25	8.335	11	82
4.	TOTAL EXPENSES (3.1.+3.2.+3.3.)	77.680	286	77.966	100	76.302	316	76.619	100	98
5.	EXTRAORDINARY INCOME	11.176	33	11.209		13.704	19	13.723		122
6.	EXTRAORDINARY EXPENSES	738	0	738		985	1	986		134
7.	TOTAL INCOME -EXPENSES (2+5-4-6)	7.684	39	7.723		10.820	22	10.842		140
8.	SURPLUS/DEFICIT OF INCOME OVER EXPENSES	7.684		7.684		10.820		10.820		141
9.	INCOME BEFORE TAXES		39	39			22	22		
10.	TAXES		4	4			2	2		
11.	NET INCOME/LOSS		35	35			20	20		
12.	TOTAL FINANCIAL RESULT			7.719				10.840		

The total income of MCOs for the period of 01.01. - 30.09.2012., is 74,7 million KM, of which 74,4 million KM or 99,6% refers to income of MCFs, and 0,3 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 0,5 million KM, or 1%.

The core income is interest income and it is 66,6 million KM or 89% of total income and in relation to the same period of previous year the interest income is in decline by 2,4 million KM or 4% while operating expenses are 8,1 million KM or 11% of total income and in relation to the same period last year increased by 1,9 million KM, or 32%.

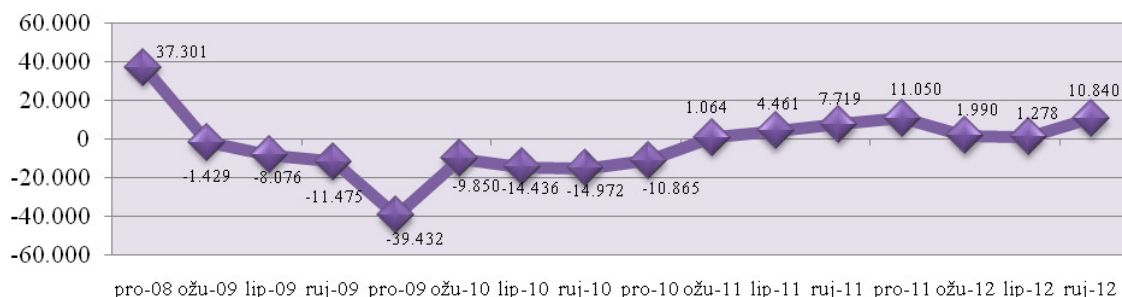
The total expenses are 76,6 million KM, of which 76,3 million or 99,6% relates to expenses of MCF, and 0,3 million KM or 0,4% to expenses of one MCC. In relation to the same period of last year the total expenses have increased by 1,3 million KM or 2%.

In the structure of expenses, 14,6 million KM or 19% of total expenses are expenses related to interests on acquired loans and other similar expenses, and have decreased by 2,5 million KM or 15% in regard to the same period of last year. Operational expenses are 53,7 million KM or 70% of total expenses and in relation to the same period of last year increased by 3,1 million KM or 6%. The operating expenses refer to expenses of salaries and contributions in the amount of 29,6 million KM (01.01. – 30.09.2011: 27,9 million KM), expenses related to the business premises, other fixed assets and utilities 12,6 million KM (01.01.-30.09.2011: 13,2 million KM), and other operating expenses in the amount of 11,5 million KM. (01.01.-30.09.2011.: 9,5 million KM). The expenses related to the reserves for loan losses and other losses are 8,3 million or 11% of total expenses, and in comparison to the same period last year decreased by 1,9 million KM or 18%.

In the period from 01.01 to 30.09.2012, the extraordinary income of MCOs was 13,7 million KM and in comparison to the same period last year was higher by 2,5 million KM, which is by 22%. Over 90% of extraordinary income, refers to the collection of receivables from written off loans. The extraordinary expenses of MCOs, realized during 2012, were 986 thousand KM, and in comparison to the same period last year they increased by 248 thousand KM that is 34%.

For the period of 01.01.-30.09.2012., the net income of one MCC was 20 thousand KM (01.01. – 30.09.2011.: 35 thousand KM). In this period MCF realized a surplus of income over expenses in a total amount of 10,820 thousand KM, while in the same period of last year the MCFs realized a deficit of income over expenses in a total amount of 7,684 thousand KM. In the period from 01.01 to 30.09.2011, of total 14 MCFs, 3 MCFs had a deficit of income over expenses in a total amount of 81 thousand KM, and 11 MCF realized an income surplus in the total amount of 10,901 thousand KM.

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



Note: pro – December, ožu – March, lip – June, ruj - September

On the level of the microcredit sector in the Federation of BiH, there is realized a positive financial result in the amount of 10,840 thousand KM, which is by 3,121 thousand KM or 40% higher than in comparison to the same period last year.

4. CONCLUSION AND RECOMMENDATIONS

Analyzing the reports of MCOs as of 30.09.2012., we can conclude the following:

- As of 30.09.2012, the MCOs employ a total of 1,549 employees, which is by 40 employees or 3% more than as of 31.12.2011.
- Aggregate balance sheet of MCOs as of 30.09.2012. is 503,7 million KM, of which 502,2 million KM refers to MCFs or 99,7%, and 1,5 million KM to MCOs or 0,3% of the total balance sheet of MCOs;
- At the end of the third quarter of 2012, the aggregate balance sheet of MCOs increased by 1,2 million KM or 0,2% in comparison to 31.12.2011;
- The total gross loans of MCOs as of 30.09.2012. are 424,1 and are 84% of total assets of MCOs, and net loans are 414,4 million KM. The loans on gross base increased by 2% in comparison to 31.12.2011;
- The basic source of funds for MCOs are liabilities on acquired loans that, as of 30.09.2012., are 320,4 million KM or 64% of total liabilities of MCOs and decreased by 4% in comparison to 31.12.2011;
- The total capital of MCOs as of 30.09.2012., is 161,6 million KM or 32% of total liabilities of MCOs which is by 8% higher in comparison to the previous year, of which the capital of MCF is 160,9 million KM, and capital of one MCO is 0,7 million KM. The most significant items of capital of MCFs are the surplus of income over expenses in the amount of 100,6 million KM, which constitutes 63% of the total capital of MCF, then the donated capital which is 48,6 million KM or 30% of total capital of MCF, while one MCO does not have donated capital. The core capital and other reserves of MCFs are 11,7 million KM, or 7% of total capital of MCF. The undivided profit and reserves of one MCO are 0,1 million KM or 17% of total capital of MCOs, while the core capital is 600 thousand KM or 83% of total capital of MCOs.
- In the period from 01.01. to 30.09.2012, the 11 MCFs realized a surplus in income over expenses in the amount of 10,901 thousand KM, while the deficit of income over expenses was realized by 3 MCFs in the amount of 81 thousand KM, which means that MCFs as of 30.09.2012., performed with a surplus income over expenses in the total amount of 10,820 thousand KM. One MCO, in the period from 01.01. – 30.09.2012, realized a net profit in the amount of 20 thousand KM, which means that a positive financial result in the amount of 10,840 thousand KM was realized on the level of the micro credit sector in the Federation of BiH, which is by 40% more than in the same period previous year.

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;

- Increase the responsibility of the managing boards, securing independence from management as well as control of management by the management boards;
- Establishment of the control mechanisms for project justifications and materially significant performance expenses, including the salaries and bonuses for the management, as well as the representation expenses which are being financed with the foundations' funds, or which are directly alimented with high interest rates;
- Establishment of internal audit, completely independent from the MCO's management which will supervise the management segment, also, and regularly report about it to the management board;
- Approving the policy for determining the microcredit prices;
- The management of the MCOs, especially MCFs, needs to work on reducing 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;
- Decrease of interest rates on micro loans;
- 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;
- Improvement of the internal audit and internal control system, improvement of the performance efficiency and optimization of the resources of MCOs and implementation of the responsible lending principle;
- Obligatory exchange of information on the level of department and the Central credit registry;
- Implementing all actions needed in order to resolve the problem of clients and creditors with too much debt;
- Improving the institutional capacity and
- Complete implementation of the regulations that are in effect and increase of the transparency in performance.

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 o.	Micro-credit organization name	Address and main office	Director	Tel/Fax	E-mail and Web	30.09.2012.		
						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 88 000 MOSTAR	Sena Martina Topić	036/ 348-891, 348-890 fax	adria.mikro@tel.net.ba	1.590	723	7
2.	MKF "EKI" Sarajevo	ul. Džemala Bijedića bb 71 000 SARAJEVO	Sadina Bina	033/ 754-370, 754-388 fax	sbina@mkoeki.com www.mkoeki.com	103.052	38.989	272
3.	MKF "LIDER" Sarajevo	ul. Turhanija 2 71 000 SARAJEVO	Džavid Sejfović	033/ 250-580, 250-581 fax	dzavids@lider.ba www.lider.ba	10.864	10.502	48
4.	"LOK MKF" Sarajevo	ul. Skenderija 13 71 000 SARAJEVO	Nusret Čaušević	033/ 564-200, 564-201 fax	central.office@lok.ba www.lok.ba	64.674	5.460	192
5.	MKF "MELAHA" Sarajevo	ul. Hamdije Kreševljakovića 59 71 000 SARAJEVO	Iso Abinun	033/ 205-737 tel/fax	iso@melaha.ba	990	247	3
6.	MKF "MI-BOSPO" Tuzla	ul. Bosne srebrene bb 75 000 TUZLA	Nejira Nalić	035/ 270-283, 252-448 fax	mi-bospo@mi-bospo.org www.mi-bospo.org	30.366	15.899	141
7.	MKF "MIKRA" Sarajevo	ul. Marka Marulića 2/VI 71 000 SARAJEVO	Sanin Čampara	033/ 616-162, 717-141 fax	mikra@mikra.ba www.mikra.ba	15.876	4.445	97
8.	MKF "MIKRO ALDI" Goražde	ul. Panorama bb 73 000 GORAŽDE	Ferida Softić	038/ 226-456, 221-004 fax	mka.aldi@bih.net.ba www.mikroaldi.org	3.589	3.044	21
9.	"PARTNER MKF" Tuzla	ul. 15. maja bb 75 000 TUZLA	Senad Sinanović	035/ 300-250, 300-269 fax	partner@partner.ba www.partner.ba	112.067	43.963	278
10.	MKF "PRIZMA" Sarajevo	ul. Bistrik Medresa 43 71 000 SARAJEVO	Jure Žigo	033/ 573-320, 446-583 fax	hq@prizma.ba www.prizma.ba	122.518	22.394	283
11.	"PRVA ISLAMSKA MKF" Sarajevo	ul. Jukićeva 75 71 000 SARAJEVO	Edina Hadžimurtezić	033/ 666-233, 666-224 fax	info@mfi.ba	1.738	1.441	9
12.	MKF "SANI" Zenica	ul. Mehmedalije Tarabara 10 72 000 ZENICA	Sulejman Haračić	032/ 405-606 tel/fax	mikrosanizenica@yahoo.com	440	275	4
13.	MKF "SUNRISE" Sarajevo	ul. Hamdije Kreševljakovića 51 71 000 SARAJEVO	Zoran Dučić	033/ 278-020, 278-032 fax	sunrise@microsunrise.ba www.microsunrise.ba	32.137	11.306	147
14.	MKF "VORTT-INVEST" Sarajevo	ul. Azize Šaćirbegović 128 71 000 SARAJEVO	Mustafa Kapić	033/720-949, 720-941 fax	vorttdoo@yahoo.com	204	127	2
15.	MKF "ŽENE ZA ŽENE International" Sarajevo	ul. Džemala Bijedića 130 71 000 SARAJEVO	Seida Sarić	033/ 770-010, 770-012 fax	general@zenezazene.ba www.womenforwomen.org	3.682	2.772	45
TOTAL						503.787	161.587	1.549

Attachment 2.

BALANCE SHEET OF MCFs*in 000 KM*

No.	DESCRIPTION	31.12.2011.	%	30.09.2012.	%	Ratio
1	2	3	4	5	6	7=5/3
ASSETS						
1.	Cash (1a+1b)	28.973	6	28.937	6	100
1a)	Cash and noninterest –bearing deposit accounts	20.935	4	24.283	5	116
1b)	Interest-bearing deposit accounts	8.038	2	4.654	1	58
2.	Placement to banks	14.975	3	3.140	1	21
3.	Loans	412.802		422.678		102
3a)	Reserves for loan losses	11.647		9.710		83
3b)	Net loans (3-3a)	401.155	80	412.968	82	103
4.	Premises and other fixed assets	47.838	10	47.626	9	100
5.	Long term investments	15	0	15	0	100
6.	Other assets	9.048	2	10.696	2	118
7.	Less: reserves for other items of the assets, except loans	1.398		1.186		85
8.	TOTAL ASSETS	500.606	100	502.197	100	100
LIABILITIES						
9.	Liabilities on taken short term loans	82.347	16	75.716	15	92
10.	Liabilities on taken long term loans	248.634	50	243.915	49	98
11.	Other liabilities	20.054	4	21.701	4	108
12.	TOTAL LIABILITIES	351.035	70	341.332	68	97
13.	Donated capital	43.061		48.582		113
14.	Core capital	10.157		8.732		86
15.	Surplus of income over expenses	114.647		125.427		109
15a)	For previous years	102.577		114.517		112
15b)	For current year	12.070		10.910		90
16.	Deficit of income over expenses	21.236		24.771		117
16a)	For previous years	20.330		24.690		0
16b)	For current year	906		81		9
17.	Other reserves	2.942		2.894		98
18.	TOTAL CAPITAL	149.571	30	160.864	32	108
19.	Liabilities on taken short term loans	500.606	100	502.197	100	100
OFF BALANCE SHEET						
	- written off loans	167.674		169.355		101
	- agent contracts	548		455		83

Attachment 3.

BALANCE SHEET OF MCOs

In 000 KM

No.	DESCRIPTION	31.12.2011.	%	30.09.2012.	%	Ratio
1	2	3	4	5	6	7=5/3
ASSETS						
1.	Cash (1a+1b)	270	14	33	2	12
1a)	Cash and noninterest –bearing deposit accounts	270	14	33	2	12
1b)	Interest-bearing deposit accounts	0	0	0	0	0
2.	Placements to banks	0	0	0	0	0
3.	Loans	1.582		1.458		92
3a)	Reserves for loan losses	11		25		237
3b)	Net loans (3-3a)	1.572	80	1.433	90	91
4.	Premises and other fixed assets	75	4	91	6	121
5.	Long term investments	0	0	0	0	0
6.	Other assets	57	3	35	2	0
7.	Less: reserves for other items of the assets, except loans	2		2		0
8.	TOTAL ASSETS	1.973	100	1.590	100	81
LIABILITIES						
9.	Liabilities on taken short term loans	723	37	350	22	48
10.	Liabilities on taken long term loans	452	23	451	28	
11.	Other liabilities	69	3	66	4	96
12.	TOTAL LIABILITIES	1.244	63	868	55	70
13.	Donated capital	0		0		0
14.	Core capital	600		600		100
15.	Issue premium	0		0		0
16.	Undistributed profit (16a+16b)	29		22		76
16a)	Previous years	0		0		0
16b)	Current year	29		22		76
17.	Regulatory reserves	100		101		
18.	Other reserves	0		0		0
19.	TOTAL CAPITAL	729	37	723	45	99
20.	TOTAL LIABILITIES	1.973	100	1.590	100	81
OFF BALANCE SHEET						
	- written off loans	60		55		91
	- agent contracts	0		0		0

Attachment 4.

INCOME STATEMENT OF MCFs

in 000 KM

No.	DESCRIPTION	For the period 01.01. - 30.09.2011.	%	For the period 01.01. - 30.09.2012.	%	Ratio
1	2	3	4	5	6	7=(5/3)
I	FINANCIAL INCOME AND EXPENSES					
1.	Interest income and similar income					
1.1.	Interest from interest bearing deposit accounts with depositary institutions	40	0	71	0	177
1.2.	Interest from placements to banks	963	1	203	0	21
1.3.	Loan interest	67.157	98	65.385	99	97
1.4.	Other financial income	626	1	651	1	104
1.5.	Total interest income and similar income (1.1. to 1.4.)	68.786	100	66.309	100	96
2.	Interest expenses and similar expenses					
2.1.	Interest on borrowings	16.598	97	13.884	95	84
2.2.	Other financial expenses	484	3	670	5	138
2.3.	Total interest expenses and similar expenses (2.1. to 2.2.)	17.082	100	14.554	100	85
3.	Net financial income (1.5. - 2.3.)	51.704		51.755		100
II	OPERATING INCOME AND EXPENSES					
4.	Operating income					
4.1.	Fees for completed services	5.592	91	7.212	89	129
4.2.	Other operating income	548	9	882	11	161
4.3.	Total operating income (4.1. to 4.2.)	6.140	100	8.094	100	132
5.	Operating expenses					
5.1.	Cost of salaries and benefits	27.825	55	29.447	55	106
5.2.	Costs of business premises, other fixed assets and utilities	13.119	26	12.564	24	96
5.3.	Other operating expenses	9.435	19	11.427	21	121
5.4.	Total operating expenses (5.1.to 5.3.)	50.379	100	53.438	100	106
6.	Cost of provisioning for loan and other losses	10.218		8.310		81
7.	Surplus/deficit of income over expenses from direct business operations (3.+4.3.-5.4.-6.)	-2.753		-1.899		69
8.	Extraordinary income	11.176		13.704		123
9.	Extraordinary expenses	739		985		133
10.	Surplus/deficit of income over expenses (7.+8.-9.)	7.684		10.820		141

Attachment 5.

INCOME STATEMENT OF MCOs

in 000 KM

No.	DESCRIPTION	Period 01.01. - 30.09.2011.	%	Period 01.01. - 30.09.2012.	%	Ratio
1	2	3	4	5	6	7=(5/3)
I	FINANCIAL INCOME AND EXPENSES					
1.	Interest income and similar income					
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	246	99	278	99	113
1.4.	Other financial income	2	1	2	1	111
1.5.	Total interest income and similar income (1.1. to 1.4.)	248	100	280	100	113
2.	Interest expenses and similar expenses					
2.1.	Interest on borrowings	49	96	53	92	108
2.2.	Other financial expenses	2	4	5	8	242
2.3.	Total interest expenses and similar expenses (2.1. to 2.2.)	51	100	58	100	114
3.	Net financial income (1.5. - 2.3.)	197		222		113
II	OPERATING INCOME AND EXPENSES					
4.	Operating income					
4.1.	Fees for completed services	18	41	41	100	227
4.2.	Other operating income	26	59	0	0	0
4.3.	Total operating income (4.1. to 4.2.)	44	100	41	100	93
5.	Operating expenses					
5.1.	Costs of salaries and benefits	87	38	142	61	163
5.2.	Costs of business premises, other fixed assets and utilities	75	32	60	25	80
5.3.	Other operating expenses	69	30	32	14	47
5.4.	Total operating expenses (5.1. to 5.3.)	231	100	234	100	101
6.	Cost of provisioning for loan and other losses	5		25		500
7.	PROFIT/LOSS FROM DIRECT BUSINESS OPERATIONS (3.+4.3.-5.4.-6.)	5		4		86
8.	Extraordinary income	34		19		55
9.	Extraordinary expenses	0		1		n/a
10.	INCOME/LOSS BEFORE TAXES	39		22		56
11.	TAXES	4		2		55
12.	NET PROFIT/LOSS	35		20		56

Attachment 6.

REVIEW OF THE DONATED CAPITAL OF MCFs as of 30.09.2012.

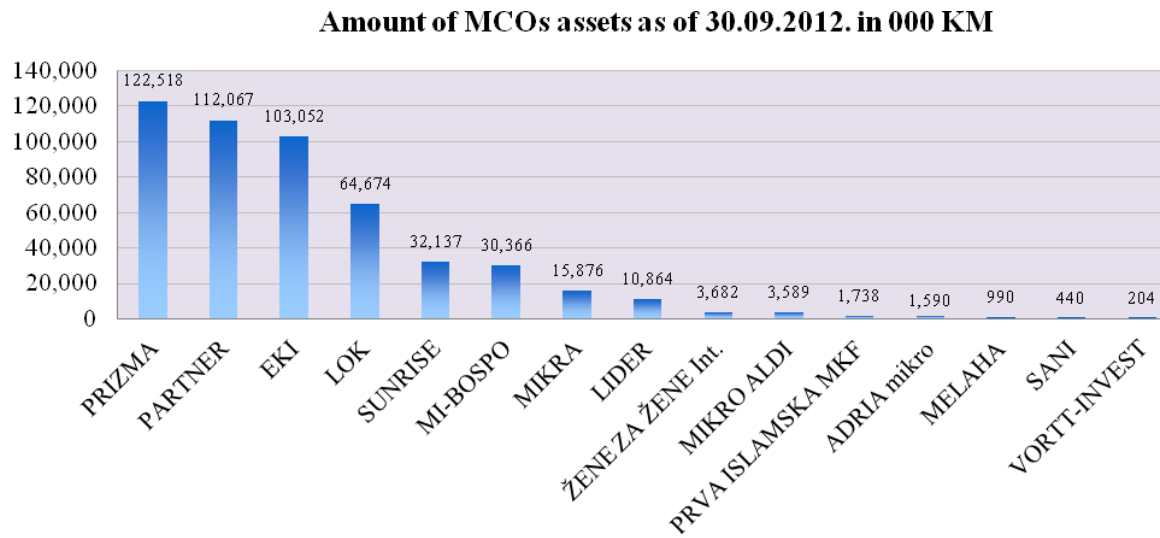
in 000 KM

No.	Name of the Donator	MKF EKI Sarajevo	MKF LIDER Sarajevo	MKF MI-BOSPO Tuzla	MKF MIKRA Sarajevo	MKF MIKRO ALDI Gorazde	PARTNER MKF Tuzla	MKF PRIZMA Sarajevo	PRVA ISLAMSKA MKF Sarajevo	MKF SUNRISE Sarajevo	MKF ŽENE ZA ŽENE Sarajevo	TOTAL
Donations for the credit fund		5.246	5.891	3.366	4.070	804	6.828	7.490	3.460	1.942	2.259	41.357
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 (funds of the FBiH Government)			947			675			1.214		2.836
6.	PRAM/USA State Department							2.006			577	2.583
7.	UNDO	1.932					59	672				2.663
8.	AMCOR			377			317	774			637	2.105
9.	Islamic Relief WW, Predstavništvo Sarajevo								3.460			3.460
10.	Women's World Banking			1.034								1.034
11.	IRC			383			805					1.188
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
Donations for fixed assets		8	0	0	65	0	228	61	0	10	0	373
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
Donations for operating expenses		2.039	870	351	0	0	1.588	3.087	25	709	0	8.669
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 (funds of the FBiH government)						201			709		910
32.	CHF		870									870
33.	Mercy Corps						725					725
34.	CGAP						45	150				195
35.	EBRD	105										105
36.	WORLD BANK						65					65
37.	USAID			351			304					655
38.	MFC						12	34				46
39.	UNDP						43					43
40.	ADA ASBL (RATING)						21					21
41.	Islamic Relief WW, Predstavništvo Sarajevo								25			25
42.	Ostalo	2					44	17				62
TOTAL DONATED CAPITAL		7.293	6.761	3.717	4.135	804	8.644	10.639	3.485	2.661	2.259	50.399

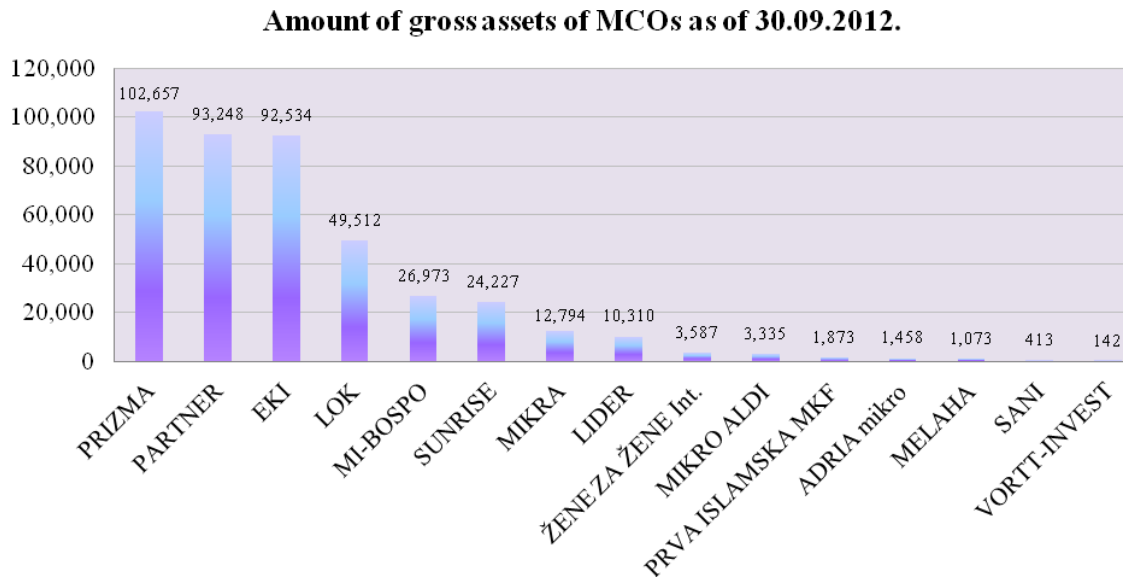
GRAPHS:

- Graph 1. Amount of MCO assets as of 30.09.2012. in 000 KM
- Graph 2. Amount of MCO gross portfolio as of 30.09.2012. in 000 KM
- Graph 3. Amount of MCO capital as of 30.09.2012.
- Graph 4. Income surplus/deficit over the expenses of MCFs that is net profit/loss of MCCs for the period from 01.01 – 30.09.2012 in 000KM.
- Graph 5. Average risk weighted EIR for short term loans for MCOs in the III quarter 2012.
- Graph 6. Average risk weighted EIR for long term loans for MCOs in the III quarter 2012.
- Graph 7. Number of MCOs employees as of 30.09.2012.
- Graph 8. Fixed assets and capital in relation to the total assets as of 30.09.2012.
- Graph 9. Total receivables on written off loans in relation to the gross portfolio of MCOs as of 30.09.2012.
- Graph 10. Risk portfolio over 30 days as of 30.09.2012.

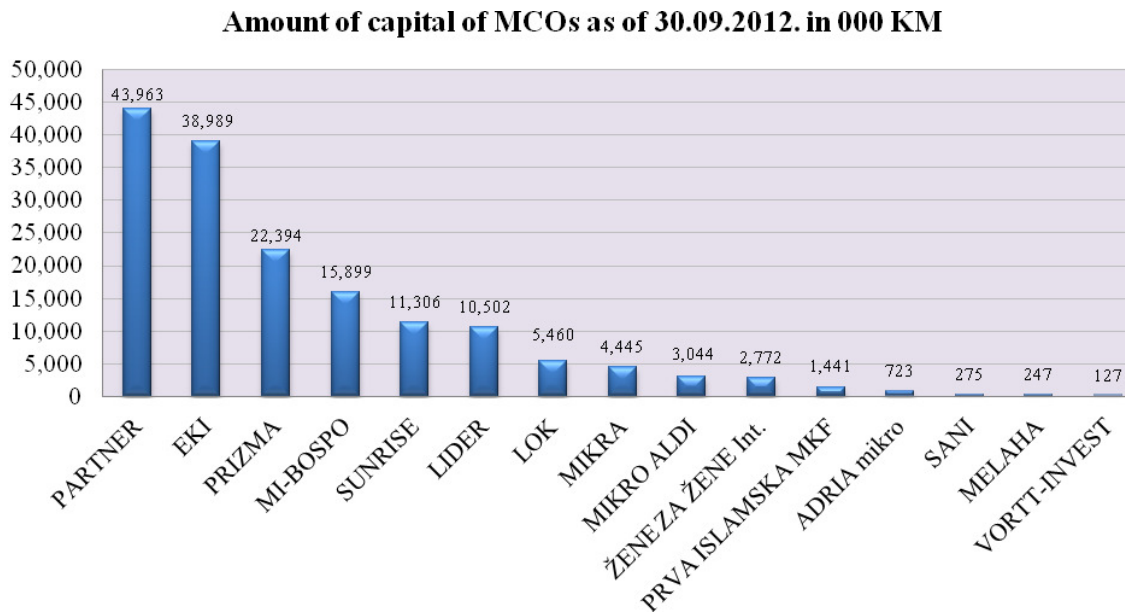
Graph 1.



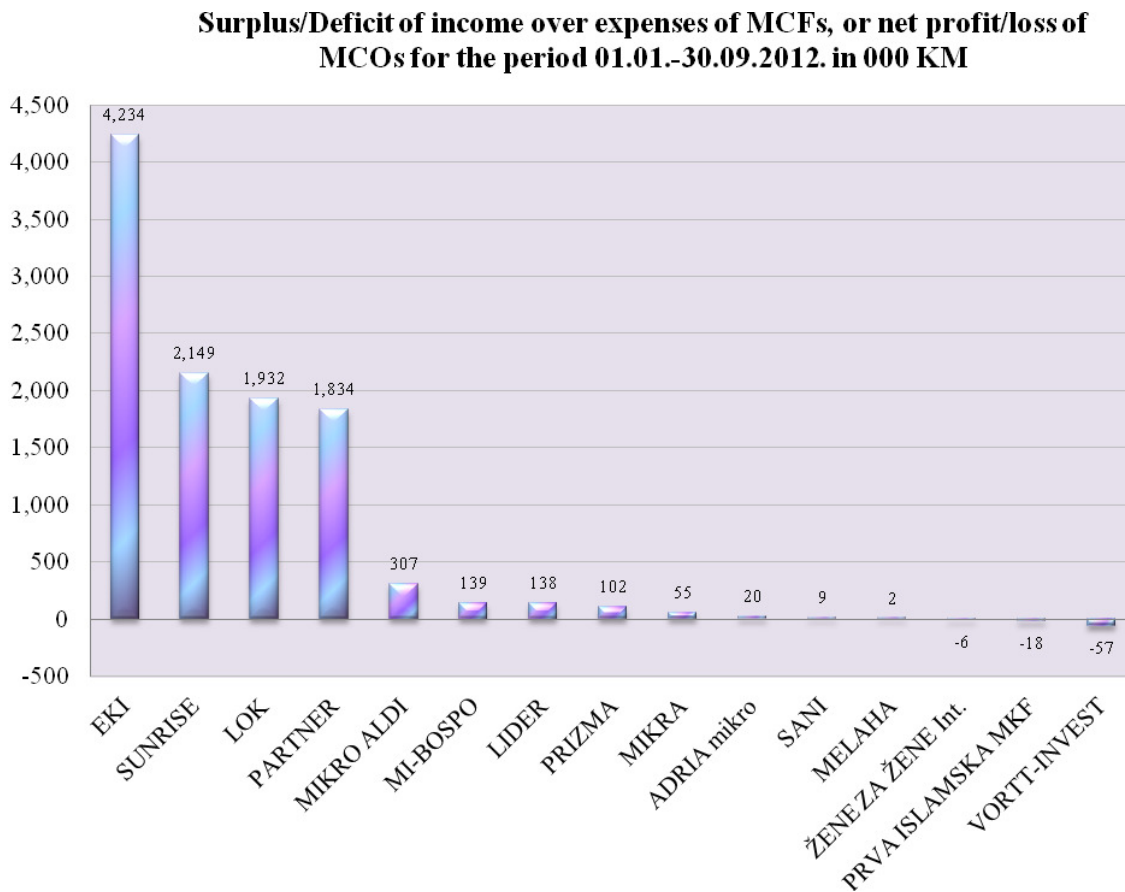
Graph 2.



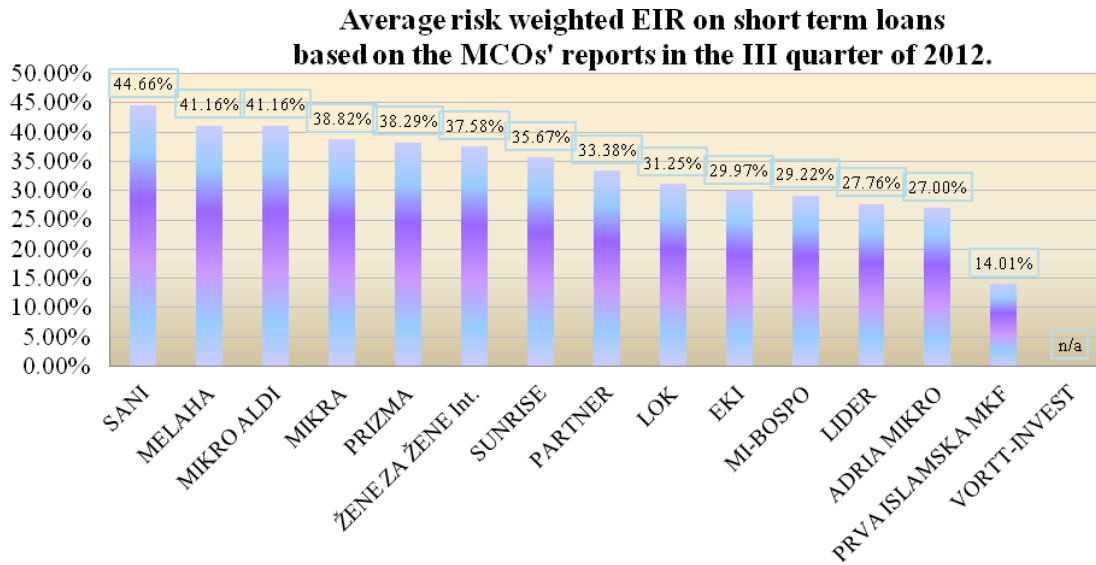
Graph 3.



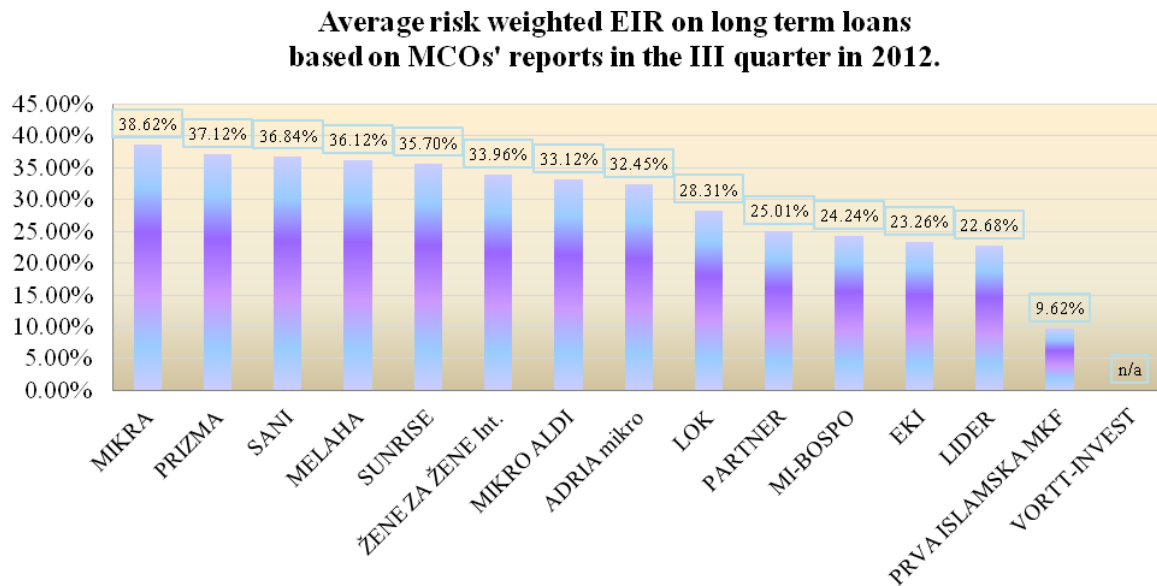
Graph 4.



Graph 5.

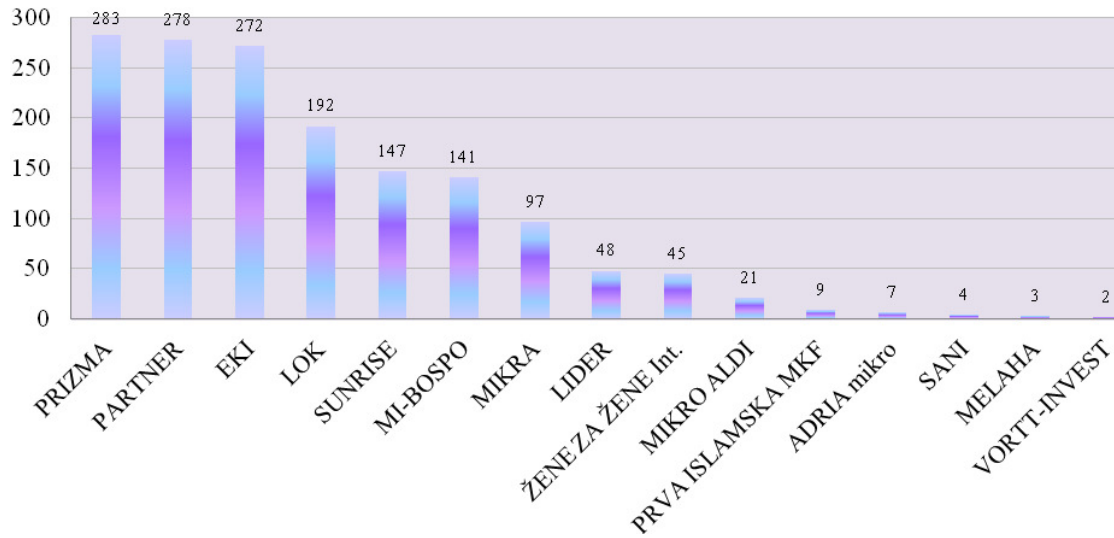


Graph 6.



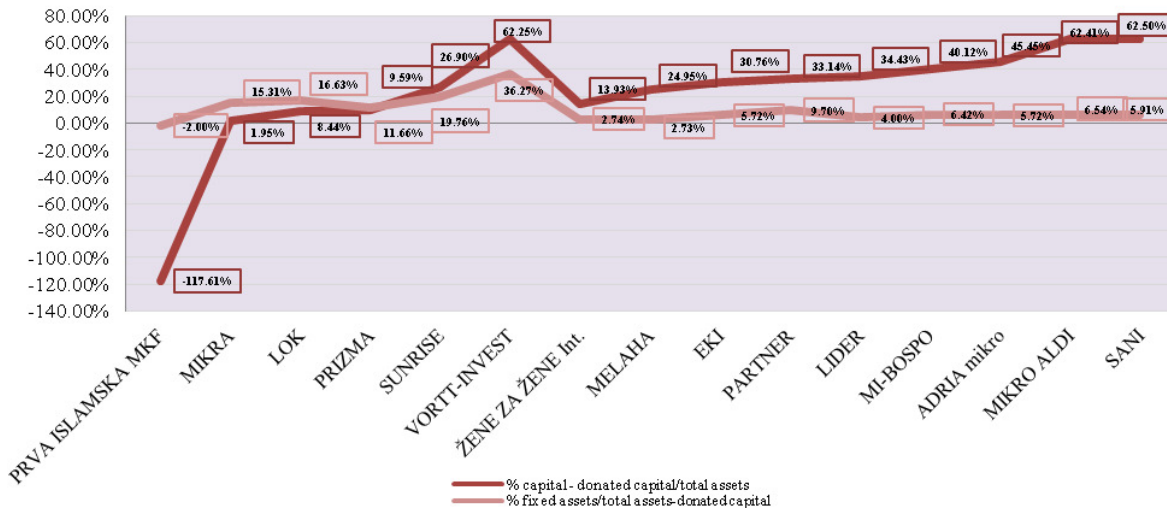
Graph 7.

Number of employees in MCOs as of 30.09.2012.



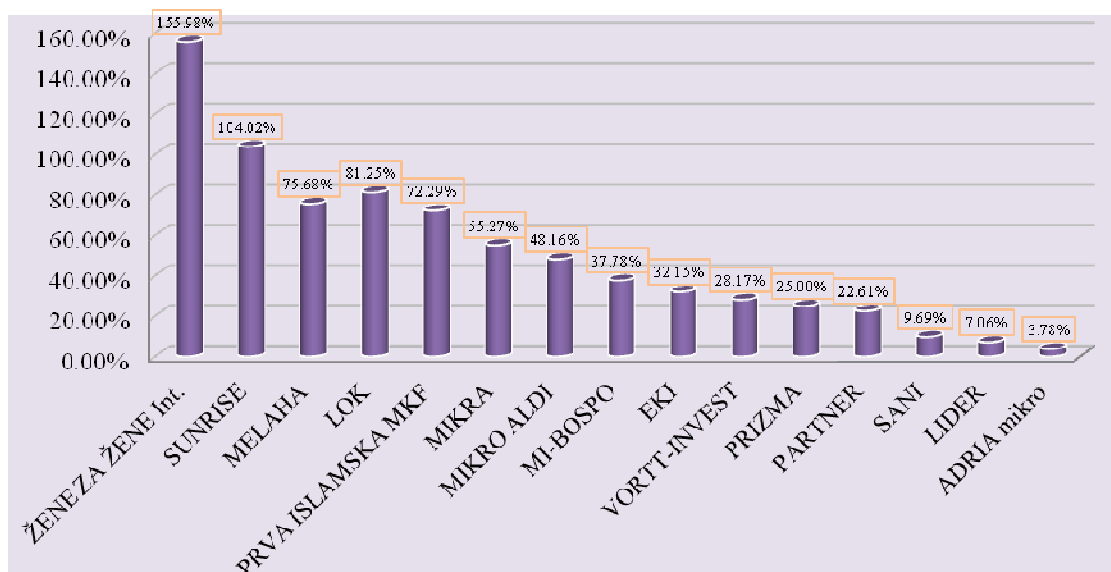
Graph 8.

Fixed assets and capital to total assets as of 30.09.2012.



Graph 9.

Total receivables from written off loans to total gross portfolio of MCOs as of 30.09.2012.



Graph 10.

Portfolio in risk over 30 days as of 30.09.2012.

