



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

**INFORMATION ON THE MICROCREDIT SYSTEM  
OF THE FEDERATION OF BOSNIA AND HERZEGOVINA  
AS OF 30.06.2014**

Sarajevo, August 2014

The Banking Agency of the Federation of B&H (the Agency), as a regulatory institution conducting supervision of microcredit organisations prepared the Information on the Microcredit System of the Federation of Bosnia and Herzegovina as of 30.06.2014 based on the analysis of monthly and quarterly reports on business operations, information and data submitted to the Agency by microcredit organisations (*off-site* supervision) and data obtained during on-site examinations (*on-site* supervision).

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## I INTRODUCTION

The Law on Microcredit Organisations („Official Gazette of the Federation of B&H“, No. 59/06) (LoMCO) regulates the establishment, registration, activity, organisational form, business operations, management form, cessation and supervision of business operations of microcredit organisations (MCOs), microcredit foundations (MCFs) and microcredit companies (MCCs) in the Federation of B&H. The Agency's responsibilities regarding these operations are stipulated by the Law on the Banking Agency of the Federation of Bosnia and Herzegovina („Official Gazette of the Federation of B&H“, No. 9/96, 27/98, 20/00, 45/00 58/02, 3.13, 3.19, 47/06 59/06, 48/08, 34/12 and 77/12) and the Agency's internal regulations, and all aforementioned operations are carried out within the Division for Supervision of Microcredit Organisations. The Agency conducts the supervision of MCOs directly (*on-site*) and indirectly, i.e. by analysing statements/reports submitted to the Agency by MCOs (*off-site*) in accordance with the Law on Microcredit Organisations and by-laws of the Agency listed in Annex 1 to this Information. The reporting basis are quarterly reports on the balance sheet, capital, loans, loan loss provisions, results of business operations, employees, write-offs and other reports on individual business segments as well as a monthly interest rate report.

As of 30.06.2014, 13 MCOs, 12 of which are MCFs and 1 of which is an MCC, had the Agency's licence for business operations in the Federation of B&H. They operated through 286 organisational units. As of 30.06.2014, the total headcount of the microcredit sector was 1 338, which is 65 employees or 5% less compared to 31.12.2013.

As of 30.06.2014, the balance sheet total of MCOs amounted to KM 456.3 million, KM 455.1 million or 99.7% of which relate to MCFs and KM 1.2 million or 0,3% to the MCC out of the total MCO balance. The balance sheet total of MCOs at the end of the 2Q 2014 was lower by KM 19.6 million or 4% compared to the balance as of 31.12.2013. As of 30.06.2014, total MCO gross loans, as the most significant item of MCO assets, amounted to KM 392.6 million and make up 86% of total assets of MCOs, and are therefore lower by 1% compared to the balance as at the end of the previous year, while net loans amounted to KM 376.9 million and are lower by 4% compared to the balance as of 31.12.2013. Micro lending is largely directed towards agriculture (37%) and service activities (22%) and is mostly related to long-term loans to natural persons. MCOs have increased effective interest rates on total microloans, which is how, at the end of the second quarter of 2014, the average weighted effective interest rates in the microcredit sector on total loans amounted to 25,68%, and thus saw an increase of 0,39 percentage points compared to the fourth quarter of 2013.

Compared to the end of the previous year, as of 30.06.2014, the microcredit portfolio saw a drop of 1% and showed a deterioration of quality indicators of the active loan portfolio by increasing the loan loss provisions rate from 1.39%, which is what it amounted to as of 31.12.2013, to 4%. Furthermore, the risk portfolio exceeding 30 days past due was also increased from 1.50% to 4.52%. the total sector result as to the risk portfolio is within the frameworks of the standard prescribed by the Agency, while out of 13 MCOs, 3 MCFs do not meet the Agency's standard in terms of the risk portfolio, which must be below 5%. The risk portfolio exceeding more than one day past due also saw a deterioration and was increased from 2.96%, which is what it amounted to at the end of the previous year, to 6.91%. at sector level, the percentage of write-offs amounted to 2.25% as of 30.06.2014 and this indicator was lower by 0.38 percentage points compared to the end of the previous year, and is within the frameworks of the standard prescribed by the Agency, while four MCFs do not meet the Agency's standard in relation to the percentage of loan write-offs, which must be below 3%.

The main source of funding of MCOs are loan commitments, which amounted to KM 261.4 million or 57% of total MCO liabilities as of 30.06.2014 and are lower by 3% compared to the balance as of 31.12.2013. total MCO capital as of 30.06.2014 amounted to KM 170.5 million or 38% of total MCO liabilities, which is lower by 5% compared to the end of the previous year, with the capital of MCFs amounting to KM 170.1 million or 99.8% and the capital of one MCC amounting to KM 0.4 million or 0.2%. The most significant MCF capital items are excess income over expenses in the amount of KM 106.4 million, which constitutes 63% of total MCF capital, followed by donated capital, which amounted to KM 57.4 million or 34% of total MCF capital, whereas one MCC does not have donated capital. Core capital and other MCF reserves amounted to KM 6.3 million, i.e. 3% of total MCF capital. The core capital of one MCD amounts to KM 600 thousand, and the loss to KM 175 thousand.

In the period from 01.01. to 30.06.2014, out of a total of 12 MCFs, 4 MCFs had less income over expenses in the total amount of KM 17 033 thousand, while 8 MCFs recorded more income over expenses in the total amount of KM 7 993 thousand, which means that, as of 30.06.2014, MCFs operated with less income over expenses in the total amount of KM 9 040 thousand. Out of the 4 MCFs that recorded less income over expenses in the amount of KM 17 033 thousand in the period from 01.01. to 30.06.2014, one of the three largest MCFs recorded a shortfall in the amount of KM 16 939 thousand, i.e. 99.4% of the total generated loss at sector level, while only 94 thousand of the total generated loss of income over expenses, i.e. 0.6%, refers to the other three MCFs. Without the data of this MCF, which is contrary to the sector trend as of 30.06.2014 and which has completely destabilised the microcredit market as well as impacted the deterioration of sector result and performance indicators, the microcredit sector records a positive result in the amount of KM 7 729 thousand, which is reflected positively in the performance indicators as well. In the first six months of 2014, one MCC recorded a net loss in the amount of KM 170 thousand. Therefore, at the level of the microcredit sector in the Federation of B&H as of the end of the second quarter of 2014, a negative financial result in the amount of KM 9 210 thousand has been recorded, which is lower by KM 16 715 thousand compared to the same period of the previous year, when the sector recorded a positive result.

In the published examinations of microcredit organisations, it was determined that the majority operates in accordance with laws and by-laws as well as in accordance with the objectives due to which they were established. Although the level of assets and the gross loan portfolio is in decline, the majority of MCFs has significantly improved its business practices and processes, as well as internal controls, which is reflected in the improvement of the loan portfolio quality. Great efforts were made to improve the loan collection process in the majority of MCOs from off-balance records, which influences the financial discipline of clients as well as the business results of MCOs. Still, some MCFs put aside significant funds for different marketing campaigns in the interest of promoting the body and image of MCFs, while neglecting strategies that would halt the disintegration of the institution. Unfortunately, the future of some MCOs, their employees as well as other resources depends on detrimental corporate practices of certain managing bodies. Due to the lack of creditors' trust, they are deprived of a new inflow of loan funds, which is necessary in order for the liquidity of the institution to not be jeopardised.

In certain organisations with a significant volume of operations and level of donated funds, the examination revealed certain weaknesses and irregularities in operations related mostly to non-compliance with the provisions of the LoMCO and the Agency's documents, specifically in terms of the management of credit risk and other risks, the creation and maintaining of loan loss provisions, and especially in cases of loan renegotiation. Other irregularities related to the

improper establishing and maintaining of off-balance records, the improper calculation of due and outstanding interests, the improper recording and reporting of the amount of donated funds to the Agency, not revealing effective interest rate in loan agreements and premises of MCFs and the failure to establish a related entities registry and adopt MCO business policies with related entities, weaknesses in procedures of customer and guarantor complaints, etc. The examination of one MCF revealed that one part of the transactions this MCF performs with certain related entities is regarded to be illegal short-term lending of related entities, while another part of transactions with related entities is characterised as indirect allocation of excess income over expenses, which violates the provisions of the Law on Microcredit Organisations, the Law on Associations and Foundations and the Agency's by-laws.

The aforementioned irregularities affected the violation of the Decision on Other General Conditions for MCO operations in terms of the prescribed standards of the Agency for MCO operations. The examinations revealed that, when managing the property of MCFs, the managing bodies of two MCFs do not comply with the principle of due care, i.e. of good businessmanship and professionalism, create high, unnecessary and unjustified expenses and perform transactions detrimental to the foundation with related entities. Related entities have a direct benefit, which is at odds with legal provisions and the mission of the establishment of MCFs.

In the past period, one MCF appointed an external auditor without the Agency's approval and has performed an audit of financial statements that is not in accordance with the prescribed conditions for the year that ended on 31.12.2013, which violated Article 18 of the Law on MCOs and the submitted audit report was therefore declared invalid. Considering that an abridged version of the independent auditor's report was published in daily newspapers, misleading the public and the potential users of audit reports, on its website, the Agency has warned the public about not accepting the published audit by the auditor who did not receive the necessary approval.

The failure to adopt the proposed amendments to the LoMCO, which, in accordance with the Conclusion of the Government of the Federation of B&H, would enable more efficient corrective measures to institutions and bodies violating the LoMCO and the Agency's by-laws, will inevitably lead to damage to the donated capital. Unfortunately, the consequences will be felt by the whole microcredit system, which includes clients, creditors as well as employees of MCOs. The failure to adopt the proposed amendments to the LoMCO is favourable to several individuals finding a safe heaven in the current regulations that insufficiently sanction damages made to the property of a foundation and donated funds, which have broader significance.

*Special notes: When drafting the regular quarterly Information on the Microcredit System of the Federation of Bosnia and Herzegovina, the Agency uses data submitted by the MCOs. During its examinations of MCO business operations, the Agency checks the accuracy of the submitted reports. In relation to this, the Agency has reservations regarding the accuracy of reporting in the case of one MCO with a significant volume of operations,. Additionally, that MCF did not comply with the Agency's orders due to a temporary measure of the competent court.*

## **II BUSINESS PERFORMANCE OF MCOs IN THE FEDERATION OF B&H**

### **1. MICROCREDIT SECTOR STRUCTURE**

#### **1.1. Number of Microcredit Organisations**

As of 30.06.2014, 13 MCOs have operating licences of the Agency, 12 of which are MCFs (non-profit organisations) and 1 of which is an MCC (profit organisation), as well as 29 organisational units of MCCs seated in Republika Srpska. All MCFs that have obtained the operating licence from the Agency have performed a re-registration in accordance with the LoMCO, i.e. they came to be as a result of the change in the form of MCOs established in accordance with the Law on Microcredit Organisations („Official Gazette of the Federation of B&H, No.: 24/00). Therefore, all MCFs are legal successors of the property, rights and obligations of MCOs established in accordance with the Law on Microcredit Organisations from 2000.

Annex 2 includes the main data on MCFs and MCC, which have the Agency's operating licence for microlending business operations as of 30.06.2014.

#### **1.2. Organisational Units**

As of 30.06.2014, there was a total of 286 organisational units of MCOs seated in B&H according to the Registry of Microcredit Organisations and their organisational units, which is maintained by the Agency in line with Article 13 of the LoMCO. Out of this number, a total of 189 organisational units of microcredit organisations is seated in the Federation of B&H, 94 in Republika Srpska and 3 in Brčko District. The total number of organisational units of MCOs seated in the Federation of B&H is lower by 24 organisational units, i.e. by 8% compared to the end of the previous year. A total of 153 organisational units of MCOs seated in the Federation of B&H has the authority to assign microloans and are therefore registered in the competent registry.

In six months of 2014, the Agency issued 7 approvals for the establishment of organisational units, 31 approvals for the closing of organisational units of MCOs and 9 approvals for changing the address of organisational units. In the first six months of 2014, one MCF, which has a 14% share in the balance sheet of MCOs, closed even 25 organisational units, which constitutes a decrease of even 54% compared to the number of organisational units at the end of the previous year.

8 MCOs have organisational units outside of the Federation of B&H, and 3 MCOs operate exclusively from their seat, i.e. they have no open organisational units in either the Federation of B&H or in Republika Srpska. The Agency has issued operating licences for the business operations of the organisational unit of one MCC, which is seated in Republika Srpska and operates in the Federation of B&H through 29 branches and field offices.

#### **1.3. Human Resources**

As of 30.06.2014, the total headcount of the microcredit sector was 1 338, which is lower by 65 employees or 5% compared to 31.12.2013. This drop in the number of employees at sector level was mostly influenced by the drop in the number of employees at one of the three largest

MCOs, which has recorded a drop of 37% or 70 employees compared to the end of the previous year. MCFs employ 1 323 employees or 98.9% and the MCC 15 employees or 1.1%.

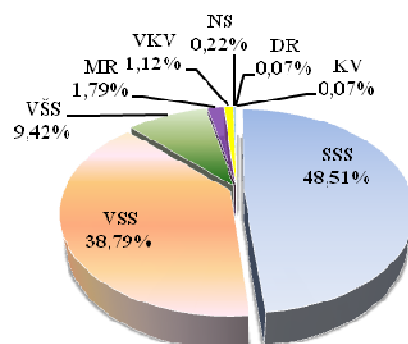
**Table 1. Staff Qualifications**

No.	Qualification	31.12.2013		Total	Učešće (%)	30.06.2014.		Total	Share (%)	Index
		MCFs	MCCs			MCFs	MCCs			
1	2	3	4	5=(3+4)	6	7	8	9=(7+8)	10	11=9/5
1.	NS	3	0	3	0.21	3	0	3	0.22	100
2.	KV	1	0	1	0.07	1	0	1	0.07	100
3.	VKV	15	0	15	1.07	15	0	15	1.12	100
4.	SSS	707	2	709	50.53	645	4	649	48.51	92
5.	VŠS	138	1	139	9.91	124	2	126	9.42	91
6.	VSS	513	6	519	36.99	511	8	519	38.79	100
7.	MR	16	0	16	1.14	23	1	24	1.79	150
8.	DR	1	0	1	0.07	1	0	1	0.07	100
<b>TOTAL</b>		<b>1 394</b>	<b>9</b>	<b>1 403</b>	<b>100.00</b>	<b>1 323</b>	<b>15</b>	<b>1 338</b>	<b>100</b>	<b>95</b>

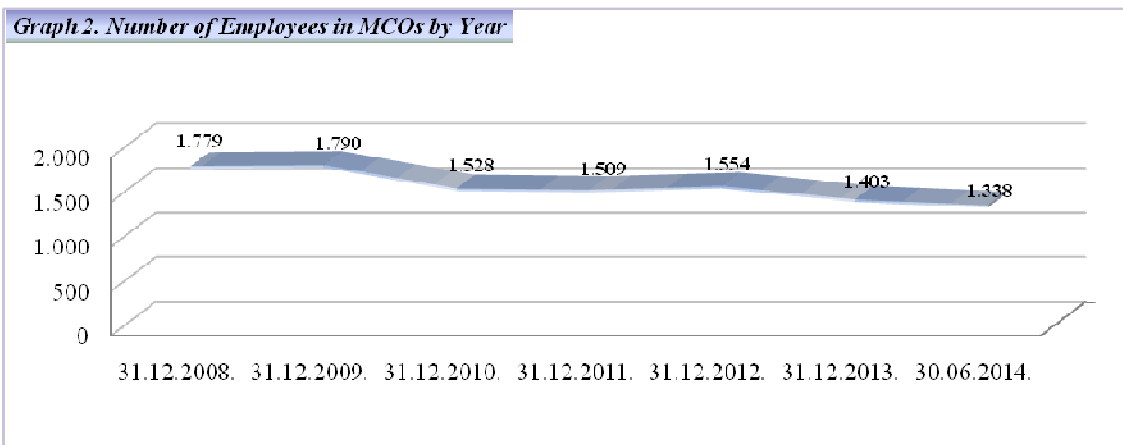
\* NS – semi-skilled; KV – skilled; VKV – highly skilled; SSS – secondary school qualification; VŠS – two-year post-secondary school qualification; VSS – university degree; MR – M.Sc; DR – Ph.D.

The employees structure is dominated by secondary school qualification with 48.51%, university degrees with 38.79% and two-year post-secondary qualification 9.42%. The share of employees with secondary school qualification is dropping by 8%, two-year post-secondary qualification by 9%, while the number of employees with Master's degrees increased by even 50% .

**Graph 1. Qualification Structure of Employees in MCOs**



An overview of the number of MCO employees throughout the years reveals that the biggest number of employees was recorded at the end of 2009, when the total headcount of MCOs was 1 790. As of 30.06.2014, MCOs had 1 338 employees, down by 25% compared to the end of 2009. A comparison of these two periods in the case of individual MCOs reveals that two MCFs recorded the largest drop in the number of employees by even 48% and 42%, respectively.



## 2. FINANCIAL INDICATORS OF MCO BUSINESS OPERATIONS

### 2.1. Balance Sheet

As of 30.06.2014, the balance sheet volume of MCOs amounts to KM 456.3 million, which is lower by KM 19.6 million or 4% compared to the balance as of 31.12.2013. The balance sheet volume increased with 6 MCFs, while 6 MCFs and 1 MCC recorded a drop compared to the balance as of the end of the previous year.

A drop in the balance sheet total of up to 10% was recorded with 5 MCF compared to 31.12.2013, while one of the three largest MCFs reduced its assets by even KM 23.1 million in six months and recorded a drop of even 26% compared to the end of the previous year, which affected the assets drop at sector level. Without the data of this MCF, the sector would have recorded a slight increase in assets.

Six MCFs with assets in the amount of KM 415.2 million or 91% have the largest share in total MCO balance.

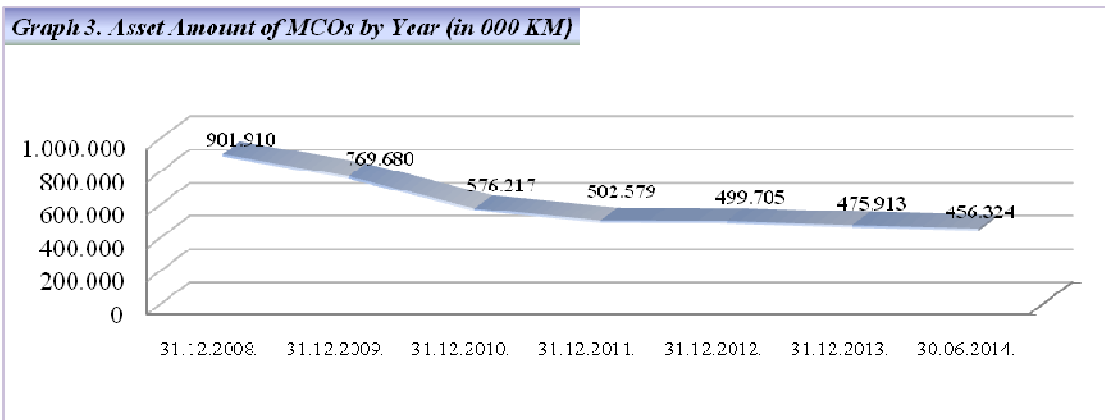
- 000 KM -

**Table 2. Balance Sheet MCOs**

DESCRIPTION	31.12.2013			30.06.2014					Index
	Balance for MCFs	Balance for MCCs	TOTAL	Balance for MCFs	%	Balance for MCCs	%	TOTAL	
1	2	4	6=(2+4)	7	8	9	10	11=(7+9)	12
<b>ASSETS</b>									
1. Cash	24 123	88	24 211	21 049	5	543	45	21 592	89
2. Facilities to banks	4 054	0	4 054	3 373	1	0	0	3 373	83
3. Loans	395 382	886	396 268	391 940		649		392 589	99
4. Loan loss provisions	5 507	16	5 523	15 678		23		15 701	284
5. Net loans	389 875	870	390 745	376 262	82	626	51	376 888	96
6. Business premises and other fixed assets	42 596	50	42 646	40 827	9	34	3	40 861	96
7. Long-term investments	761	0	761	761	0	0	0	761	100
8. Other assets	14 018	28	14 046	14 378	3	19	1	14 397	102
9. Provisions for other assets items, except loans	549	1	550	1 546		2		1 548	281
<b>TOTAL ASSETS</b>	<b>474 878</b>	<b>1 035</b>	<b>475 913</b>	<b>455 104</b>	<b>100</b>	<b>1 220</b>	<b>100</b>	<b>456 324</b>	<b>96</b>
<b>LIABILITIES</b>									
10. Loan commitments	268 565	348	268 913	260 736	57	685	56	261 421	97
11. Other liabilities	27 201	92	27 293	24 276	5	110	9	24 386	89
12. Capital	179 112	595	179 707	170 092	38	425	35	170 517	95
<b>TOTAL LIABILITIES</b>	<b>474 878</b>	<b>1 035</b>	<b>475 913</b>	<b>455 104</b>	<b>100</b>	<b>1 220</b>	<b>100</b>	<b>456 324</b>	<b>96</b>
Off-balance records	170 598	55	170 653	165 805		53		165 858	97



An overview of the balance sheet total of MCOs throughout the years reveals that the largest amount of the aforementioned was recorded at the end of 2008, when it amounted to KM 902 million. The balance sheet total of MCOs as of 30.06.2014 amounted to KM 456.3 million and it is lower by even 49% compared to the end of 2008. A comparison of these two periods in the case of individual MCOs shows that two MCFs recorded the largest drop in the balance sheet total, with even 74% and 64%, respectively.

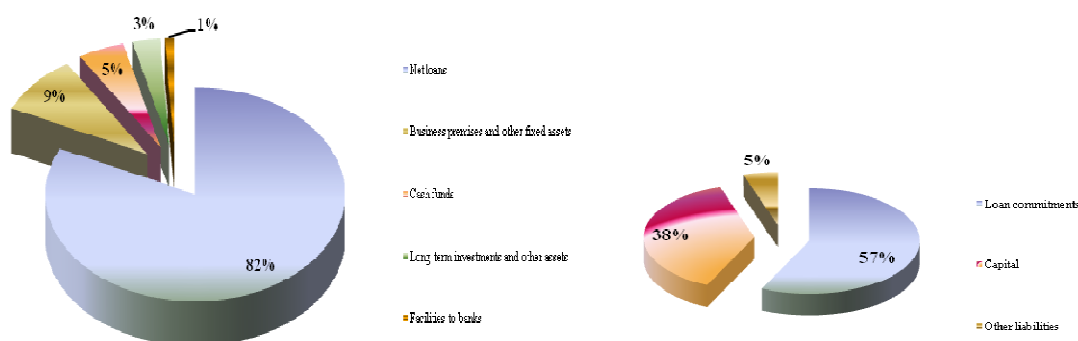


In the assets structure of MCOs, cash funds amount to KM 21.6 million or 5% with a fall rate of 11% compared to 31.12.2013 and largely related to cash funds of MCFs. Facilities to banks amount to KM 3.4 million or 1%, which is lower by 17% compared to the end of the previous year.

Net loans, i.e. gross loans net of loan loss provisions amount to KM 376.9 million or 82% of total assets and are lower by KM 13.8 million or 4% compared to 31.12.2013. Net loan growth compared to the end of the previous year was recorded by 8 MCFs, while a drop was recorded by 4 MCFs and 1 MCC. Compared to 31.12.2013, a net loans drop of up to 10% was recorded by 2 MCFs, a drop of up to 20% was recorded by 1 MCF. A drop of up to 30% compared to the end of the previous year was recorded by one MCC and one MCF. One of the three largest MCFs reduced net loans by even KM 18.5 million in six months and recorded a net loan drop of 26% compared to the end of the previous year, which accordingly affected the decline of this balance sheet item at sector level.

Business premises and other fixed assets amount to KM 40.8 million or 9% of total assets and this balance sheet item is lower by KM 1.8 million or 4% compared to the end of the previous year. The fixed assets percentage compared to total assets (net of donated capital) is 10.24%, at sector level, which is slightly above the allowed amount (up to 10%). Individually, four MCFs violate this standard. Only one MCF recorded long-term investments in the amount of KM 0.8 million, while other assets (net of provisions for other assets items except loans) amount to KM 12.8 million, which include calculated interest, advances, accrued and deferred items, etc. These two balance sheet items make up 3% of total assets of the microcredit sector. Other assets percentage at sector level compared to total assets is 3.15% and individually, other assets are below 10% compared to total assets in the case of every MCO.

Graph 4. Assets and Liabilities Structure of MCOs



Loan commitments in the MCO liabilities structure are the main source of funding, amounting to KM 261.4 million or 57% of total liabilities, and they are lower by 3% compared to 31.12.2013 and almost completely related to the liabilities of MCFs.

- 000 KM -

Table 3. Maturity Structure of Taken Loans

DESCRIPTION	31.12.2013				30.06.2014				Index
	MCFs	MCCs	TOTAL	%	MCFs	MCCs	TOTAL	%	
1	2	3	4=(2+3)	5	6	7	8=(6+7)	9	10=8/4
1. Liabilities on short-term loans	81 258	202	81 460	30	86 311	0	86 311	33	106
2. Liabilities on long-term loans	187 307	146	187 453	70	174 425	685	175 110	67	93
<b>TOTAL</b>	<b>268 565</b>	<b>348</b>	<b>268 913</b>	<b>100</b>	<b>260 736</b>	<b>685</b>	<b>261 421</b>	<b>100</b>	<b>97</b>

Out of total loan commitments, long-term loans (of which there is no record in the case of 2 MCFs) amount to KM 175.1 million or 67% and are lower by 7% compared to the end of the previous year. Out of total loan commitments, short-term loans (of which there is no record in the case of 3 MCFs and 1 MCC) amount to KM 86.3 million or 33% and have a growth rate of 6% compared to the end of the previous year. As of 30.06.2014, two MCFs did not have loan commitments.

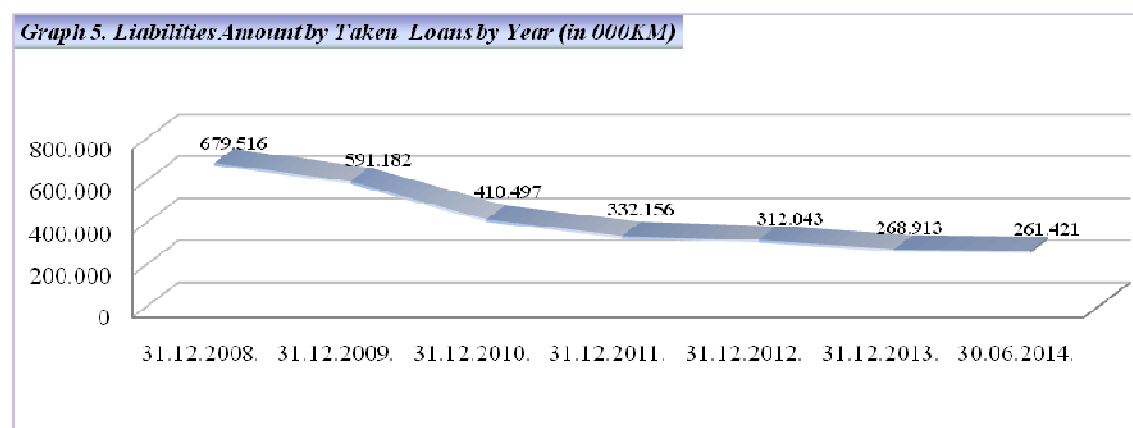
Given that creditors, both local commercial banks and various international socially-oriented commercial funds, are generally very cautious and abstain from lending a large number of MCOs, many MCOs are deprived of funds with which they would finance its microcredit activity and generate sufficient income from regular operations to cover their expenses. Additional deprivation of MCOs of long-term funds and maturity of short-term liabilities along with poor loan collection could lead to non-liquidity with some MCOs, even with a higher volume of operations, which represents one of the important risks and challenges of managing bodies.

According to the submitted liquidity statements of MCOs as of 30.06.2014, liquidity position is jeopardised in the case of one MCF, i.e. the repayment of current liabilities is difficult due to new loans, could significantly affect the difficulties of keeping of the active loan portfolio at nearly the same level.

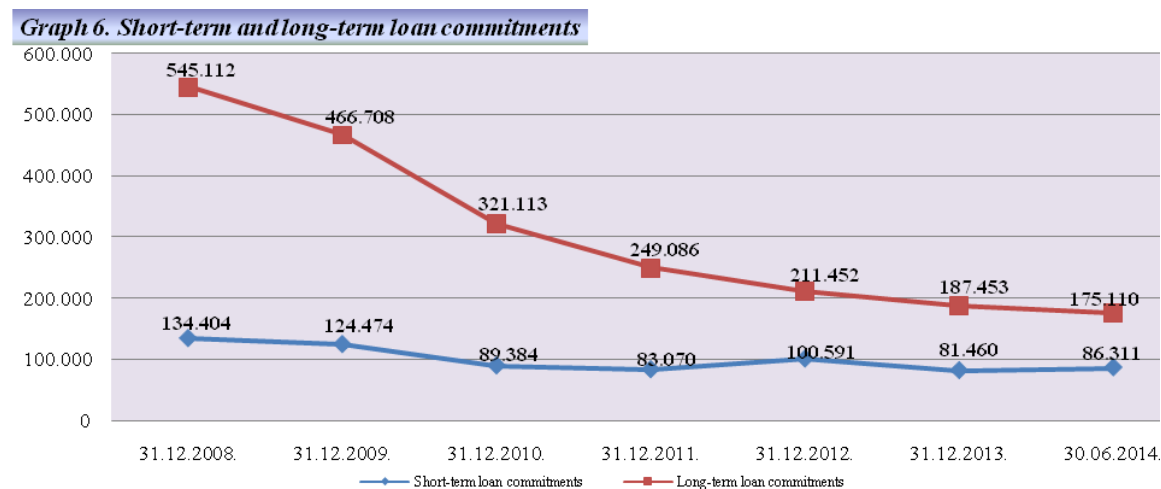
The data of one MCF, whose liquidity position as of 31.03.2014 was jeopardised in the sense that the repayment of current liabilities in the following period according to the regular course of things was brought into question, and whose account at commercial banks was blocked during the second quarter of 2014 due to the inability to meet its obligations to creditors in a significant amount, is unreliable since the submitted data as of 30.06.2014 is completely

different compared to 31.03.2014 and from which one is unable to conclude whether a liquidity risk is present, while a total of 33 of this MCF's accounts were blocked at commercial banks in B&H according to the report on blocked account in the Registry of Transaction Accounts of the Central Bank of B&H as of 01.08.2014, which implies a continuous non-liquidity of his MCF. This is another reason why the Agency has reservations regarding the accuracy of reporting of this MCF, which significantly influences microcredit system indicators.

Looking at the total liabilities amount of MCOs by taken loans throughout the years of MCO operations, the biggest amount was recorded at the end of 2008 when they amounted to KM 679.5 million. Total liabilities of MCOs by taken loans as of 30.06.2014 amounted to KM 261.4 million, and are lower by even 62% compared to the end of 2008. A comparison of these two periods in the case of individual MCOs shows that two MCFs recorded the biggest drop in total liabilities by taken loans by even 89% and 83%, respectively.



As can be seen in the graph below, in addition to the fact that loan commitments are lower by 62% compared to 2008 and 3% compared to the end of the previous year, looking at the liabilities on taken loans by maturity, it is worrisome that long-term loans have dropped by even 68% compared to 2008 and are constantly dropping, while short-term loans are lower by 36% compared to 2008, but have recorded a growth of 6% compared to 31.12.2013.

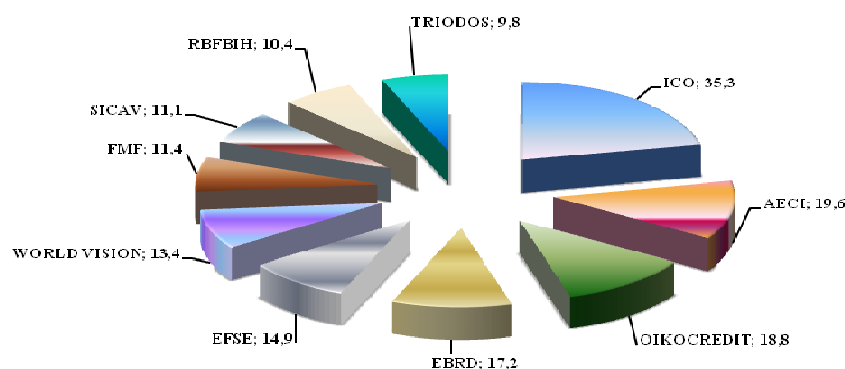


The ten most significant creditors of MCOs with 64% of total loan commitments owed to them are:

- 1) ICO - Instituto de Credito Oficial, Spain (KM 35.3 million)
- 2) AECI – Spanish Agency for International Development Cooperation (KM 19.6 million)
- 3) Oikokredit, Netherlands (KM 18.8 million)
- 4) EBRD – European Bank for Reconstruction and Development, Great Britain (KM 17.2 million)
- 5) EFSE – European Fund for Southeast Europe, Luxembourg (KM 14.9 million)
- 6) World Vision International, USA (KM 13.4 million)
- 7) Federal Ministry of Finance, Federation of B&H (KM 11.4 million)
- 8) Development Bank of the Federation of B&H<sup>1</sup> (KM 11.1 million)
- 9) Responsibility SICAV, Switzerland (KM 10.4 million)
- 10) Triodos-Doen, Netherlands (KM 9.8 million).

One MCF has an exposure of 45% with the first creditor, which is a high concentration of sources of funding.

**Graph 7. Most Significant Sources of Funding of MCOs (in million KM)**



Other liabilities amount to KM 24.4 million or 5% of total liabilities. These include liabilities to employees, suppliers, accrued expenses and others. The percentage of other liabilities at sector level compared to total liabilities is 8.53%, and individually, a total of six MCFs and one MCC recorded more than 10% of other liabilities compared to total liabilities.

Off-balance records as of 30.06.2014 amount to KM 165.8 million, which includes write-offs (KM 165.5 million) and barter deals (KM 0.3 million in the case of three MCFs), and are lower by 3% compared to the balance as of 31.12.2013.

## 2.2. Capital

Total capital of MCOs as of 30.06.2014 amounts to KM 170.5 million or 38% of total liabilities, which is lower by KM 9.2 million or 5% compared to the end of 2013. The capital of MCFs amounts to KM 170.1 million or 99,8%, and the capital of one MCC to KM 0.4 million or 0.2%.

Total capital of the microcredit sector (net of donated capital) amounts to 24.79% of total assets, with four MCFs having a percentage of capital amount (net of donated capital) compared to total assets that is lower than allowed, i.e. less than 10% of total assets.

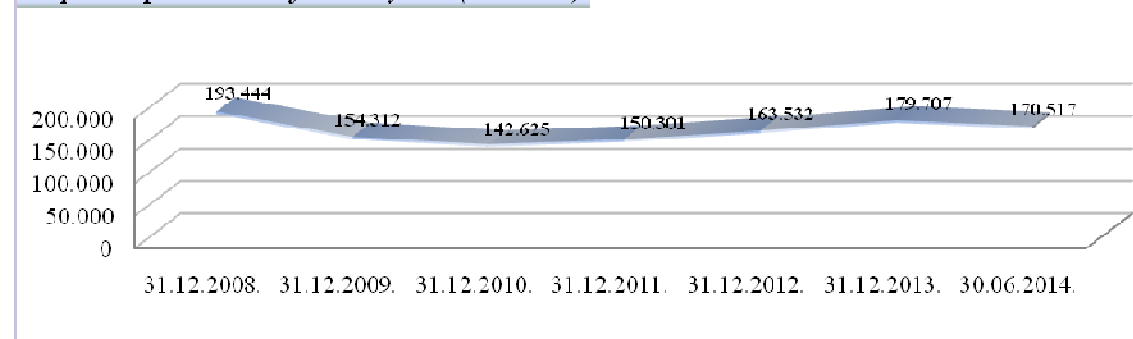
<sup>1</sup> Funds were disbursed within the Local Initiative Project LIP I and LIP II, which were transferred to Razvojna banka Federacije BiH under the Decision of the Government of the Federation of B&H („Official Gazette of the Federation of B&H“, No: 78/06 and 34/07).

Table 4. Capital Structure of MCOs

DESCRIPTION	31.12.2013					30.06.2014					Index
	Balance for MCFs	%	Balance for MCCs	%	TOTAL	Balance for MCFs	%	Balance for MCCs	%	TOTAL	
1	2	3	4	5	6=2+4	7	8	9	10	11=7+9	12=11/6
Donated capital	49 640	28	0	0	49 640	57 399	34	0	0	57 399	116
Core capital	8 291	4	600	10 1	8 891	3 821	2	600	14 1	4.421	50
Surplus/deficit of income over expenses	117 975	66	0	0	117 975	106 378	63	0	0	106 378	90
Issue premiums	0	0	0	0	0	0	0	0	0	0	0
Retained profit	0	0	-106	-18	-106	0	0	-175	-41	-175	165
Legal reserves	0	0	101	17	101	0	0	0	0	0	0
Other reserves	3 206	2	0	0	3 206	2 494	1	0	0	2 494	78
<b>TOTAL CAPITAL</b>	<b>179 112</b>	<b>100</b>	<b>595</b>	<b>10 0</b>	<b>179 707</b>	<b>170 092</b>	<b>10 0</b>	<b>425</b>	<b>10 0</b>	<b>170 517</b>	<b>95</b>

An overview of the capital amount of MCOs throughout the years reveals that the biggest amount was recorded at the end of 2008, when it amounted to KM 193.4 million. Total capital of MCOs as of 30.06.2014 amounted to KM 170.5 million, and is lower by 12% compared to the end of 2008. A comparison of these two period in the case of individual MCOs shows that two MCFs recorded the biggest capital drop, by 72% or 56%, respectively.

Graph 8. Capital Amount of MCOs by Year (in 000 KM)



In the capital structure of MCFs, the excess of income over expenses is the most important, and it amounts to KM 106.4 million and makes up 65% of total MCF capital, which is lower by KM 11.6 million or 10% compared to the end of the previous year. A deficit of income over expenses for the period from 01.01. to 30.05.2014 was recorded by four MCFs, while 8 MCFs recorded an excess of income over expenses. As of 30.06.2014, one MCC recorded a net loss. An excess of income over expenses from regular operations was recorded by 5 MCFs, while 7 MCFs and 1 MCC recorded a deficit of income over expenses, i.e. loss of regular operations. Out of those 7 MCFs, 3 of them recorded a positive result at the end of the second quarter of 2014 due to extraordinary income, which was significantly higher than the generated deficit of income over expenses in the case of some MCFs. Extraordinary income is a direct result of the increased collection of write-offs.

A significant source of MCF capital is donated capital, which amounts to KM 57.4 million or 34% of total MCF capital, while one MCC has no donated capital. The amount of donated capital, as reported by MCOs, is higher by KM 7.7 million compared to the end of the previous year, i.e. 16%, and it almost completely accounts for the increase in donated capital in the case of one MCF that was found, during an on-site control, to have previously incorrectly reported on it to the Agency. In accordance with Article 11 of the Decision on

General Conditions for Operations of Microcredit Organisations, MCOs shall keep records on donated funds and treat them as donated capital on which they have to report to the Agency. As per official quarterly reports, being submitted to the Agency, 10 MCFs include the amount of donated capital in their reports and keep records on their balance.

The core capital of MCF as of 30.06.2014 amounts to KM 3.8 million or 2% of total MCF capital. Other reserves, which relate to 2 MCFs, amount to KM 2.5 million or 1% of total MCF capital. The core capital of one MCC amounts to KM 600 thousand and its loss to KM 175 thousand.

### 2.3. Loan Portfolio

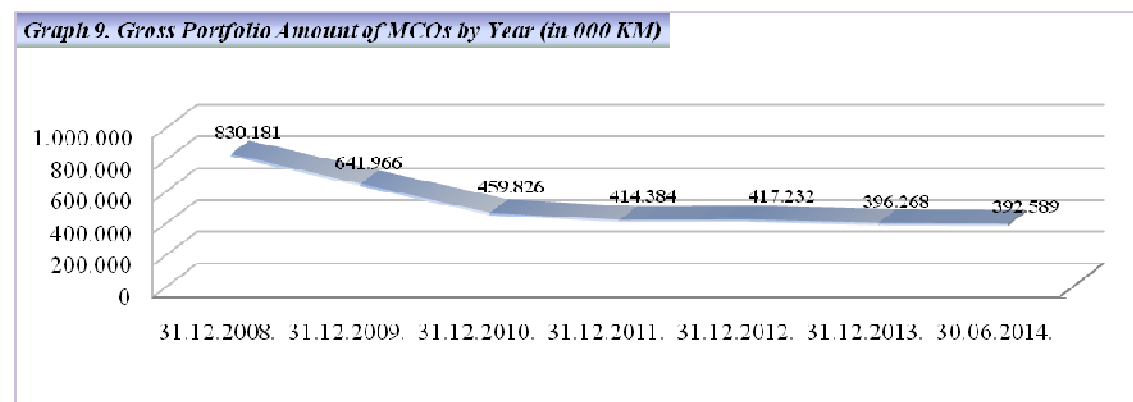
The main activity of MCOs is microlending, to which the amount of KM 392.6 million or 86% of total assets of the microcredit sector is related. The level of total sector loans depends on loans of MCFs, which account for KM 391.9 million or 99,8% of total loans, while the MCC accounts for KM 0,7 million or 0,2% of total loans. Net loans, which make up total loans net of loan loss provisions are presented in Table 5.

- 000 KM -

No.	DESCRIPTION	31.12.2013			30.06.2014			Index
		MCFs	MCCs	Total	MCFs	MCCs	Total	
1	2	3	4	5=(3+4)	6	7	8=(6+7)	9=8/5
1.	Loans	395 382	886	396 268	391 940	649	392 589	99
2.	Loan loss provisions	5 507	16	5 523	15 678	23	15 701	284
3.	<b>Net loans (1.-2.)</b>	<b>389 875</b>	<b>870</b>	<b>390 745</b>	<b>376 262</b>	<b>626</b>	<b>376 888</b>	<b>96</b>

Net loans amount to KM 376.9 million and are lower by 4% compared to 31.12.2013, while gross loans are also lower by 1% compared to the end of the previous year.

Loan loss provisions amount to KM 15.7 million and are up by 184% compared to 31.12.2013. the loan loss provisions to total loan portfolio ratio amounts to 4% and recorded a drop of 2.61% compared to 31.12.2013. One of the three largest MCFs increased loan loss provisions by KM 9.5 million or 553% compared to 31.12.2013, which has affected the significant increase in loan loss provisions at sector level and drop of portfolio quality ratios.



An overview of the gross portfolio of MCOs throughout the years of MCO operations shows that the largest amount was recorded at the end of 2008, when it amounted to KM 830.2 million. Total

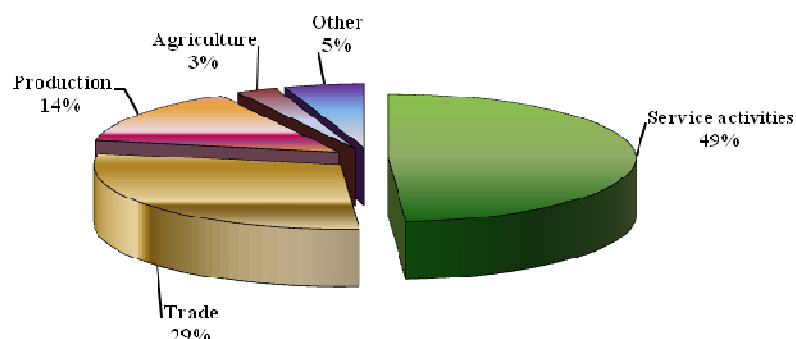
gross portfolio as of 30.06.2014 amounted to KM 392.6 million and dropped by 53% compared to the end of 2008. A comparison of these two periods in the case of individual MCOs reveals that two MCFs recorded the biggest gross portfolio drop, by even 78% and 72%, respectively.

- 000 KM -

No.	Microloans	Short-term loans	Long-term loans	Receivables due	TOTAL	%
1	2	3	4	5	6=(3+4+5)	7
<b>1.</b>	<b>Legal entities</b>					
a.)	<b>Service activities</b>	751	3 288	28	<b>4 067</b>	<b>49%</b>
b.)	<b>Trade</b>	642	1 747	25	<b>2 414</b>	<b>29%</b>
c.)	<b>Agriculture</b>	63	161	0	<b>224</b>	<b>3%</b>
d.)	<b>Production</b>	332	762	10	<b>1 104</b>	<b>14%</b>
e.)	<b>Other</b>	60	369	4	<b>433</b>	<b>5%</b>
<b>TOTAL 1:</b>		<b>1 848</b>	<b>6 327</b>	<b>67</b>	<b>8 242</b>	<b>100%</b>
<b>2.</b>	<b>Natural persons</b>					
a.)	<b>Service activities</b>	13 160	70 965	1 060	<b>85 185</b>	<b>22%</b>
b.)	<b>Trade</b>	9 950	27 725	734	<b>38 409</b>	<b>10%</b>
c.)	<b>Agriculture</b>	14 627	127 706	1 288	<b>143 621</b>	<b>37%</b>
d.)	<b>Production</b>	4 195	12 637	450	<b>17 282</b>	<b>5%</b>
e.)	<b>Housing needs</b>	2 350	46 624	210	<b>49 184</b>	<b>13%</b>
f.)	<b>Other</b>	17 361	32 807	498	<b>50 666</b>	<b>13%</b>
<b>TOTAL 2:</b>		<b>61 643</b>	<b>318 464</b>	<b>4 240</b>	<b>384 347</b>	<b>100%</b>
<b>TOTAL (1+2):</b>		<b>63 491</b>	<b>324 791</b>	<b>4 307</b>	<b>392 589</b>	

Out of the total number of microloans, KM 8.2 million or 2% were granted to legal entities and KM 384.4 million or 98% were granted to natural persons. In the maturity structure of microloans, short-term loans with receivables due account for KM 67.8 million or 17% and long-term loans for KM 324.8 million or 83%. Receivables due total KM 4.3 million or 1% of total loans and are almost completely related to loans granted to natural persons.

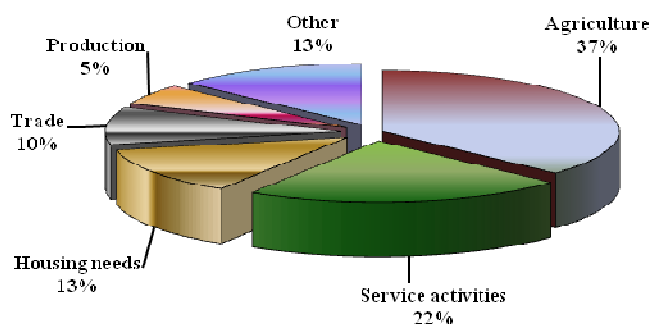
Graph 10. Sector Structure of Microloans to Legal Entities



The largest amount of total microloans to **legal entities** was placed for service activities and trade – KM 4.1 million or 49% for service activities and KM 2.4 million or 29% for trade. Out

of the total micro loan amount, KM 1.1 million or 14% were granted for production, while KM 0.2 million or 3% were granted for agriculture and KM 0.4 million or 5% for other purposes.

**Graph 11. Sector Structure of Microloans to Natural Persons**



As for loans to natural persons, KM 143.6 million or 37% was placed for agriculture, followed by KM 85.2 million or 22% for service activities, KM 49.2 million or 13% for housing needs, KM 38.4 million or 10% for trade, KM 17.3 million or 5% for production and KM 50.7 million or 13% for other purposes.

- 000 KM -

Microloans for:	31.12.2013	30.06.2014	Share	Index
<b>Agriculture</b>	142 133	143 845	37%	101
<b>Service activities</b>	93 750	89 252	22%	95
<b>Other</b>	45 481	51 099	13%	112
<b>Housing needs</b>	49 288	49 184	13%	100
<b>Trade</b>	45 028	40 823	10%	91
<b>Production</b>	20 588	18 386	5%	89
<b>TOTAL</b>	<b>396 268</b>	<b>392 589</b>	<b>100%</b>	<b>99</b>

Based on the analysis of the industry, it can be concluded that microlending is largely directed towards lending of agriculture (37%) and service activities (22%), and that it mostly includes long-term loans for natural persons. This means that loans are, in the majority of cases, approved to persons who do not have an access to traditional sources of funding due to both the riskiness of the business operations they perform and due to the lack of proper collaterals. Compared to the end of the previous year, total loan percentage for all loan products show a drop between 5% and 11%, save for housing loans, which are increased by 1%, i.e. 12% compared to the end of the previous year.

- 000 KM -

DESCRIPTION	31.12.2013	30.06.2014	Share	Index
<b>Long-term microloans</b>	325 426	324 791	83%	100
<b>Short-term microloans with receivables due</b>	70 842	67 798	17%	96
<b>TOTAL</b>	<b>396 268</b>	<b>392 589</b>	<b>100%</b>	<b>99</b>



In terms of microloan maturity, long-term microloans are at approximately the same level compared to the end of the previous year, while short-term microloans (including receivables due) dropped by 4%.

According to the Decision on the Amount and Manner of Creating and Maintaining Reserves for Covering Loan Losses of Microcredit Organisations („Official Gazette of the Federation of B&H“, No.: 27/07), MCOs shall allocate all loan proceeds and other receivables to certain groups by applying the days past due criterion in a way that funds for loan loss provisions and other losses are allocated to each group debiting operating expenses. The basis for the calculation of the reserves is the amount of outstanding loan, due interest and fee and any other items in which the MCO is exposed to the risk of impossible collection, i.e. business failure. Receivables amounts divided into the set groups and calculated reserves by these groups with the balance as of 30.06.2014 can be seen in Table 9.

- 000 KM -

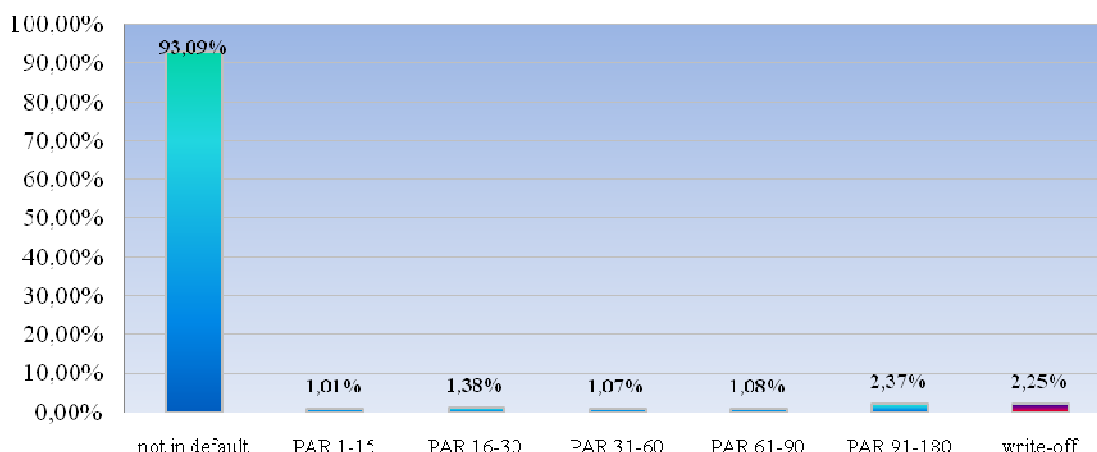
No.	Days past due	Provisioning rates	Loan amount	Share (%)	Interest due		Amount of other assets items	provisions			Total provisions
					Provisioning rate	Interest amount		By loans	By interest due	By other assets items	
1.	0	0%	365 447	93.09	0%	3	214	0	0	0	0
2.	1 - 15	2%	3 951	1.01	2%	66	0	79	1	0	80
3.	16 - 30	15%	5 430	1.38	100%	92	0	815	92	0	907
4.	31 - 60	50%	4 206	1.07	100%	126	0	2 103	126	0	2 229
5.	61 - 90	80%	4 231	1.08	100%	202	0	3 385	202	0	3 587
6.	91 - 180	100%	9 324	2.38	100%	1 124	0	9 319	1 127	0	10 446
<b>TOTAL</b>			<b>392 589</b>	<b>100</b>		<b>1 613</b>	<b>214</b>	<b>15 701</b>	<b>1 548</b>	<b>0</b>	<b>17 249</b>
7.	Over 180	Write-off	4 428		100%	1 392					

\*Columns 9 and 10, days past due category (91-180) include additional provisions of one MCF for loans that have been restructured several times, for which the FBA, in its ruling, ordered additional provisions at a rate of 100% and the impairment of reserves for loans to clients affected by natural disasters – floods at a rate of 2% .

The amount of defaulted loans for more than one day is KM 27.1 million. The default loan rate over one day as of 30.06.2014 was 6.91% and shows a deterioration compared to the end of the previous year by 3.95 percentage points. The biggest defaulted loan amount is with those of 61 to 90 days (KM 9.3 million or 2.4% of total loans). The total amount of interest due by current loans which are defaulted for more than one day is KM 1.6 million. The total amount of calculated reserves on all bases is KM 17.2 million and is up by KM 11.2 million or 184% compared to 31.12. 2013. During the analysis of MCO reports, it was found that one of the three largest MCOs has a 73% of share in total reserve amount.

In the first six months of the current year, the write-off amounted to KM 4.4 million of principal and KM 1.4 million of interest.

**Graph 12. Portfolio Quality of MCOs**

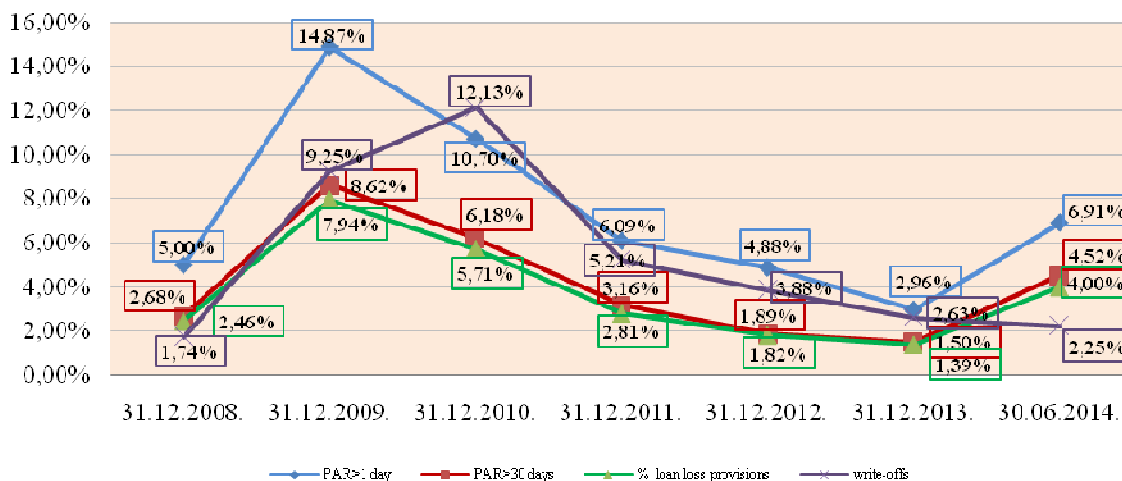


### 2.3.1. Key Indicators of Loan Portfolio Quality

Compared to the end of the previous year, as of 30.06.2014, the microcredit portfolio recorded a drop of 1% (KM 3.6 million) and shows a deterioration in the quality of the active loan portfolio. The majority of MCOs is exposed to the pressure of competition both from larger MCOs and from banks. Many smaller MCOs are faced with a lack of funds for financing the loan portfolio.

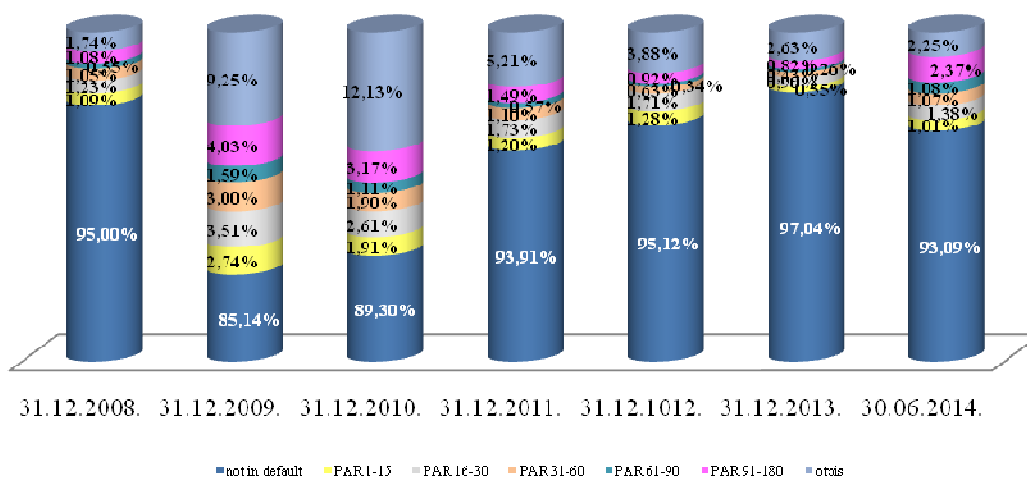
The deterioration in the quality of the active portfolio was rendered by the increase of the loan loss provisions rate from 1.39%, to which it amounted as of 31.12.2013, to even 4%. The risk portfolio for more than 30 days past due also increased from 1.50% to 4.52%. The total sector result based on the risk portfolio is within the standards prescribed by the Agency, while out of 13 MCOs, 3 MCFs do not meet the standard of the Agency in terms of the risk portfolio, which must be below 5%. In the case of one of the three largest MCFs, defaulted loans for more than 30 days amount to even 20.37% of total gross loans. The risk portfolio for more than one day past due also recorded a drop, which increased from 2.96%, to which it amounted as of the end of the previous year, to 6.91%.

**Graph 13. Active Portfolio Quality Indicators of MCOs**



In terms of the indicators of loan portfolio quality and other business results of MCFs, the Agency has reservations regarding the accuracy of the data of one of the three largest MCFs, which has a market share of 14% and which did not, given the temporary measure of the competent court, comply with the Agency's orders in terms of the significant amount of ordered additional reserves within the stipulated period of time. The reports of this MCF are thus not harmonised with the Agency's regulations.

**Graph 14. Gross Portfolio Classification of MCOs by Year**



During the first six months of 2014, MCOs wrote off 3 371 loan accounts (3 341 write-offs relate to natural persons and 30 to legal entities) in the total amount of KM 5.8 million, of which KM 4.4 million relate to the written-off principal. Even 59% of written-off loan accounts and 51% of written-off principal out of the total number of written-off loan accounts and the total number of written-off principal in the first six months of 2014 relate to one of the three largest MCFs in the Federation of B&H. During the examination of this MCF, the Agency found numerous irregularities in its business operations, especially regarding write-offs.

As of 30.06.2014, the percentage of write-offs at sector level amounted to 2.25%, which is lower by 0.38 percentage points and is within the framework of the standard prescribed by the Agency. Four MCFs do not meet the Agency standard in terms of the percentage of written-off loans, which must be below 3%.

Microcredit organisations continued with their efforts to collect receivables under non-performing loans and managed to collect KM 5.2 million of written-off principal in the first six months of 2014 (more than written-off principals in the same period) and KM 0.6 million of written-off interest, while two MCFs permanently wrote off a total of KM 105 thousand of principal and KM 16 thousand of interest in the same reporting period.

As of 30.06.2014, total receivables by write-offs, which are in the off-balance records, amount to as KM 165.5 million, which is 3% lower compared to the end of the previous year. Two MCFs have KM 73.9 million of total receivables by write-offs, which makes up 45% of total receivables by write-offs at sector level.

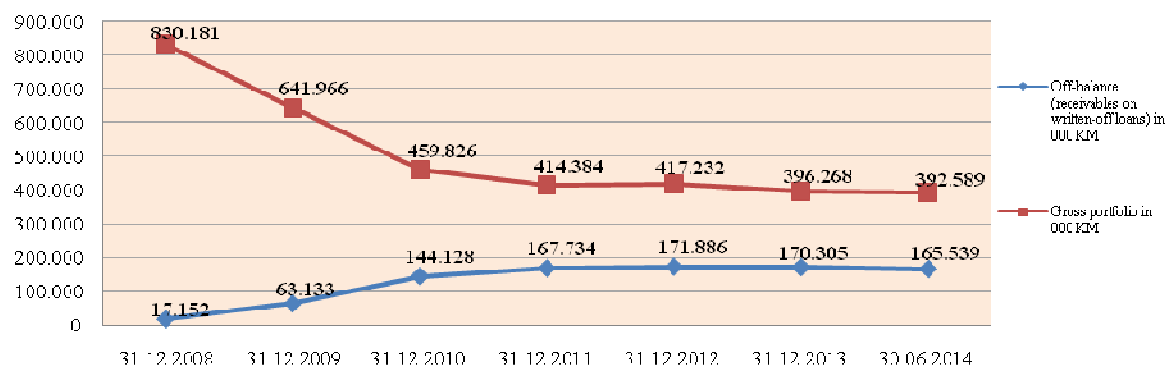
**Table 10. Receivables by Written off Principal and Interest**

DESCRIPTION	NATURAL PERSONS		LEGAL ENTITIES		TOTAL	
	Written off principal	Written off interest	Written off principal	Written off interest	Written off principal	Written off interest
1	2	3	4	5	6	7
<b>Initial balance as of 01.01.2014.</b>	<b>139 599</b>	<b>21 942</b>	<b>2 726</b>	<b>295</b>	<b>142 325</b>	<b>22 237</b>
<b>Changes in 2014:</b>						
<b>New write-off in the current year</b>	<b>4 330</b>	<b>1 383</b>	<b>98</b>	<b>9</b>	<b>4 428</b>	<b>1 392</b>
<i>Write-off in the period 01.01.-31.03.</i>	2 437	907	35	4	<b>2 472</b>	<b>911</b>
<i>Write-off in the period 01.04.-30.06.</i>	1 893	476	63	5	<b>1 956</b>	<b>481</b>
<i>Write-off in the period 01.07.-31.12.</i>	0	0	0	0	<b>0</b>	<b>0</b>
<i>Write-off in the period 01.10.-31.12.</i>	0	0	0	0	<b>0</b>	<b>0</b>
<b>Collected in the current year</b>	<b>5 096</b>	<b>558</b>	<b>73</b>	<b>8</b>	<b>5 169</b>	<b>566</b>
<i>Collection of write-offs in the period 01.01.-31.03.</i>	2 583	294	37	4	<b>2 620</b>	<b>298</b>
<i>Collection of write-offs in the period 01.04.-30.06.</i>	2 513	264	36	4	<b>2 549</b>	<b>268</b>
<i>Collection of write-offs in the period 01.07.-31.12.</i>	0	0	0	0	<b>0</b>	<b>0</b>
<i>Collection of write-offs in the period 01.10.-31.12.</i>	0	0	0	0	<b>0</b>	<b>0</b>
<b>Permanent write-off in the current year</b>	<b>105</b>	<b>16</b>	<b>0</b>	<b>0</b>	<b>105</b>	<b>16</b>
<i>Permanent write-off in the period 01.01.-31.03.</i>	73	8	0	0	<b>73</b>	<b>8</b>
<i>Permanent write-off in the period 01.04.-30.06.</i>	32	8	0	0	<b>32</b>	<b>8</b>
<i>Permanent write-off in the period 01.07.-31.12.</i>	0	0	0	0	<b>0</b>	<b>0</b>
<i>Permanent write-off in the period 01.10.-31.12.</i>	0	0	0	0	<b>0</b>	<b>0</b>
<b>Balance as of 30.06.2014.</b>	<b>138 728</b>	<b>22 751</b>	<b>2 751</b>	<b>296</b>	<b>141 479</b>	<b>23 047</b>

\* Note: The data in Table 10 differs from total receivables by write-offs shown in the off-balance records in the amount of KM 1 million, which includes court expenses, penalty and process interest and a portion of off-court settlements in the case of two MCF.

Compared to 2008, the gross portfolio of MCOs is lower by 53%, while receivables by write-offs are almost 10 times higher and make up 42% of the total loan portfolio as of 30.06.2014. there are significant deviations in the quality of the portfolio between different MCOs, which are evident from the data that four MCFs have over 70% of total write-offs compared to the total gross portfolio (total receivables by write-offs, which are in off-balance records, are higher than total gross loans by 2.4% in the case of one MCF), which is a direct consequence of past loan expansion. One MCF and one MCC showed total write-offs below 10% of the total gross portfolio.

**Graph 15. Receivables on Written-off Loans and Gross Portfolio of MCOs**



In terms of the obligation to start court disputes for the collection of write-offs which fell due and have not been collected for more than 180 days, the examination at one MCF with a significant market share revealed that it has over 10 000 unsued loan accounts totaling over KM 15 million, which is at odds with Article 3, Item 3 of the Decision on Level and Manner of Forming and Maintaining Reserves for Loan Losses of Microcredit Organisations. Given that this MCF performs overall cash transactions regarding payment and collection of loans in cash, avoiding court disputes for these cases leaves room for the unlawful handling of write-offs and other misuses.

### 2.3.2. Loan Repayment with Guarantorship as Security Instrument

The consequences of global economic crisis on the financial sector, improper credit policies and weaknesses of internal controls of MCOs as well as general overindebtedness of microloan beneficiaries have affected the lending process and loan portfolio quality. The activation of security instruments in the case of loan insurance under guarantorship happens as a result of uncollectable receivables from earlier periods or due to the clients' inability to repay matured loan commitments. In the interest of collecting, monitoring and data analysis of loans being repaid through guarantors, the Agency has prescribed a new OKJ reporting form as of 31.12.2009.

According to the loan repayment reports of MCOs with guarantorship as a security instrument, as of 30.06.2014 in the Federation of B&H, 2 078 guarantors repaid KM 3.1 million of total approved loans being repaid through this security instrument in the amount of KM 13.3 million (1 836 loan accounts), which is lower by 284 guarantors or 12% of guarantors compared to 31.12.2013 (KM 2 362 guarantors repaid 3.6 million, while the approved loans amount repaid by guarantors was KM 14 million– 2 012 loan accounts). One MCF has a 86% share in total repayment on account of guarantors. As of 30.06.2014, the average loan amount repaid or being repaid through guarantorship is KM 1 519.

Out of the total number of loan accounts, 1.07% of loan accounts are loans with guarantorship and compared to the end of 2013, loan account share with guarantorship in the total number of loan accounts dropped by 0.04 percentage points. The biggest share of loan accounts backed by guarantors compared to the total number of loan accounts (2.88% and 2.45%) was recorded with two MCFs. As of 30.06.2014, the outstanding loan debt balance backed by guarantors amounted to KM 4.9 million, which is 1.25% of gross loans of MCOs and the share of outstanding debt in the gross portfolio is higher by 0.21 percentage points compared to 31.12.2013 (as of 31.12.2013, the outstanding loan debt balance backed by

guarantors amounted to KM 4.1 million compared to KM 396.4 million of the gross portfolio, which is 1.04% of the gross portfolio of MCOs).

## 2.4. Weighted Nominal and Effective Interest Rates on Microloans

Effective interest rates on microloans is the total price of those loans and is calculated and shown in accordance with the Decision on Uniform Manner of Calculation and Disclosure of Interest Rate on Loans and Deposits - Consolidated text („Official Gazette of the Federation of B&H“, No.: 48/12). The calculation of the effective interest rate includes data on the amount of the nominal interest rate on loans, the compensation and fee amount, which MCOs calculate for the client during the loan approval process, and the compensation and fee amount as of the calculation date, which MCOs calculate for the client during the loan agreement execution.

No.	DESCRIPTION	Total amount of microloan payment in Q2 2014 (in 000 KM)	Weighted nominal interest rate (average)	Weighted effective interest rate (average)
<b>1.</b>	<b>Short-term microloans for:</b>	<b>15 828</b>	<b>21.74%</b>	<b>30.05%</b>
1.1.	Service activities	2 931	24.24%	32.25%
1.2.	Trade	1 357	22.53%	29.76%
1.3.	Agriculture	3 142	22.43%	29.55%
1.4.	Production	347	22.70%	28.52%
1.5.	Housing needs	1 305	21.41%	27.88%
1.6.	Non-purpose-basic needs	503	16.16%	39.45%
1.7.	Other	6 243	20.50%	29.11%
<b>2.</b>	<b>Long-term microloans for:</b>	<b>67 605</b>	<b>20.90%</b>	<b>24.65%</b>
2.1.	Service activities	13 798	21.30%	25.21%
2.2.	Trade	4 983	20.57%	24.26%
2.3.	Agriculture	24 151	19.44%	22.88%
2.4.	Production	1 350	21.07%	25.25%
2.5.	Housing needs	11 309	20.96%	24.17%
2.6.	Non-purpose-basic needs	807	23.27%	33.09%
2.7.	Other	11 207	23.40%	27.72%
<b>TOTAL</b>		<b>83 433</b>	<b>21.06%</b>	<b>25.68%</b>

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

In accordance with monthly statements on weighted nominal and effective interest rates by loan, in the second quarter of 2014, MCOs placed micro loans in the total amount of 83.4 million KM, which is lower by KM 17.1 million or 17% compared to the microloan amount placed in the same period of the previous year. This is mostly due to reduced placement of microloans of one of the three largest MCFs in the Federation of B&H. As of 30.06.2014, MCOs had 171 607 active loan accounts, which is lower by 10 138 loan accounts or 6% compared to the end of the previous year. As of 30.06.2014, the average amount of

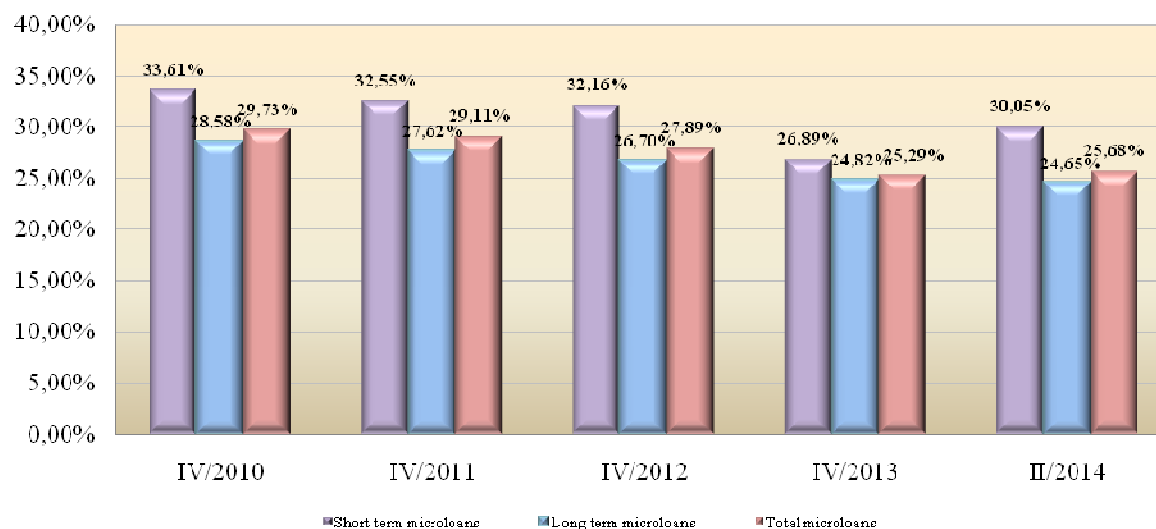
microloans at sector level was KM 2 288, which was the average of MCFs (31.12.2013 – KM 2 180), while the average amount of micro loans in the MCC was KM 2 067.

The average weighted nominal interest rate on short-term loans ranges from 16.16% for other loans up to 24.24% for service activities, and the effective interest rate ranges from 27.88% for other loans up to 39.45% for non-purpose loans. The average weighted nominal interest rate on long-term loans ranges from 19.44% for agriculture up to 23.40% for other loans, and the effective interest rate ranges from 23.40% for agriculture up to 33.09% for non-purpose loans. By analysing the effective interest rates of MCOs by loan product, it can be concluded that the most favourable loans are placed for agriculture, while the most expensive loans are non-purpose loans, i.e. loans for basic needs.

Average weighted effective interest rates on short-term, long-term and total microloans in the Federation of B&H by quarter are shown in Table 12.

AVERAGE WEIGHTED EFFECTIVE INTEREST RATE on:	IV/2010	IV/2011	IV/2012	IV/2013	II/2014
Short-term microloans	33.61%	32.55%	32.16%	26.89%	30.05%
Long-term microloans	28.58%	27.62%	26.70%	24.82%	24.65%
Total microloans	29.73%	29.11%	27.89%	25.29%	25.68%

**Graph 16. Average Weighted Effective Interest Rates on Microloans (in %)**



Microcredit organisations increased effective interest rates on total microloans, so that, at the end of the second quarter of 2014, average weighted effective interest rates in the microcredit sector on total loans amounted to 25.68%, and recorded an increase of 0.39 percentage points compared to the fourth quarter of 2013. Compared to the same period, average weighted effective interest rates on short-term loans amounted to 30.05% and recorded an increase of even 3.16 percentage points. Average weighted effective interest rates on long-term loans amounted to 24.65% at the end of the second quarter of 2014 and dropped by 0.17 percentage points compared to the fourth quarter of 2013. In order to reduce interest rates on microloans and to protect beneficiaries-clients of microcredit organisations as well as fulfill the microlending

mission, in its examinations, the Agency places special emphasis on and controls all types of costs of MCOs' business operations, assesses their necessity and issues adequate orders. The Agency shall further focus on cost control of MCOs, whether they are justified and purposeful, in order to reduce interest rates on microloans of MCOs from the Federation of B&H.

## 2.5. Income Statement

The structure of the income statement of the microcredit sector of the Federation of B&H is shown in Table 13.

- 000 KM -

No.	DESCRIPTION	For the period 01.01. - 30.06.2013				For the period 01.01. - 30.06.2014				Index
		MCFs	MCCs	Total	%	MCFs	MCCs	Total	%	
1	2	1	2	3=(1+2)	4	5	6	7=(5+6)	8	9=(7/3)
<b>1.</b>	<b>INCOME</b>									
1.1.	Interest-based income and similar income	42 593	163	42 756	87	34 912	88	35 000	88	82
1.2.	Operating income	6 160	28	6 188	13	4 744	12	4 756	12	77
<b>2.</b>	<b>TOTAL INCOME (1.1.+1.2.)</b>	<b>48 753</b>	<b>191</b>	<b>48 944</b>	<b>100</b>	<b>39 656</b>	<b>100</b>	<b>39 756</b>	<b>100</b>	<b>81</b>
<b>3.</b>	<b>EXPENSES</b>									
3.1.	Interest-based expenses and similar expenses	8 569	39	8 608	18	7 382	21	7 403	13	86
3.2.	Operating expenses	33 810	159	33 969	71	31 408	239	31 647	58	93
3.3.	Expenses for loan loss provisions and other losses	5 307	18	5 325	11	15 766	10	15 776	29	296
<b>4.</b>	<b>TOTAL EXPENSES (3.1.+3.2.+3.3.)</b>	<b>47 686</b>	<b>216</b>	<b>47 902</b>	<b>100</b>	<b>54 556</b>	<b>270</b>	<b>54 826</b>	<b>100</b>	<b>114</b>
5.	EXTRAORDINARY INCOME	7 271	2	7 273		6 404	4	6 408		88
6.	EXTRAORDINARY EXPENSES	810	0	810		544	4	548		68
<b>7.</b>	<b>TOTAL INCOME-EXPENSES (2+5-4-6)</b>	<b>7 528</b>	<b>-23</b>	<b>7 505</b>		<b>-9 040</b>	<b>-170</b>	<b>-9 210</b>		<b>-123</b>
8.	SURPLUS/DEFICIT OF INCOME OVER EXPENSES	7 528		7 528		-9 040		-9 040		-120
9.	PROFIT BEFORE TAXES		-23	-23			-170	-170		
10.	TAXES		0	0			0	0		
11.	NET PROFIT/LOSS		-23	-23			-170	-170		
<b>12.</b>	<b>TOTAL FIN. RESULT</b>			<b>7 505</b>				<b>-9 210</b>		

The total income of MCOs in the period from 01.01. to 30.06.2014 amounts to KM 39.7 million, which completely account for MCF income. The total income is lower by KM 9.2 million or 19% compared to the same period of the previous year. The biggest income portion is contributed by interest income, which amount to KM 35 million or 88% of total income and are lower by KM 7.7 million or 18% compared to the same period of the previous year, while operating income amounts to KM 4.7 million or 12% of total income and is lower by KM 1.4 million or 23% compared to the same period of the previous year.

Total expenses amount to KM 54.8 million, 54.5 million or 99.5% of which account for expenses of MCFs, and KM 0.3 million or 0.5% for the expenses of one MCC. Compared to the same period of the previous year, total expenses are higher by KM 6.9 million or 14%. In



the expenses structure, KM 7.4 million or 13% of total expenses account for interest expenses on taken loans and other similar expenses, which are lower by KM 1.2 million or 14% compared to the same period of the previous year. Operating expenses amount to KM 31.6 million or 58% of total expenses and are lower by KM 2.3 million or 7% compared to the same period of the previous year. Operating expenses include salary and contributions' expenses in the amount of KM 19.3 million (01.01.-30.06.2013: KM 19.7 million), business premises' expenses, other fixed assets and utility costs in the amount of KM 6.8 million (01.01.-30.06.2013: KM 6.8 million) and other operating expenses in the amount of KM 5.5 million (01.01.-30.06.2013: KM 6.1 million). Expenses for loan loss provisions and other losses amount to KM 15.8 million or 29% of total expenses and are higher by KM 10.4 million or 196%. Even 81% of the total amount of loan loss provisions and other losses in the first six months of 2014 is contributed by one of the three largest MCFs in the Federation of B&H.

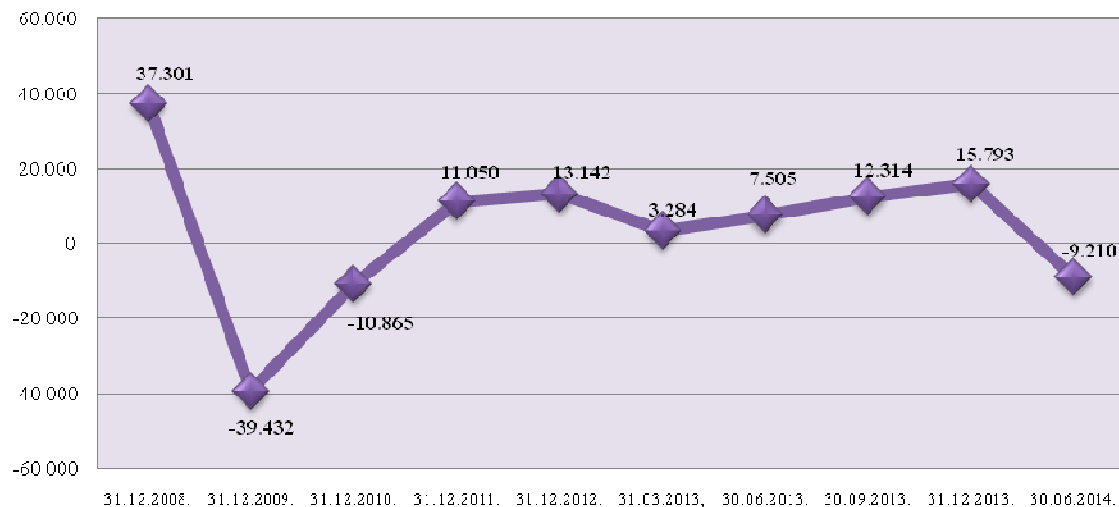
Salary and contributions' expenses generated in the period 01.01.-30.06.2014 are lower by 2% compared to the same period of the previous year. According to MCO reports, as of 30.06.2014, the average monthly net salary of MCO employees was KM 1 101 and the average monthly net amount of incentives, stimulations and bonuses was KM 50. This means that the average monthly net salary with bonuses was KM 1 151 in the microcredit sector. As of 30.06.2014, the average monthly net salary of a senior management member in the microcredit sector was KM 3 931, while average monthly net compensations paid to supervisory board members in MCOs were KM 421 and to audit board members KM 432. As of the reporting date, the average monthly net salaries of middle and low management in MCOs were KM 1 890, of loan officers KM 900 and of administration and other staff KM 969. In one MCF, the average monthly net salary of senior management was 2 times higher compared to the sector average. The average monthly compensation paid to members of managing bodies is almost 7 times higher than the sector average in one MCF, since the on-site control of this MCF determined that one member of a managing body has a monthly compensation for his work in the amount of KM 7 000, which is an unacceptable practice.

Extraordinary income of MCOs generated in the period from 01.01. to 30.06.2014 amounts to KM 6.4 million, which is lower by KM 0.9 million or 12% compared to the same period of the previous year. Extraordinary income is dominated by the collection of receivables from write-offs. Extraordinary income of MCOs generated in the six months of the current year amounts to KM 0.5 million and is lower by KM 262 thousand or 32% compared to the same period of the previous year.

In the period from 01.01. to 30.06.2014, one MCC generated a net loss of KM 170 thousand (01.01. – 30.06.2013: KM 23 thousand of net loss). In the same period, MCFs generated a deficit of income over expenses totaling KM 9 040 thousand, while MCFs generated an excess of income over expenses in the amount of KM 7 528 thousand in the same period of the previous year. In the period from 01.01. to 30.06.2014, out of a total of 12 MCFs, a deficit of income over expenses was recorded by four MCFs in the total amount of KM 17 033 thousand, while an excess of income over expenses was recorded by 8 MCFs in the total amount of KM 7 993 thousand. Out of 4 MCFs that, in the period from 01.01. to 30.06.2014, generated a deficit of income over expenses in the amount of KM 17 033 thousand, one of the three largest MCFs, generated a deficit of KM 16 939 thousand in this period, i.e. 99.4% of total deficit at sector level, while the other three MCFs account for only 94 thousand of generated deficit of income over expenses, i.e. 0.6%. Without the data of this MCF, which is at odds with the sector trend as of 30.06.2014 and which completely destabilised the microcredit market and affected the deterioration of sector results and performance indicators,

the microcredit sector generates positive result in the amount of KM 7 729 thousand, which positively affects performance indicators.

**Graph 17. Total Financial Result of MCOs by Year (in 000 KM)**



At the end of the second quarter, a negative financial result in the amount of KM 9 210 thousand was recorded at the level of microcredit sector in the Federation of B&H, which is lower by KM 16 715 thousand compared to the same period of the previous year, when the sector generated a positive result.

### 3. TRANSACTIONS WITH RELATED ENTITIES

Provisions of the Decision on Other General Conditions for Operations of Microcredit Organisation („Official Gazette of the Federation of B&H“, No.: 27/07) prescribe minimum standards for a business relation of MCOs with the entities considered its related entities under Article 5 of the Law on Microcredit Organisations. Article 6 of the Agency's Decision prescribes that an MCO may conduct business transactions with an entity considered its related entity only in compliance with the Law on Microcredit Organisations, the Agency's decision and special policies of MCOs for business relations with related entities, which are adopted and the implementation of which is monitored by the MCOs' managing bodies. A transaction with a related entity is also any transaction with a third party if the funds that were employed in the transaction were transferred to a related entity or were used so that a related entity would profit. With reference to this, all MCOs must establish a register of related entities, which is to be regularly updated. Also, when conducting transactions with related entities, MCOs must act in accordance with the adopted policies that, among other things, prescribe the following:

- All transactions with related entities must be approved by an MCO's managing body,
- An entity related to an MCO that is a member of the managing body of such MCO must not participate in voting during the decision-making process on business transactions between an MCO and them or any other entity related to them,
- The managing body must sign a written statement that any transaction between them and a related entity is fair and in the best interest of the MCO,

- MCOs shall establish and maintain regular records, documentation and files on approvals of the managing bodies for transactions with related entities, etc.

When conducting transactions with related entities of an MCO, no such conditions may be offered that would be more favourable to any other entities, and MCOs shall report to the Agency through quarterly reports on all transactions conducted by the MCO with its related entities in the reporting quarter.

During the first six months of 2014, out of 13 MCOs, 5 MCFs and 1 MCC submitted reports, in the prescribed form, to the Agency on transactions conducted with related entities in the total amount of KM 2.8 million. Only one MCF has an even 97.4% share in the total amount of transactions with related entities. Table 14 provides a breakdown of transactions with related entities in the period from 01.01. to 30.06.2014, which shows that the majority transactions performed by MCOs are based on loans received from banks related to MCOs (90.61%) and based on the payment of regular and penalty interest (4.68%). In addition to the aforementioned transactions, MCOs also reported the transactions with related entities based on legal services, the delivery of goods/services, leases of business premises and other.

- in KM -

<i>Tabela 14. Transactions with Related Entities</i>			
No.	Description of transaction	Transaction amount in the period 01.01.-30.06.2014. godine	Share (%)
1.	Short-term loans from banks	2 580 000	90.61%
2.	Regular and penalty interest, management fees	133 338	4.68%
3.	Legal services	34 632	1.22%
4.	Transactions with the founder and founder-related entities	30 010	1.05%
5.	Payment by invoices for delivered goods/services	29 899	1.05%
6.	Borrowings from legal entities and natural persons	15 549	0.55%
7.	Loan annuities	6 436	0.23%
8.	Lease of business premises	6 231	0.22%
9.	Refunding of expenses	6 136	0.22%
10.	Payment of joint expenses of a related person	5 140	0.18%
11.	Short-term deposits to banks	0	0.00%
12.	Receivables based on lease	0	0.00%
<b>UKUPNO</b>		<b>2 847 371</b>	<b>100.00%</b>

The reported transactions of MCOs with related entities refer to transactions conducted with entities related to MCOs' directors (97%), MCOs' founders (1%) and members of the supervisory and audit boards (2%). During the examinations in the period to come, the Agency will focus on the compliance with business policies for the MCOs' transactions with related entities, and it will evaluate the benefits the MCOs have when performing such transactions and order adequate measures to be taken in the interest of eliminating irregularities found in the MCOs' business operations with related entities.

### **III CONCLUSIONS AND RECOMMENDATIONS**

By analysing MCO reports as of 30.06.2014, it can be concluded that the business operations of microcredit organisations in the Federation of B&H compared to the end of the previous year show a further drop in assets (by 4%) and loan portfolio (by 1%).

Indicators of loan portfolio quality also show deterioration, a decrease in loan commitments (by 3%) as the main source of funding for financing the loan portfolio, and a drop in the number of employees (by 5%). The capital of MCFs recorded a drop of 5% compared to the end of the previous year due to a negative financial result.

For MCOs with a continuous loan portfolio drop, loss of their market segment and that have been denied the trust of creditors because of a negative business trend and inability to reach set standards, it is important to, for the purpose of retaining the substance of business operations, and especially donated funds, negotiate on mergers and acquisitions, which is an important step to preserve this sector. The consolidation at the level of MCOs, especially medium-sized ones, is necessary for the stabilisation of the microcredit sector for the purpose of increasing the economy of scope, improving efficiency of business operations of MCOs through important cost savings, as well as increasing the competence of the management boards, management and other MCO staff. The consolidation would ensure the strengthening of the capital base of a small number of stronger and healthier MCOs. Since a significant amount of loans in liabilities of microcredit organisations will fall due by the end of this year, the organisations may have problems with liquidity if they do not receive creditors' support and some smaller MCOs should consider making decisions on mergers for that reason.

Imperative for eliminating negative effects is complying with the principles of operating with the care of a good businessman and focusing on full transparency, the optimisation of operating costs and their full justification, proper credit risk management, which should finally result in falling interest rates on microloans and achieving the objectives stated in the Law on Microcredit Organisations.

Within its responsibilities under the Law, the Agency takes all available supervision measures and initiates necessary procedures before the competent authorities for the purpose of sanctioning MCOs and putting their business operations within legal frameworks in order to achieve the main role of microlending.

In the period to come, MCOs should work intensively on the following:

- Finding partners for mergers and acquisitions; MCOs with smaller amounts of capital and a high degree of written-off loans should adopt a clear strategy for merging with bigger and stronger MCOs to optimise resources, preserve donated funds, ensure support of foreign creditors and secure the future of MCO employees;
- Increasing the responsibilities of the management board, ensuring independence from the management and control of management by management boards;
- Establishing mechanisms to check the reliability of projects and materially significant costs of operations, including salaries and bonuses of the management, and all other benefits of the management and members of the board of directors, which the aforementioned exercise at the expense of the assets of MCOs and which are directly compensated by high interest rates;
- Establishing an internal audit that is fully independent from the MCO management and will also supervise the management segment and regularly report to the management board;

- Controlling interest rates and achieving objectives from the LoMCO through active involvement of the managing bodies in the process of approving policies on establishing prices of microloans;
- Cutting operating costs, the full implementation of the principles of due care for the assets of the foundation and the implementation of principles of good corporate practices;
- Reducing interest rates on microloans;
- Fully implementing Article 2 of the LoMCO, which prescribes performing activities for the purpose of improving the material status of beneficiaries of microloans, increasing employment and providing support to the development of entrepreneurship;
- Improving the system of internal controls, improving efficiency of business operations and optimising MCO resources as well as implementing the principles of responsible credit financing;
- The mandatory exchange of information at the level of the sector and the Central Loan Registry;
- Taking all required actions in the interest of solving the problems of overindebted customers and guarantors;
- Improving institutional capacities, and
- Fully implementing valid regulations and increasing the transparency of business operations.

**No.: U.O.-62-3/14**

**Sarajevo, 02.09.2014**

## **IV ANNEXES**

Annex 1 Regulations of the Banking Agency for business operations of Micro Credit Organisations

Annex 2 Main data on MCOs

Annex 3 Balance sheet of MCFs

Annex 4 Balance sheet of MCCs

Annex 5 Income statement of MCFs

Annex 6 Income statement of MCCs

Annex 7 Overview of donated funds of MCFs

**Annex 1**

**REGULATIONS OF THE BANKING AGENCY FOR BUSINESS OPERATIONS OF MICRO CREDIT ORGANISATIONS**

<b>Decisions of the Banking Agency related to MCO operations</b>	<b>Official Gazette of the Federation of B&amp;H</b>
1. Decision on Conditions and Process of Issuance of Operating License for Microcredit Foundation Resulting from Changed Organisational Form of a Microcredit Organisation	27/07
2. Decision on Conditions and Process of Issuance and Revocation of Operating License and Other Approvals to/from Microcredit Organisations	27/07 and 46/11
3. Decision on Supervision of Microcredit Organisations	27/07
4. Decision on Form and Contents of Reports Microcredit Organisations Submit to the Banking Agency of the Federation of B&H and on Reporting Deadlines	27/07, 110/12 and 15/13
5. Decision on Level and Manner of Forming and Maintaining Reserves for Loan Losses of Microcredit Organisations	27/07
6. Decision on Other General Conditions for Operations of Microcredit Organisations	27/07
7. Decision on Uniform Manner of Calculation and Disclosure of Effective Interest Rate on Loans and Deposits (Consolidated text)	48/12
8. Decision on Conditions and Process of Issuance of Operating License and Approval for Acquiring Ownership Share by Investing and Transferring Assets of the Microcredit Foundation	27/07
9. Decision on Conditions and Manner of Customer Complaint Management by Banks, Microcredit Organisations and Leasing Companies	23/14 and 26/14
10. Decision on Fees Microcredit Organisations Pay to the Banking Agency of the Federation of B&H	46/11
11. Decision on Minimum Standards for Activities of Microcredit Organisation to Prevent Money Laundering and Financing Terrorist Activities	48/12
12. Decision on Minimum Standards for Documenting Lending Activities of Microcredit Organisations and Assessing Creditworthiness	23/14
13. Decision on Conditions and Manner for Handling Guarantors' Requests for Release from the Guarantor's Obligation	23/14

<b>Instructions of the Banking Agency related to MCO Operations</b>
<ol style="list-style-type: none"> <li>1. Instructions for Implementation of the Decision on Uniform Manner of Calculation and Disclosure of Effective Interest Rate on Loans and Deposits;</li> <li>2. Instructions for Calculation of Weighted and Effective Interest Rate;</li> <li>3. Instructions for Calculation of Adjusted Return on Assets;</li> <li>4. Instructions for Calculation of Efficiency Ratios and</li> <li>5. Instructions for MCO Reporting.</li> </ol>

## Annex 2

## MAIN DATA ON MCOs

No	Name of microcredit organisation	Address and seat	Director	Tel/Fax	E-mail and Web	30.06.2014			
						Assets amount in 000 KM	Capital amount in 000 KM	No. of employees	No. of org. units
1.	MKD "EKI" d.o.o. Sarajevo	ul. Džemala Bijedića bb 71 000 SARAJEVO	Sead Mucić	033/ 754-380, 754-388 fax	<a href="mailto:sead.mucic@eki.cba">sead.mucic@eki.cba</a> <a href="http://www.eki.ba">www.eki.ba</a>	1 220	425	15	1
2.	MKF "EKI" Sarajevo	ul. Džemala Bijedića bb 71 000 SARAJEVO	Sadina Bina	033/ 754-380, 754-388 fax	<a href="mailto:sbina@mkoeki.com">sbina@mkoeki.com</a> <a href="http://www.mkoeki.com">www.mkoeki.com</a>	109 111	49 673	257	68
3.	MKF "LIDER" Sarajevo	ul. Turhanija 2 71 000 SARAJEVO	Džavid Sejfović	033/ 250-580, 250-581 fax	<a href="mailto:dzavids@lider.ba">dzavids@lider.ba</a> <a href="http://www.lider.ba">www.lider.ba</a>	13 447	10 437	51	12
4.	"LOK MKF" Sarajevo	ul. Skenderija 13 71 000 SARAJEVO		033/ 564-200, 564-201 fax	<a href="mailto:central.office@lok.ba">central.office@lok.ba</a> <a href="http://www.lok.ba">www.lok.ba</a>	50 871	8 926	177	42
5.	MKF "MELAHA" Sarajevo	ul. Hamdije Kreševljakovića 59 71 000 SARAJEVO	Jakob Finci	033/ 205-737 tel/fax	<a href="mailto:viktor@melaha.ba">viktor@melaha.ba</a>	1 068	316	4	0
6.	MKF "MI-BOSPO" Tuzla	ul. Bosne srebrene bb 75 000 TUZLA	Nejira Nalić	035/ 270-283, 252-448 fax	<a href="mailto:mi-bospo@mi-bospo.org">mi-bospo@mi-bospo.org</a> <a href="http://www.mi-bospo.org">www.mi-bospo.org</a>	40 766	16 827	140	24
7.	MKF "MIKRA" Sarajevo	ul. Marka Marulića 2/VI 71 000 SARAJEVO	Sanin Čampara	033/ 616-162, 717-141 fax	<a href="mailto:mikra@mikra.ba">mikra@mikra.ba</a> <a href="http://www.mikra.ba">www.mikra.ba</a>	18 487	4 978	92	20
8.	MKF "MIKRO ALDI" Goražde	ul. Panorama bb 73 000 GORAŽDE	Ferida Softić	038/ 226-456, 221-004 fax	<a href="mailto:mka.aldi@bih.net.ba">mka.aldi@bih.net.ba</a> <a href="http://www.mikroaldi.org">www.mikroaldi.org</a>	4 699	3 738	26	5
9.	"PARTNER MKF" Tuzla	ul. 15. maja bb 75 000 TUZLA	Senad Sinanović	035/ 300-250, 300-269 fax	<a href="mailto:partner@partner.ba">partner@partner.ba</a> <a href="http://www.partner.ba">www.partner.ba</a>	121 501	50 800	295	56
10.	MKF "PRIZMA" Sarajevo	ul. Bistrik Medresa 43 71 000 SARAJEVO	Jure Žigo	033/ 573-320, 446-583 fax	<a href="mailto:hq@prizma.ba">hq@prizma.ba</a> <a href="http://www.prizma.ba">www.prizma.ba</a>	65 127	5 695	118	21
11.	"PRVA ISLAMSKA MKF" Sarajevo	ul. Jukićeva 75 71 000 SARAJEVO	Edina Hadžimurtezić	033/ 666-233, 666-224 fax	<a href="mailto:info@mfi.ba">info@mfi.ba</a>	1 718	1 578	9	0
12.	MKF "SANI" Zenica	ul. Mehmedalije Tarabara 10 72 000 ZENICA	Sulejman Haračić	032/ 405-606 tel/fax	<a href="mailto:mikrosanizenica@yahoo.com">mikrosanizenica@yahoo.com</a>	433	283	4	0
13.	MKF "SUNRISE" Sarajevo	ul. Zagrebačka 50 71 000 SARAJEVO	Anis Aganović	033/ 727-350, 812-231 fax	<a href="mailto:sunrise@microsunrise.ba">sunrise@microsunrise.ba</a> <a href="http://www.microsunrise.ba">www.microsunrise.ba</a>	27 876	16 841	150	37
<b>TOTAL</b>						<b>456 324</b>	<b>170 517</b>	<b>1 338</b>	<b>286</b>



## Annex 3

## BALANCE SHEET OF MCOs

000 KM

No.	DESCRIPTION	31.12.2013	%	30.06.2014	%	Index
1	2	3	4	5	6	7=5/3
<b>ASSETS</b>						
<b>1.</b>	<b>Cash (1a+1b)</b>	<b>24 123</b>	<b>5</b>	<b>21 049</b>	<b>5</b>	<b>87</b>
1a)	Cash and non-interest bearing deposit accounts	17 027	4	11 985	3	70
1b)	Interest-bearing deposit accounts	7 096	1	9 064	2	128
2.	Facilities to banks	4 054	1	3 373	1	83
3.	Loans	395 382		391 940		99
3a)	Loan loss provisions	5 507		15 678		285
<b>3b)</b>	<b>Net loans (3-3a)</b>	<b>389 875</b>	<b>82</b>	<b>376 262</b>	<b>82</b>	<b>97</b>
4.	Business premises and other fixed assets	42 596	9	40 827	9	96
5.	Long-term investments	761	0	761	0	100
6.	Other assets	14 018	3	14 378	3	103
7.	Minus: provisions for other assets items, except loans	549		1.546		282
<b>8.</b>	<b>TOTAL ASSETS</b>	<b>474 878</b>	<b>100</b>	<b>455 104</b>	<b>100</b>	<b>96</b>
<b>LIABILITIES</b>						
9.	Short-term loan commitments	81 258	17	86 311	19	106
10.	Long-term loan commitments	187 307	39	174 425	38	93
11.	Other liabilities	27 201	6	24 276	6	89
<b>12.</b>	<b>TOTAL LIABILITIES</b>	<b>295 766</b>	<b>62</b>	<b>285 012</b>	<b>63</b>	<b>96</b>
13.	Donated capital	49 640		57 399		116
14.	Core capital	8 291		3 821		46
<b>15.</b>	<b>Surplus of income over expenses</b>	<b>175 440</b>		<b>181 156</b>		<b>103</b>
15a)	For previous years	160 018		173 155		108
15b)	For current year	15 422		8 001		52
<b>16.</b>	<b>Deficit of income over expenses</b>	<b>57 465</b>		<b>74 778</b>		<b>130</b>
16a)	For previous years	57 439		57 745		101
16b)	For current year	26		17 033		65512
17.	Other reserves	3 206		2 494		78
<b>18.</b>	<b>TOTAL CAPITAL</b>	<b>179 112</b>	<b>38</b>	<b>170 092</b>	<b>37</b>	<b>95</b>
<b>19.</b>	<b>TOTAL LIABILITIES</b>	<b>474 878</b>	<b>100</b>	<b>455 104</b>	<b>100</b>	<b>96</b>
<b>OFF-BALANCE RECORDS</b>						
	- written-off loans	170 250		165 486		97
	- agent business	348		319		92

Annex 4

**BALANCE SHEET OF MCCs**

000 KM

No.	DESCRIPTION	31.12.2013	%	30.06.2014	%	Index
1	2	3	4	5	6	7=5/3
<b>ASSETS</b>						
<b>1.</b>	<b>Cash (1a+1b)</b>	<b>88</b>	<b>8</b>	<b>543</b>	<b>44</b>	<b>617</b>
1a)	Cash and non-interest bearing deposit accounts	88	8	543	44	617
1b)	Interest-bearing deposit accounts	0	0	0	0	n/a
2.	Facilities to banks	0	0	0	0	n/a
3.	Loans	886		649		73
3a)	Loan loss provisions	16		23		144
<b>3b)</b>	<b>Net loans (3-3a)</b>	<b>870</b>	<b>84</b>	<b>626</b>	<b>51</b>	<b>72</b>
4.	Business premises and other fixed assets	50	5	34	3	68
5.	Long-term investments	0	0	0	0	n/a
6.	Other assets	28	3	19	2	68
7.	Minus: provisions for other assets items, except loans	1		2		200
<b>8.</b>	<b>TOTAL ASSETS</b>	<b>1 035</b>	<b>100</b>	<b>1 220</b>	<b>100</b>	<b>118</b>
<b>LIABILITIES</b>						
9.	Short-term loan commitments	202	20	0	0	0
10.	Long-term loan commitments	146	14	685	56	469
11.	Other liabilities	92	9	110	9	120
<b>12.</b>	<b>TOTAL LIABILITIES</b>	<b>440</b>	<b>43</b>	<b>795</b>	<b>65</b>	<b>181</b>
13.	Donated capital	0		0		n/a
14.	Core capital	600		600		100
15.	Issue premiums	0		0		n/a
<b>16.</b>	<b>Unallocated profit (16a+16b)</b>	<b>-106</b>		<b>-175</b>		<b>165</b>
16a)	Of previous years	0		-5		n/a
16b)	Of current year	-106		-170		160
17.	Legal reserves	101		0		0
18.	Other reserves	0		0		n/a
<b>19.</b>	<b>TOTAL CAPITAL</b>	<b>595</b>	<b>57</b>	<b>425</b>	<b>35</b>	<b>71</b>
<b>20.</b>	<b>TOTAL LIABILITIES</b>	<b>1 035</b>	<b>100</b>	<b>1 220</b>	<b>100</b>	<b>118</b>
<b>OFF-BALANCE RECORDS</b>						
	<b>- written-off loans</b>	55		53		96
	<b>- agent business</b>	0		0		n/a

Annex 5

**INCOME STATEMENT OF MCFs**

000 KM

No.	DESCRIPTION	For the period 01.01. - 30.06.2013	%	For the period 01.01. - 30.06.2014	%	Index
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 by interest-bearing deposit accounts with deposit institutions	7	0	20	0	286
1.2.	Interest on facilities to banks	125	0	93	0	74
1.3.	Loan interest	41 866	99	32 513	93	78
1.4.	Other financial income	595	1	2 286	7	384
<b>1.5.</b>	<b>Total interest income and similar income (1.1. to 1.4.)</b>	<b>42 593</b>	<b>100</b>	<b>34 912</b>	<b>100</b>	<b>82</b>
<b>2.</b>	<b>Interest expenses and similar expenses</b>					
2.1.	Interest on borrowed funds	8 263	96	7 069	96	86
2.2.	Other financial expenses	306	4	313	4	102
<b>2.3.</b>	<b>Total interest expenses and similar expenses (2.1. to 2.2.)</b>	<b>8 569</b>	<b>100</b>	<b>7 382</b>	<b>100</b>	<b>86</b>
<b>3.</b>	<b>Net financial income (1.5. - 2.3.)</b>	<b>34 024</b>		<b>27 530</b>		<b>81</b>
<b>II</b>	<b>OPERATING INCOME AND EXPENSES</b>					
<b>4.</b>	<b>Operating income</b>					
4.1.	Fees for services performed	5 509	89	4 105	87	75
4.2.	Other operating income	651	11	639	13	98
<b>4.3.</b>	<b>Total operating income (4.1. to 4.2.)</b>	<b>6 160</b>	<b>100</b>	<b>4 744</b>	<b>100</b>	<b>77</b>
<b>5.</b>	<b>Operating expenses</b>					
5.1.	Salary and contribution costs	19 622	58	19 176	61	98
5.2.	Costs of business premises, other fixed assets and utility costs	8 057	24	6 776	22	84
5.3.	Other operating expenses	6 131	18	5 456	17	89
<b>5.4.</b>	<b>Total operating expenses (5.1. do 5.3.)</b>	<b>33 810</b>	<b>100</b>	<b>31 408</b>	<b>100</b>	<b>93</b>
6.	Loan loss provisions and provisions for other losses	5 307		15 766		297
<b>7.</b>	<b>Surplus/deficit of income over expenses from regular operations (3.+4.3.-5.4.-6.)</b>	<b>1 067</b>		<b>-14 900</b>		<b>-1 396</b>
8.	Extraordinary income	7 271		6 404		88
9.	Extraordinary expenses	810		544		67
<b>10.</b>	<b>Surplus/deficit of income over expenses (7.+8.-9.)</b>	<b>7 528</b>		<b>-9 040</b>		<b>-120</b>

Annex 6

**INCOME STATEMENT OF MCCs**

000 KM

No.	DESCRIPTION	For the period 01.01. - 30.06.2013	%	For the period 01.01. - 30.06.2014	%	Index
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 by interest-bearing deposit accounts with deposit institutions	0	0	0	0	n/a
1.2.	Interest on facilities to banks	0	0	0	0	n/a
1.3.	Loan interest	159	98	84	95	53
1.4.	Other financial income	4	2	4	5	100
<b>1.5.</b>	<b>Total interest income and similar income (1.1. do 1.4.)</b>	<b>163</b>	<b>100</b>	<b>88</b>	<b>100</b>	<b>54</b>
<b>2.</b>	<b>Interest expenses and similar expenses</b>					
2.1.	Interest on borrowed funds	35	90	10	48	29
2.2.	Other financial expenses	4	10	11	52	275
<b>2.3.</b>	<b>Total interest expenses and similar expenses (2.1. do 2.2.)</b>	<b>39</b>	<b>100</b>	<b>21</b>	<b>100</b>	<b>54</b>
<b>3.</b>	<b>Net financial income (1.5. - 2.3.)</b>	<b>124</b>		<b>67</b>		<b>54</b>
<b>II</b>	<b>OPERATING INCOME AND EXPENSES</b>					
<b>4.</b>	<b>Operating income</b>					
4.1.	Fees for services performed	28	100	12	100	43
4.2.	Other operating income	0	0	0	0	n/a
<b>4.3.</b>	<b>Total operating income (4.1. do 4.2.)</b>	<b>28</b>	<b>100</b>	<b>12</b>	<b>100</b>	<b>43</b>
<b>5.</b>	<b>Operating expenses</b>					
5.1.	Salary and contributions costs	85	53	174	73	205
5.2.	Costs of business premises, other fixed assets and utility costs	44	28	34	14	77
5.3.	Other operating expenses	30	19	31	13	103
<b>5.4.</b>	<b>Total operating expenses (5.1. do 5.3.)</b>	<b>159</b>	<b>100</b>	<b>239</b>	<b>100</b>	<b>150</b>
6.	Loan loss provisions and provisions for other losses	18		10		56
<b>7.</b>	<b>PROFIT/LOSS FROM REGULAR BUSINESS OPERATIONS (3.+4.3.-5.4.-6.)</b>	<b>-25</b>		<b>-170</b>		<b>680</b>
8.	Extraordinary income	2		4		200
9.	Extraordinary expenses	0		4		n/a
10.	PROFIT/LOSS BEFORE TAXES	-23		-170		739
11.	TAXES	0		0		n/a
<b>12.</b>	<b>NET PROFIT/LOSS</b>	<b>-23</b>		<b>-170</b>		<b>739</b>

Annex 7

**OVERVIEW OF DONATED FUNDS OF MCFs**  
as of 30.06.201

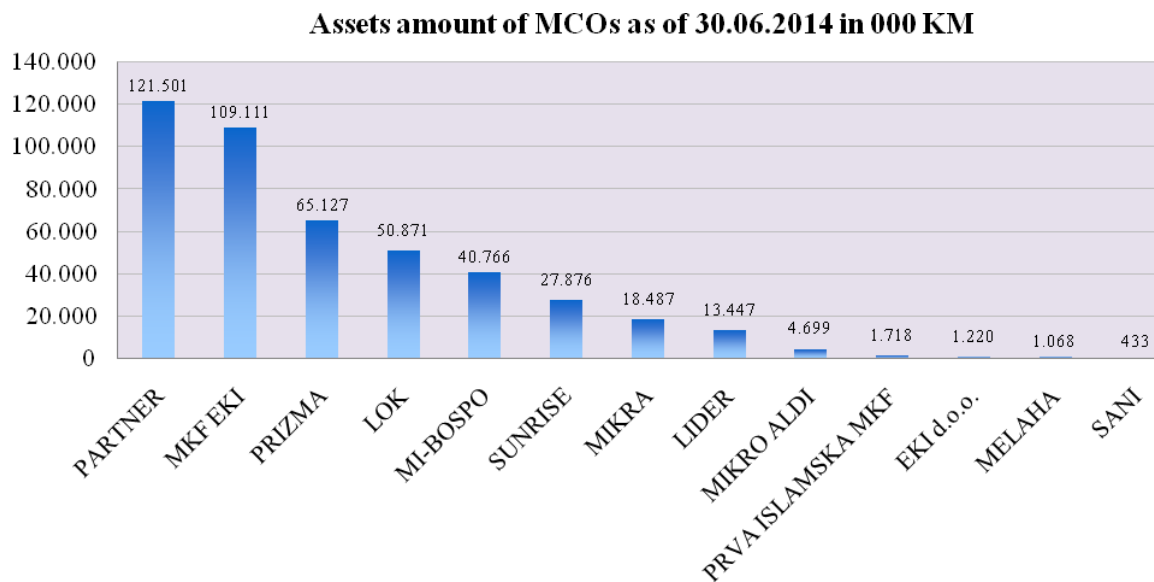
000 KM

No.	Donor	MKF EKI Sarajevo	MKF LIDER Sarajevo	LOK MKF Sarajevo	MKF MI-BOSPO Tuzla	MKF MIKRA Sarajevo	MKF MKRO ALDI Gorazde	PARTNER MKF Tuzla	MKF PRIZMA Sarajevo	PRVA ISLAMSKA MKF	MKF SUNRISE Sarajevo	TOTAL
<b>Credit fund donations</b>		<b>6 326</b>	<b>5 891</b>	<b>4 639</b>	<b>3 354</b>	<b>4 070</b>	<b>804</b>	<b>7 167</b>	<b>7 490</b>	<b>3 459</b>	<b>1 942</b>	<b>45.142</b>
1.	USAID	3 046		543				3 046	3 046			9 681
2.	CHF-(SIDA, MEDI, HILP)		5 891									5 891
3.	UNHCR			1 198	479		200	1 229	992		614	4 712
4.	LIP			1 479	947			675			1 214	4 315
5.	CRS					4 070						4 070
6.	Islamic Relief WW, Pred. Sarajevo									3 459		3 459
7.	UNDP	1 932		153				59	672			2 816
8.	PRM/USA State Department			577					2 006			2 583
9.	UMCOR			637	377			317	774			2 105
10.	IRC				371			805				1 176
11.	SIDA Housing	1 080										1 080
12.	Women's World Banking				1 034							1 034
13.	Mercy Corps							697				697
14.	OXSfam						500					500
15.	ECE, Germany							339				339
16.	USDA Know-How Project	237										237
17.	Church World Service				146							146
18.	Udruženje građana "ALDI"						104					104
19.	Ostalo	31		52							114	197
<b>Fixed assets donations</b>		<b>8</b>	<b>0</b>	<b>286</b>	<b>12</b>	<b>65</b>	<b>0</b>	<b>229</b>	<b>61</b>	<b>0</b>	<b>10</b>	<b>671</b>
20.	Mercy Corps							229				229
21.	Nedžad Beglerović			102								102
22.	CRS					65						65
23.	ICMC								53			53
24.	Ostalo	8		184	12				8		10	222
<b>Operating expenses donations</b>		<b>974</b>	<b>874</b>	<b>2 810</b>	<b>1 344</b>	<b>0</b>	<b>0</b>	<b>1 733</b>	<b>3 088</b>	<b>54</b>	<b>709</b>	<b>11 586</b>
25.	LIP			1 515				201			709	2 425
26.	PRM								2 047			2 047
27.	USAID				1 344			393				1 737
28.	UNHCR							176	840			1 016
29.	CHF		874									874
30.	SIDA Housing	748										748
31.	Mercy Corps							739				739
32.	PM			556								556
33.	BCT			519								519
34.	NBR			220								220
35.	CGAP							45	150			195
36.	EBRD	105						1				106
37.	IFC	104										104
38.	Other	17						178	51	54		300
<b>TOTAL DONATED CAPITAL</b>		<b>7 308</b>	<b>6 765</b>	<b>7 735</b>	<b>4 710</b>	<b>4 135</b>	<b>804</b>	<b>9 129</b>	<b>10 639</b>	<b>3 513</b>	<b>2 661</b>	<b>57 399</b>

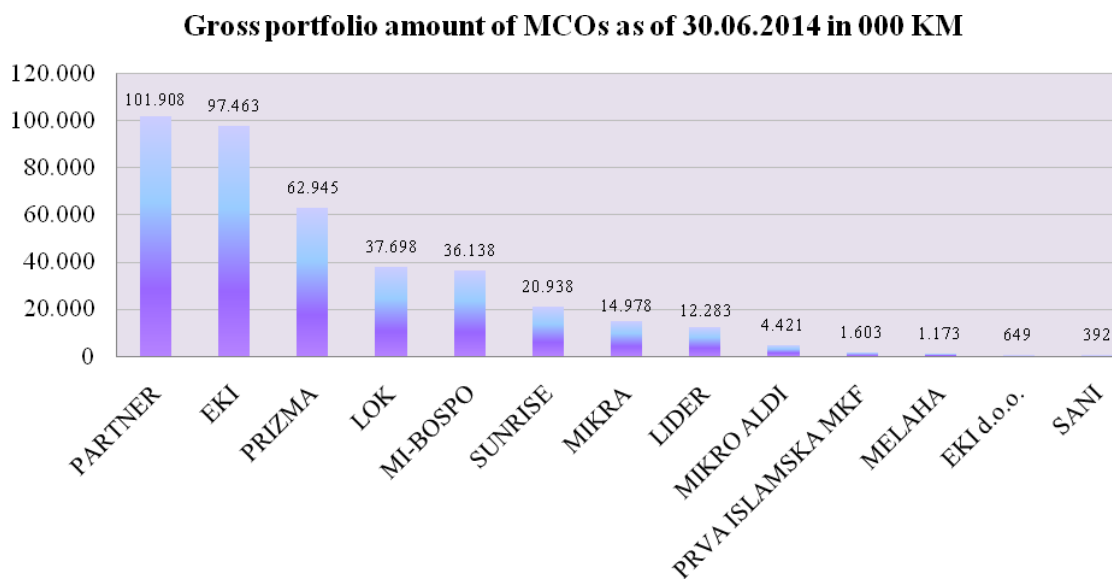
## **GRAPHS**

Graph 1	Assets amount of MCOs as of 30.06.2014 in 000 KM
Graph 2	Gross portfolio amount of MCOs as of 30.06.2014 in 000 KM
Graph 3	Loan commitments amount of MCOs as of 30.06.2014 in 000 KM
Graph 4	Capital amount of MCOs as of 30.06.2014 in 000 KM
Graph 5	Donated capital amount (by reports) of MCOs as of 30.06.2014 in 000 KM
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Graph 12	Collection amount by written-off loans in 000 KM in the period 01.01.-30.06.2014
Graph 13	Total receivables amount by written-off loans of MCOs in 000 KM with balance as of 30.06.2014
Graph 14	Total receivables by written-off loans vs. gross portfolio of MCOs as of 30.06.2014
Graph 15	Risk portfolio over 30 days past due as of 30.06.2014
Graph 16	Fixed assets and capital vs. total assets as of 30.06.2014
Graph 17	Average monthly compensations to members of management/supervisory board of MCOs for the period 01.01.-30.06.2014
Graph 18	Average monthly salaries of senior management in MCOs for the period 01.01.-30.06.2014
Graph 19	Average monthly salaries of loan officers of MCOs for the period 01.01.-30.06.2014
Graph 20	Total microloans disbursed in Q2 2014 in 000 KM
Graph 21	Average weighted EIR on total loans as per MCO reports of in Q2 2014
Graph 22	Average weighted EIR on short-term loans as per MCO reports in Q2 2014
Graph 23	Average weighted EIR on long-term loans as per MCO reports in Q2 2014

**Graph 1**

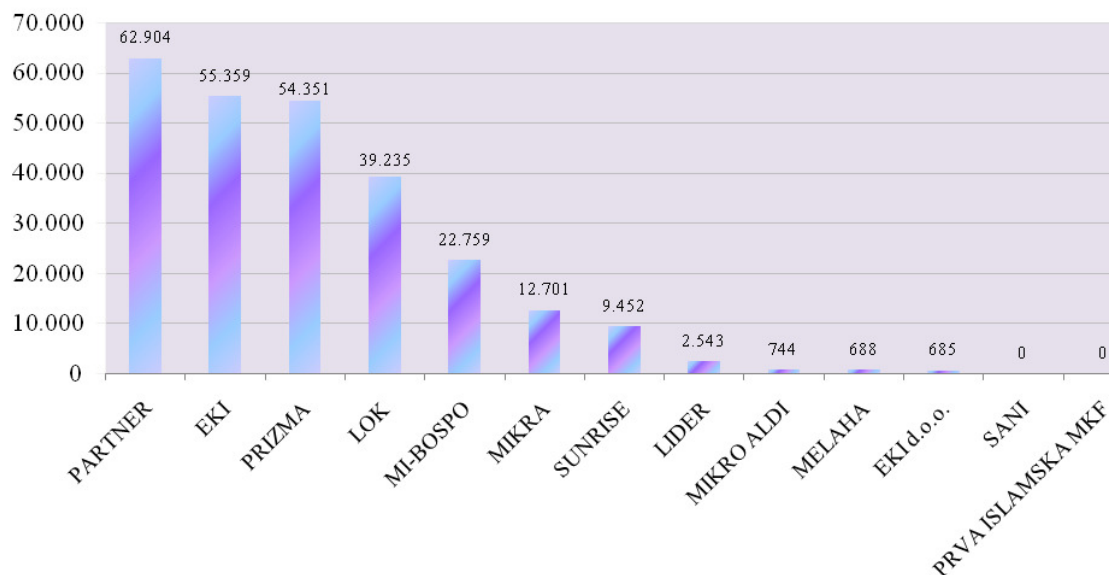


**Graph 2**



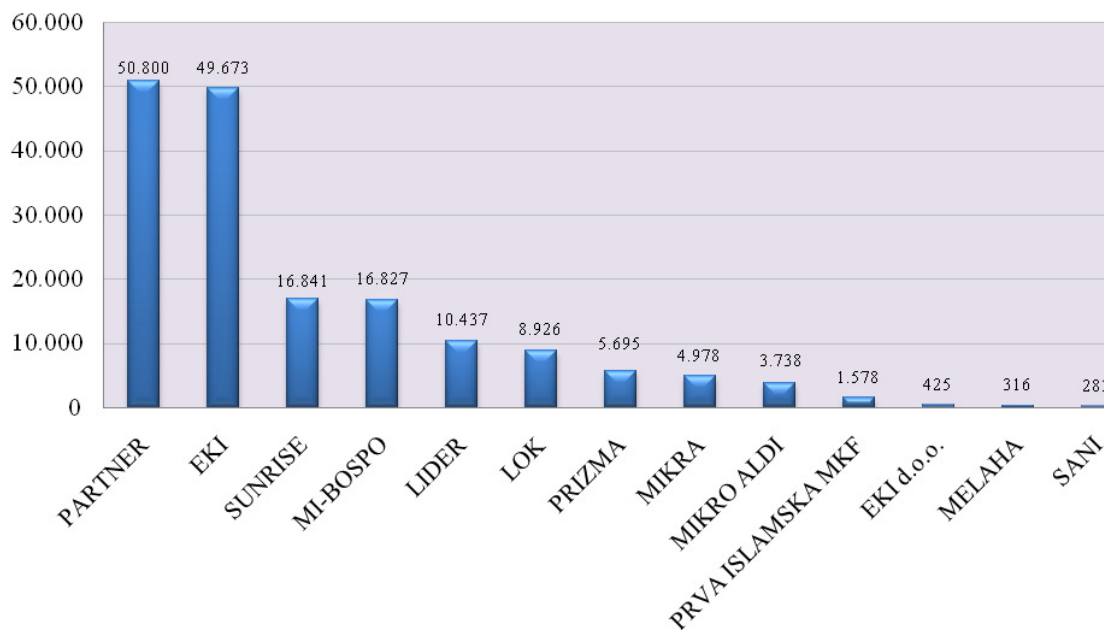
**Graph 3**

**Loan commitments amount of MCOs as of 30.06.2014 in 000 KM**



**Graph 4**

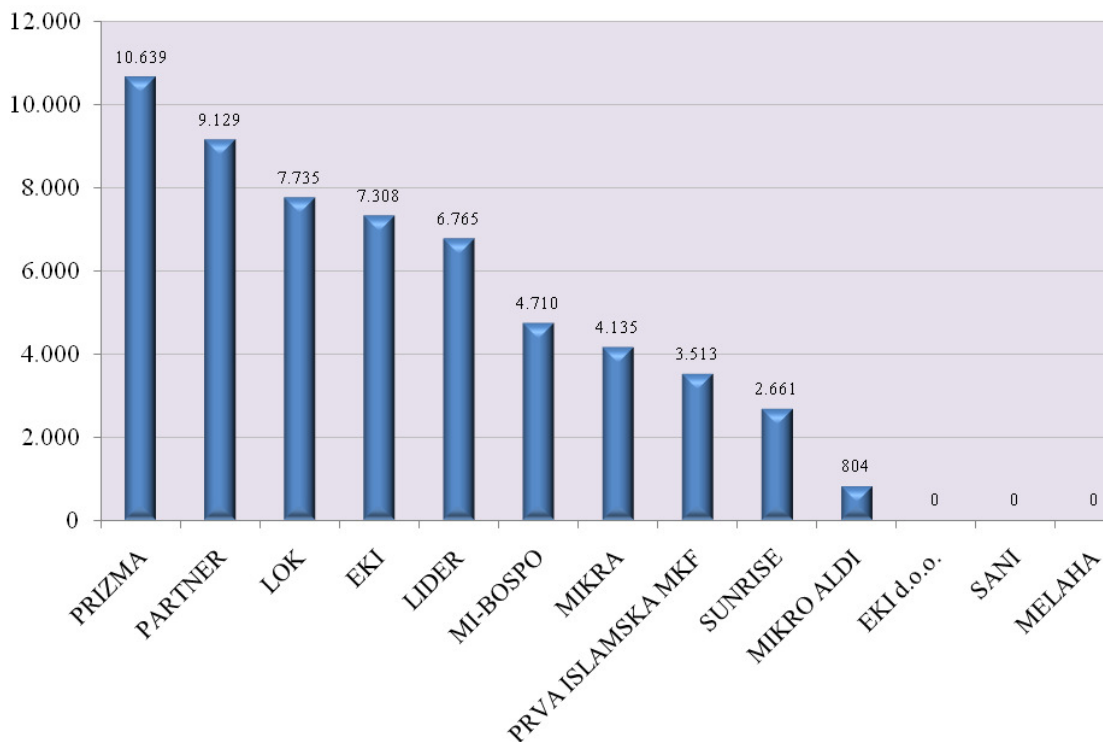
**Capital amount of MCOs as of 30.06.2014 in 000 KM**





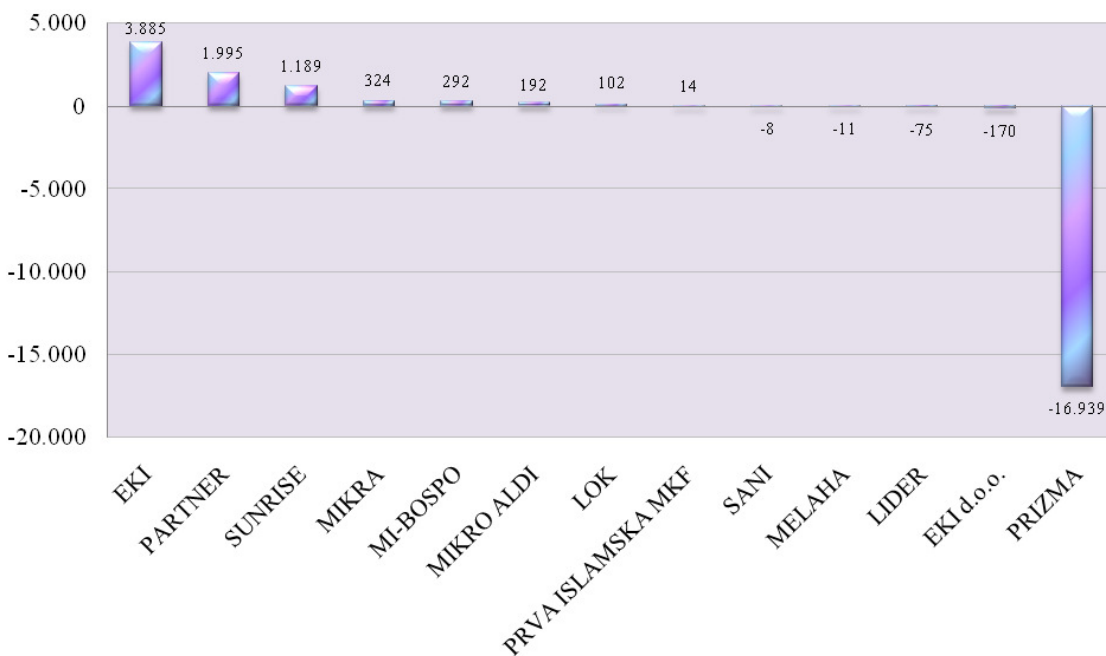
**Graph 5**

**Donated capital amount (by reports) of MCOs as of 30.06.2014 in 000 KM**

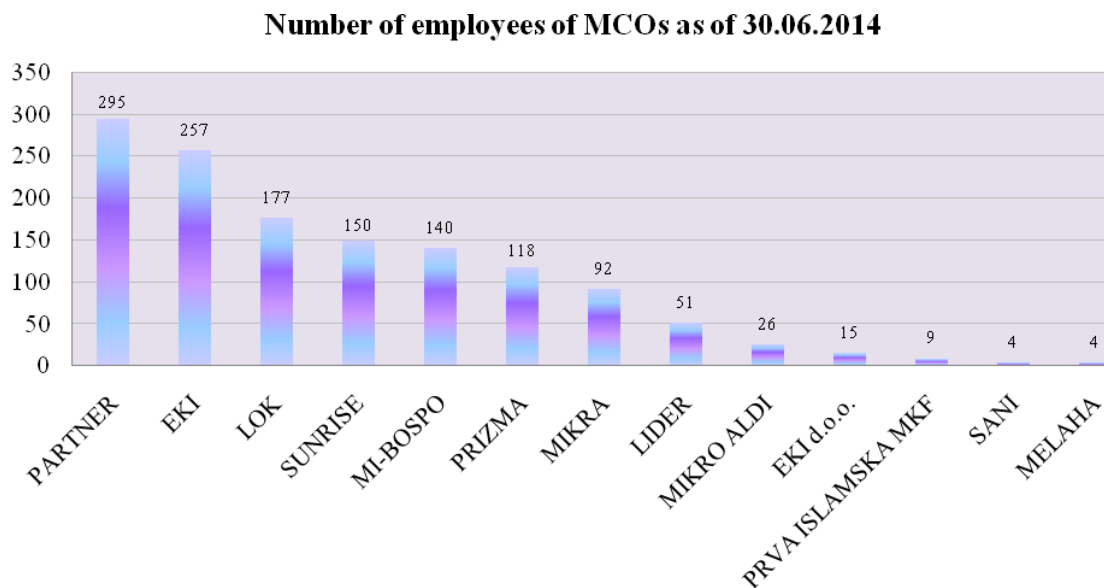


**Graph 6**

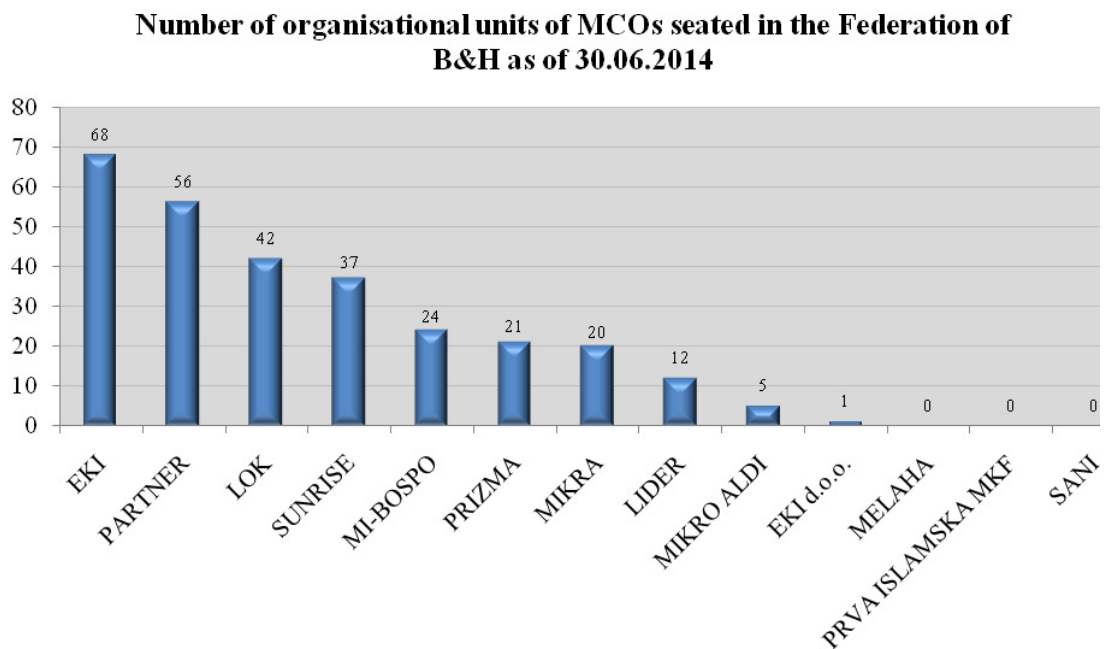
**Surplus/deficit of income over expenses of MCFs, i.e. net profit/loss of MCCs for the period 01.01.- 30.06.2014 in 000 KM**



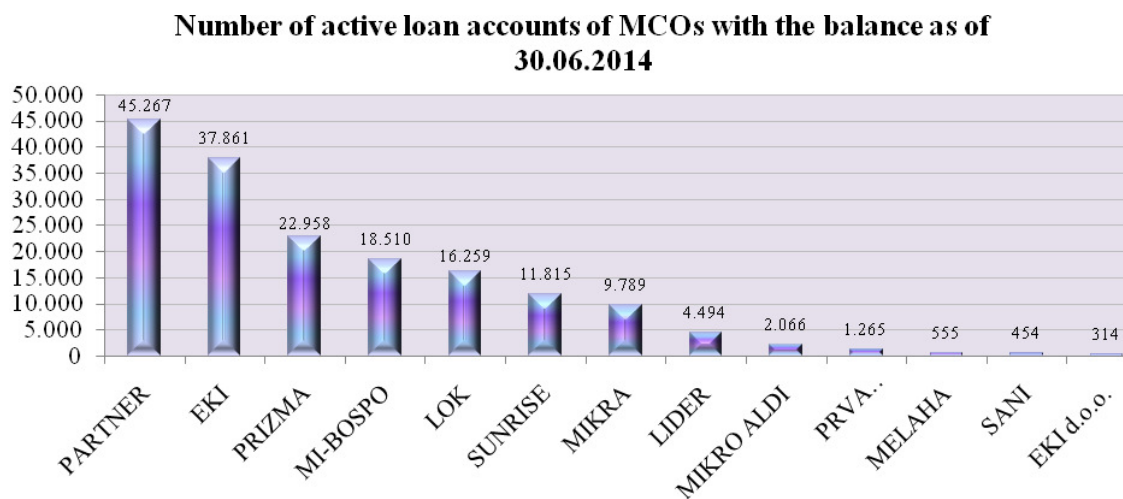
**Graph 7**



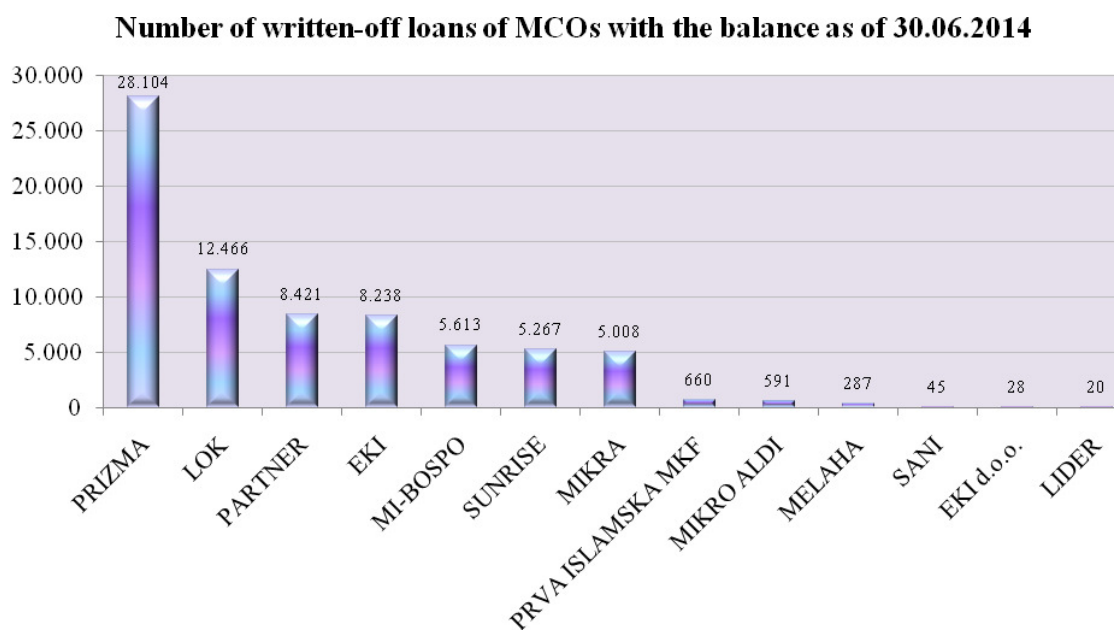
**Graph 8**



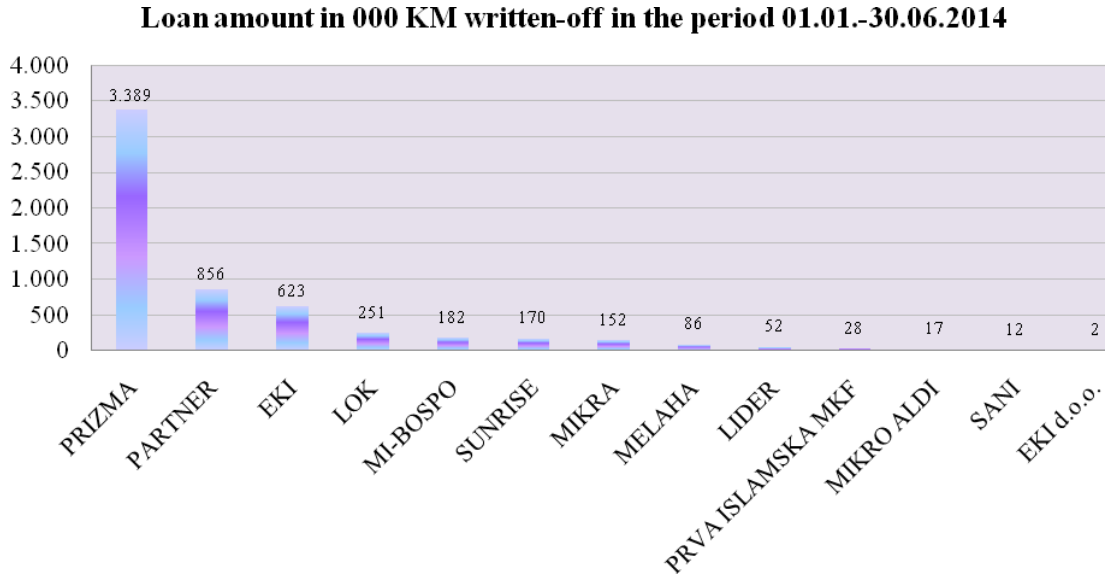
**Graph 9**



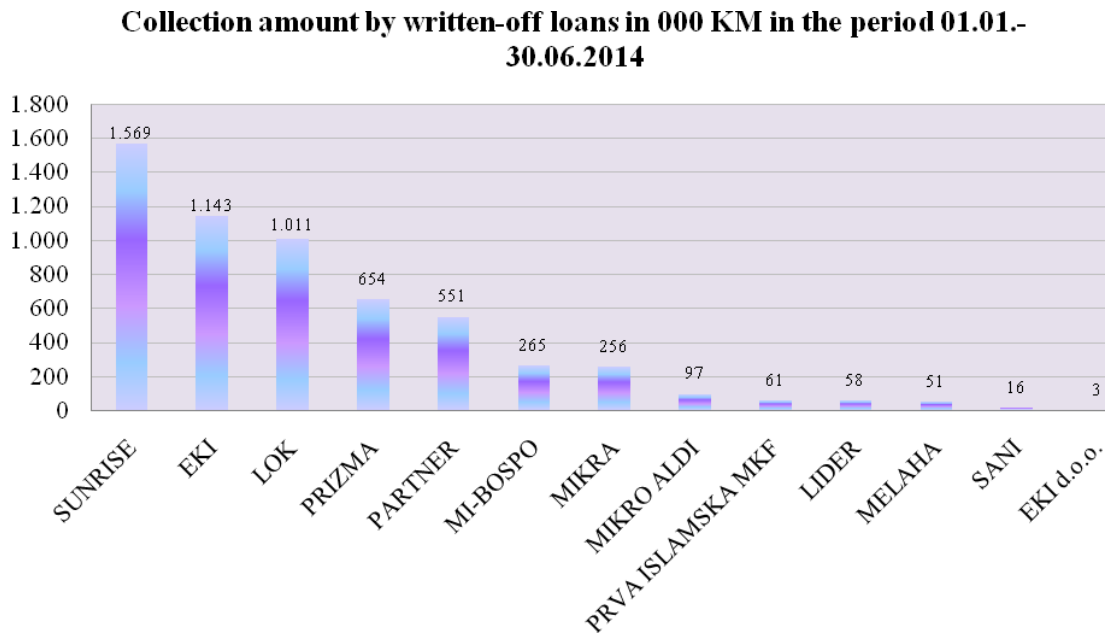
**Graph 10**



**Graph 11**

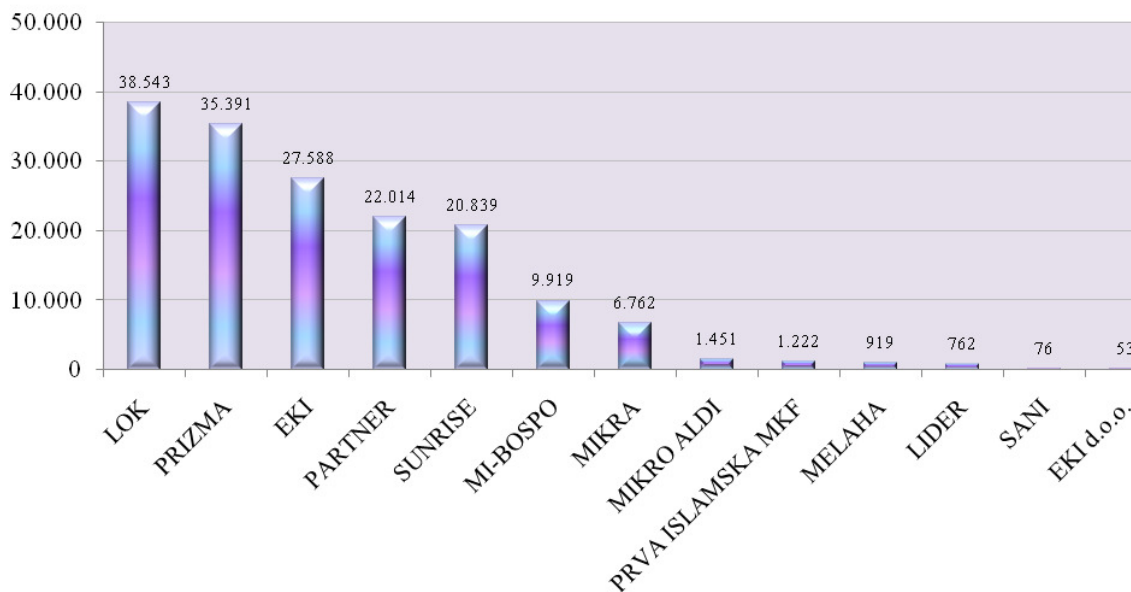


**Graph 12**



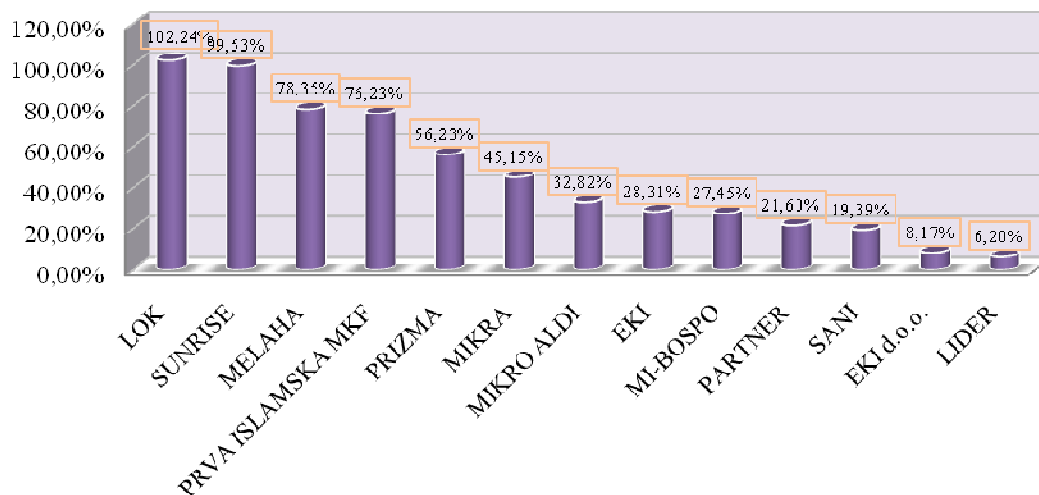
**Graph 13**

**Total receivables amount by written-off loans of MCOs in 000 KM with balance as of 30.06.2014**



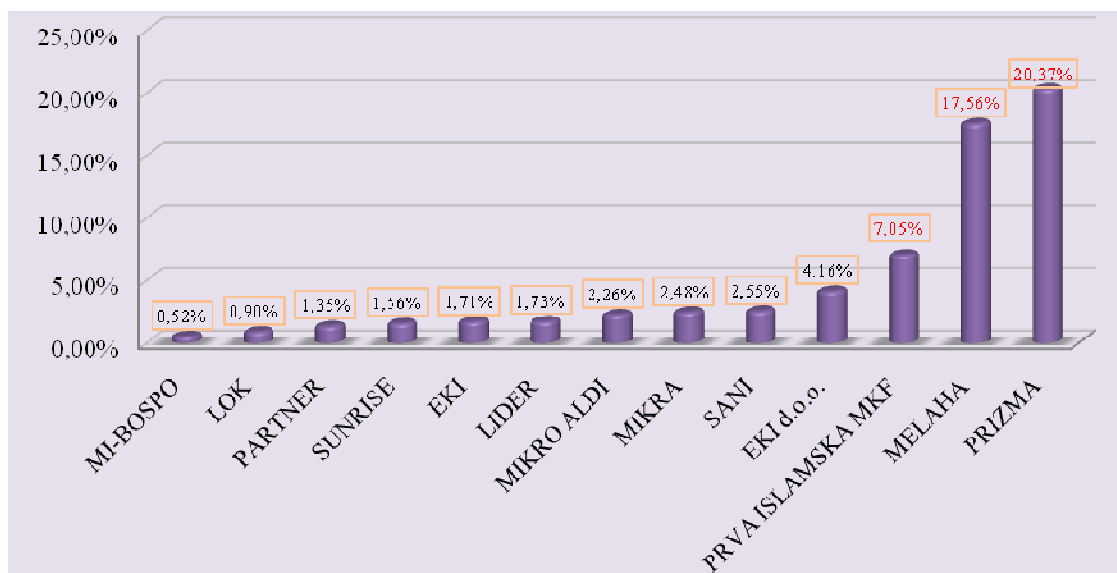
**Graph 14**

**Total receivables by written-off loans vs. gross portfolio of MCOs as of 30.06.2014**



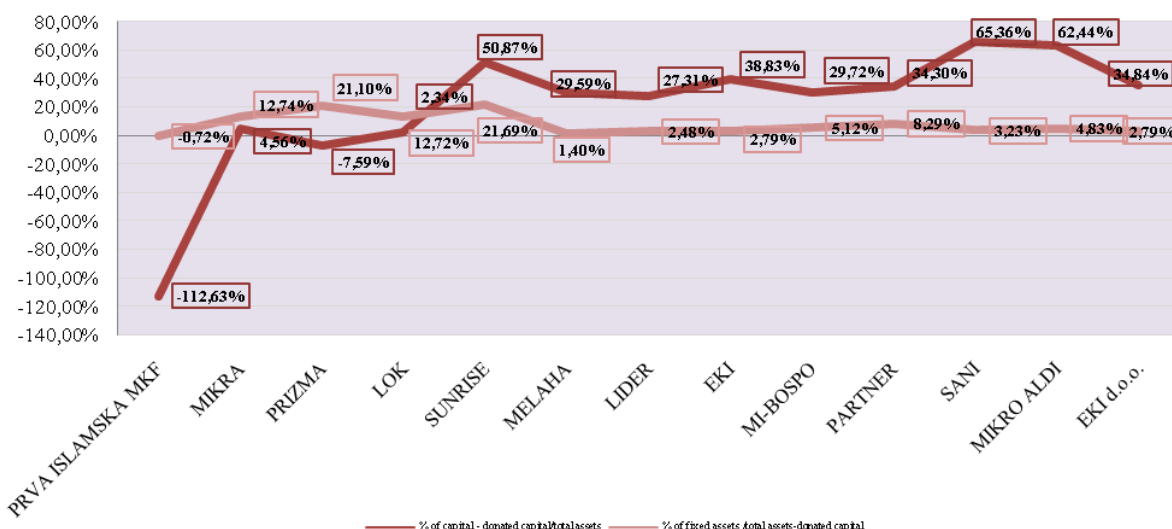
Graph 15

Risk portfolio over 30 days past due as of 30.06.2014



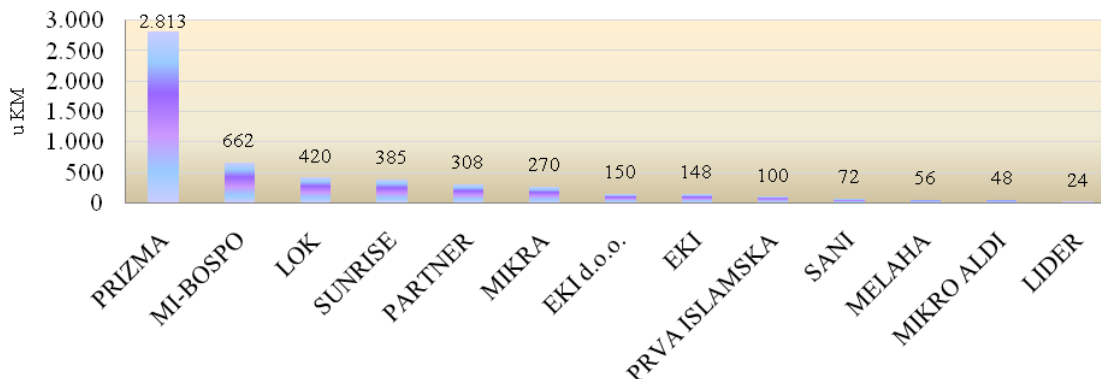
Graph 16

Fixed assets and capital vs. total assets as of 30.06.2014



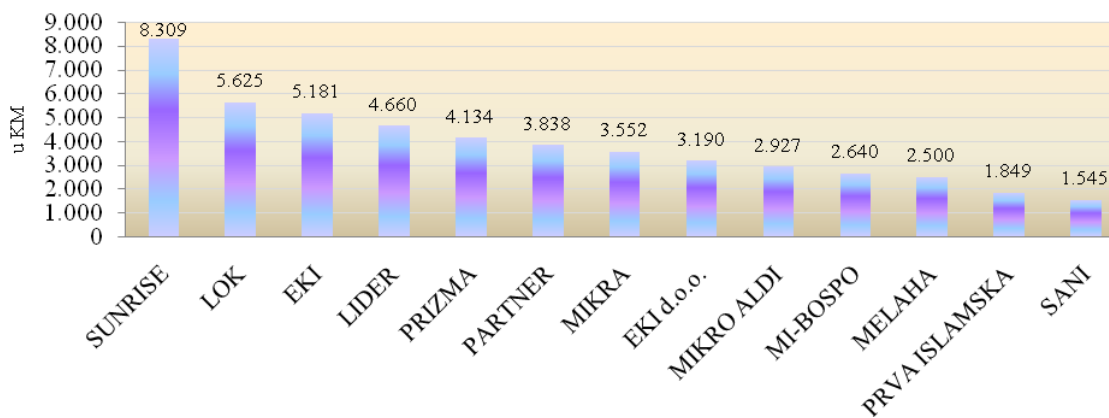
**Graph 17**

**Average monthly compensations to members of management/supervisory board of MCOs for the period 01.01.-30.06.2014**



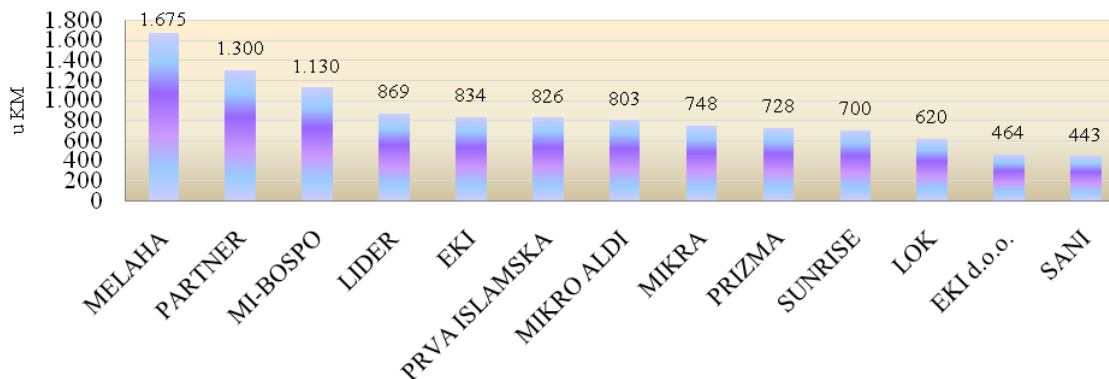
**Graph 18**

**Average monthly salaries of senior management in MCOs for the period 01.01.-30.06.2014**

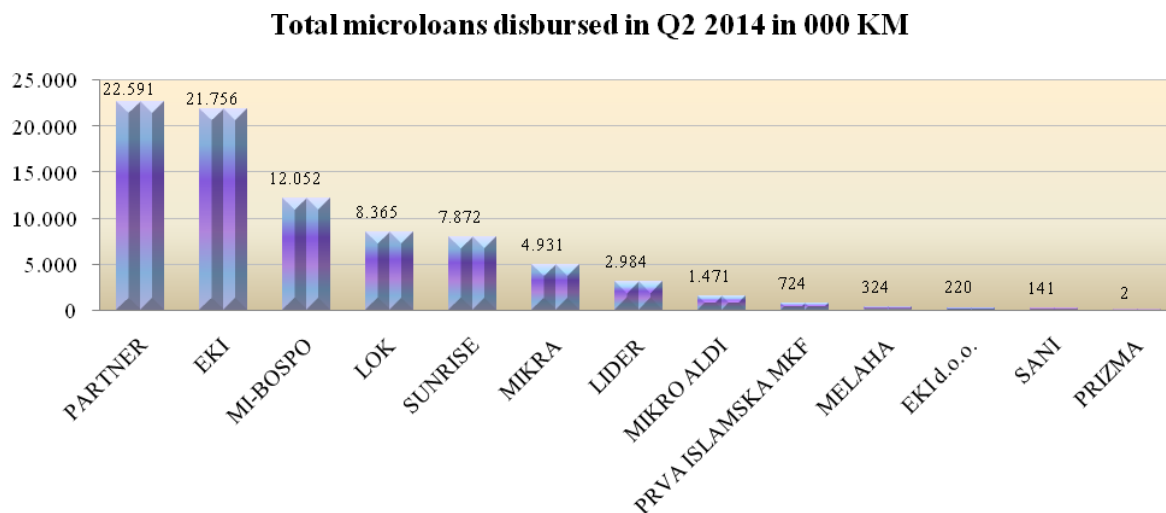


**Graph 19**

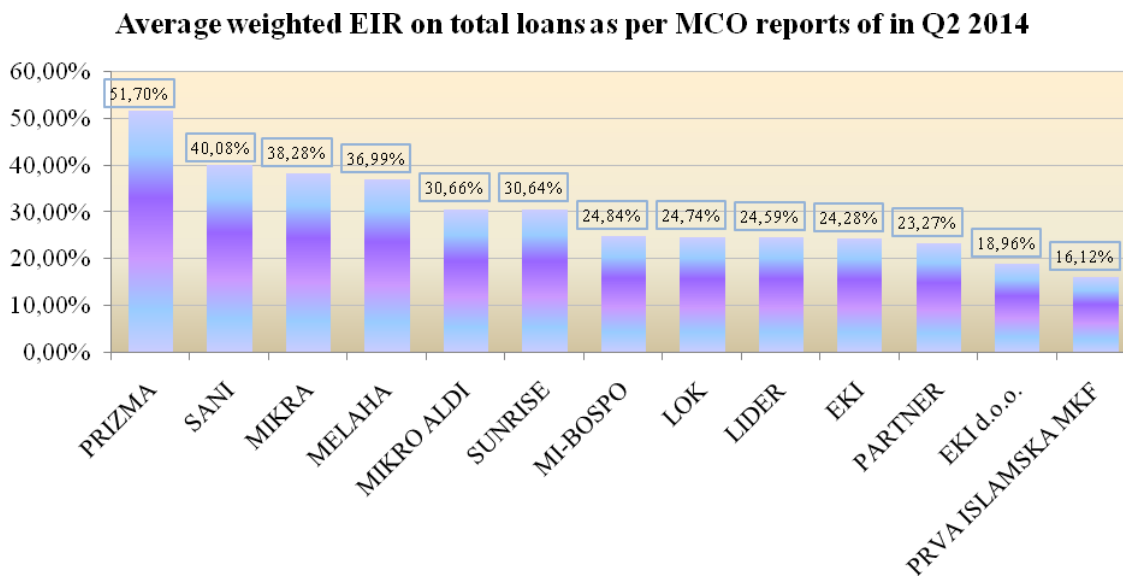
**Average monthly salaries of loan officers of MCOs for the period 01.01.-30.06.2014**



**Graph 20**



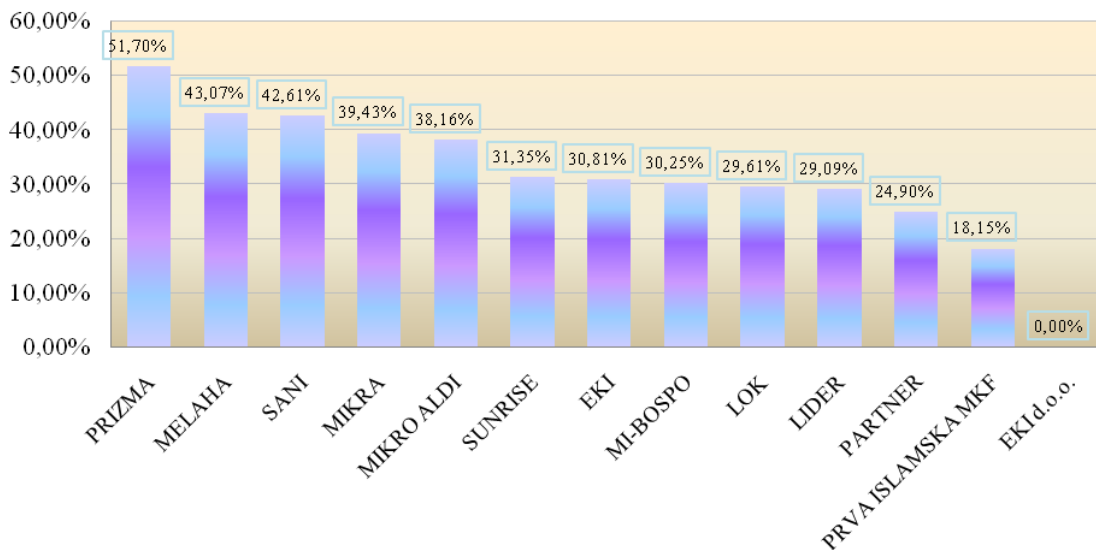
**Graph 21**





**Graph 22**

**Average weighted EIR on short-term loans as per MCO reports in Q2 2014**



**Graph 23**

**Average weighted EIR on long-term loans as per MCO reports in Q2 2014**

