



**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 30.06.2015**

Sarajevo, August 2015

The Banking Agency of the Federation of B&H (the Agency), as a regulatory institution conducting supervision of microcredit organizations, prepared the Information on the Microcredit System of the Federation of Bosnia and Herzegovina as of 30.06.2015 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 regulatory and supervisory competences regarding this Sector 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, 13/03, 19/03, 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, costs of salaries and other benefits of MCO employees, write-offs, liquidity and other reports on individual business segments as well as a monthly interest rate report.

In the conducted 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. MCFs in the Federation of B&H have significantly improved their business practices and processes, as well as internal controls. Great efforts were made to improve the collection process of loans from off-balance records in the majority of MCOs, which influences the financial discipline of clients as well as the improvement of the business results of MCOs.

As of 30.06.2015, 12 MCOs, 11 of which are MCFs (non-profit organisations) and 1 of which is an MCC (profit organisation), had the Agency's licence for business operations in the Federation of B&H. They operated through 264 organisational units. In this quarter, bankruptcy proceedings of the assets of one MCF were initiated, and the financial indicators of this MCF are not included in the financial indicators of the microcredit system of the FB&H due to this fact. As of 30.06.2015, the total headcount of the microcredit sector was 1 219, which is 89 employees or 7% fewer compared to 31.12.2014.

As of 30.06.2015, the balance sheet total of MCOs amounted to KM 406.9 million, KM 395 million or 97.1% of which relate to MCFs and KM 11.9 million or 2.9% to the MCC. The balance sheet total at the end of the second quarter of 2015 was lower by KM 45.4 million or 10% compared to the balance as of 31.12.2014. The fact that bankruptcy proceedings of the assets of one MCF were initiated had the most significant influence on the drop in assets at the level of the microcredit sector, and its financial indicators were thus not included in the analysis of the microcredit system of the FB&H.

As of 30.06.2015, total MCO gross loans, as the most significant item of MCO assets, amounted to KM 347.8 million and make up 85% of total assets of MCOs, and are therefore lower by 9% compared to the balance as at the end of the previous year, while net loans amounted to KM 343.5 million and are lower by 3% compared to the balance as of 31.12.2014. Microlending is largely directed toward agriculture (35%) and service activities (22%) and is mostly related to long-term loans to natural persons. Average weighted effective interest rates on total loans in the microcredit sector amounted to 24.82%, and thus saw a significant compared to the end of the previous year. In order to reduce interest rates on

microloans in the context of protecting consumers-clients of microcredit organisations, and fulfilling the mission of microlending, during examinations, the Agency particularly values and controls all types of operating costs of MCOs that have a significant impact on the setting of interest rates and assesses their necessity, pursuant to which it issues appropriate orders. The focus of the Agency's examinations in the period to come, along with the constant monitoring of asset quality, will be to control MCO costs, their justification and effectiveness, with the aim of reducing interest rates on microloans placed by MCOs in the Federation of B&H.

Compared to the end of the previous year, as of 30.06.2015, the microcredit portfolio saw a drop of 9% (KM 33.5 million), but also showed an improvement of the quality indicators of the active loan portfolio. The fact that bankruptcy proceedings of the assets of one MCF were initiated had the most significant influence on the drop of the microcredit portfolio at the level of the microcredit sector of the FB&H, and its financial indicators, which significantly influenced the deterioration of the indicators of the microcredit system in previous quarters, were thus not included in the analysis of the microcredit system in the FB&H. The improvement of the quality indicators of the active loan portfolio was recorded by decreasing the loan loss provisions rate from 6.86%, which is what it amounted to as of 31.12.2014, to 1.24%. Much in the same way, the risk portfolio exceeding 30 days past due recorded a significant improvement and decreased from 8.39%, which is what it amounted at the end of the previous year, to 1.24%. The total sector result with respect to the risk portfolio is within the framework of the prescribed standard (below 5%). The risk portfolio exceeding more than one day past due recorded a significant improvement and decreased from 11%, which is what it amounted to at the end of the previous year, to 3.65%. At sector level, the percentage of write-offs amounted to 1.15% as of 30.06.2015 and this indicator was lower by 3.91 percentage points compared to the end of the previous year and is within the framework of the prescribed standard.

The main source of funding of MCOs are loan commitments, which amounted to KM 199 million or 49% of total MCO liabilities as of 31.03.2015 and are down by 25% compared to the balance as of 31.12.2014. Total MCO capital as of 30.06.2015 amounted to KM 187.9 million or 46% of total MCO liabilities, which is up by KM 26.8 million or 17% compared to the end of the previous year, with the capital of MCFs amounting to KM 185.3 million or 98.6% and the capital of one MCC amounting to KM 2.6 million or 1.4%. The capital increase of the microcredit system in the FB&H was primarily influenced by the fact that the financial indicators of one MCF that is subject to bankruptcy proceedings, and whose capital is negative and amounts to KM -45.7 million, have not been included in the financial indicators of the microcredit system in the FB&H.

The most significant MCF capital items are excess income over expenses in the amount of KM 123.2 million, which constitutes 67% of total MCF capital, followed by donated capital, which amounted to KM 55.8 million or 30% of total MCF capital. Core capital and other MCF reserves amounted to KM 6.2 million, i.e. 3% of total MCF capital. The core capital of one MCD amounts to KM 600 thousand, and the profit to KM 96 thousand.

In the period from 01.01. to 30.06.2015, out of a total of 11 MCFs, 7 MCFs had excess income over expenses in the total amount of KM 7 547 thousand, while 4 MCFs recorded less income over expenses in the total amount of KM 335 thousand. In the period from 01.01. to 30.06.2015, one MCC recorded a net profit in the amount of KM 96 thousand (01.01. to 30.06.2014: KM 170 thousand net loss).

At the level of the microcredit sector in the Federation of B&H, a positive financial result in the amount of KM 7 308 thousand was recorded, which is up by KM 16 518 thousand compared to the same period of the previous year.

With respect to operational sustainability, out of 12 MCOs, 5 MCFs and 1 MCC can cover expenses with regular income.

Independent External Auditor's Reports

Article 18 of the Law on MCOs stipulates that MCOs shall appoint, with the Agency's approval, an external auditor that will audit the annual financial statements and prepare an auditor's report in accordance with the law and other rules regulating the area of accounting and auditing, which MCOs submit to the Agency no later than five months after the end of the business year to which the report relates. MCOs are required to publish auditor's reports in abbreviated form in one or more daily newspapers available throughout Bosnia and Herzegovina within 30 days of receiving the report and notify the Agency of the aforementioned immediately, along with submitting a copy of the publication. In accordance with Article 19 of the Decision on Conditions and Process of Issuance and Revocation of Operating License and Other Approvals to/from Microcredit Organisations („Official Gazette of B&H“, No: 27/07 and 46/11), MCOs are required to obtain the Agency's approval for the appointment of an external auditor. The selection of the audit firm is made exclusively by the managing body of an MCO at the proposal of the audit committee, while the request for the issuance of approval together with supporting documentation and the decision of the managing body on the choice of audit firm is submitted to the Agency. In accordance with Article 23 of the Law on the Banking Agency of the Federation of B&H („Official Gazette of B&H“, No. 9/96, 27/98, 20/00, 45/00, 58/02, 13/03, 19/03, 47/06, 59/06, 48/08, 34/12 and 77/12), the Agency can reject the independent auditor's report and request a new report that will be prepared by a certified auditor appointed by the Agency, at the expense of the MCO.

After reviewing the submitted audit reports for 2014, it was found that out of the 12 MCOs, 10 MCFs and 1 MCC had unqualified reports, with facts that were mainly related to non-compliance with operating conditions as prescribed by the Agency's decisions being highlighted in the reports of 2 MCFs and 1 MCC. One MCF, which had a qualified report, made the decision to withdraw the aforementioned because of subsequent discoveries of certain materially significant facts that affect the financial statements of the MCF. One MCF against which bankruptcy proceedings have been initiated failed to submit an auditor's report to the Agency. In Annex 3 of this Information, more detailed data on the auditor's reports by individual MCOs for the years that ended on 31.12.2013 and 31.12.2014 is provided.

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 on the basis of quarterly reports. During its examinations of MCO business operations, the Agency checks the accuracy of the submitted reports. Due to significant irregularities in its operations and on the basis of reports submitted as of 30.06.2014, the licence for microlending operations of one MCF was revoked on 09.10.2014 after the necessary procedures were carried out. However, a temporary court measure postponed the Agency's Decision to revoke the licence until the completion of the administrative dispute. Even after the postponement of the Decision at the MCF's request, the aforementioned saw a significant deterioration in business operations and significantly threatens the microcredit system in the Federation of B&H with its results. On 03.06.2015, the Municipal Court in Sarajevo initiated bankruptcy proceedings against the Foundation and appointed a bankruptcy administrator. Due to this fact, the financial

indicators of this MCF are not included in the financial indicators of the microcredit system of the FB&H. Instead, its operations are elaborated in a separate chapter of this Information.

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

1. MICROCREDIT SECTOR STRUCTURE

1.1. Number of Microcredit Organisations

As of 30.06.2015, 12 MCOs have operating licences of the Agency, 11 of which are MCFs (non-profit organisations) and 1 of which is an MCC (profit organisation), as well as 34 organisational units of MCCs seated in Republika Srpska. In this quarter, bankruptcy proceedings of the assets of one MCF were initiated, and the financial indicators of this MCF are not included in the financial indicators of the microcredit system of the FB&H due to this fact. Instead, they are elaborated in a separate chapter of this Information.

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 30.06.2015.

1.2. Organisational Units

As of 30.06.2015, there was a total of 264 organisational units of MCOs seated in the Federation of 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 174 organisational units of microcredit organisations are seated in the Federation of B&H, 87 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 18 organisational units, i.e. 6% compared to the end of the previous year. A total of 136 organisational units of MCOs seated in the Federation of B&H have the authority to assign microloans and are therefore registered in the competent registry.

7 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 units of one MCC, which is seated in Republika Srpska and operates in the Federation of B&H through 34 branches and field offices.

1.3. Human Resources

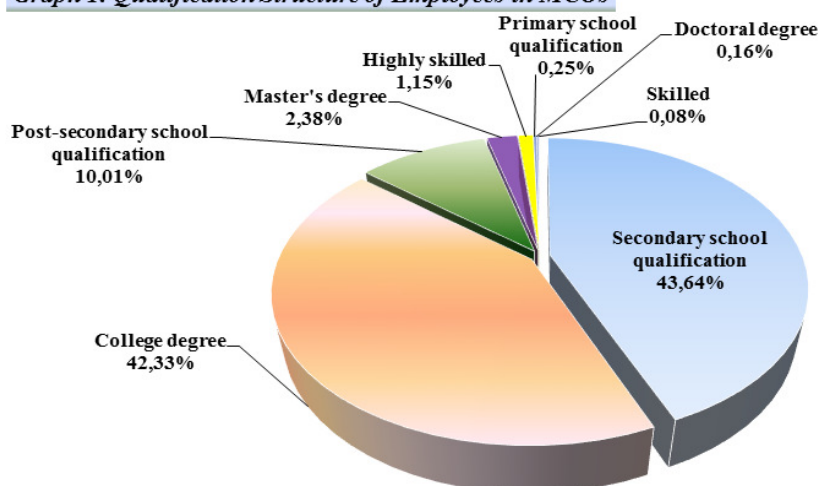
As of 30.06.2015, the total headcount of the microcredit sector was 1 219, which is lower by 89 employees or 7% compared to 31.12.2014. This drop in the number of employees was mostly influenced by the significant layoff of employees in one MCF against which bankruptcy proceedings have been initiated. MCFs employ 1 199 employees or 98.4% and the MCC 20 employees or 1.6%.

Table 1. Qualification Structure of Employees

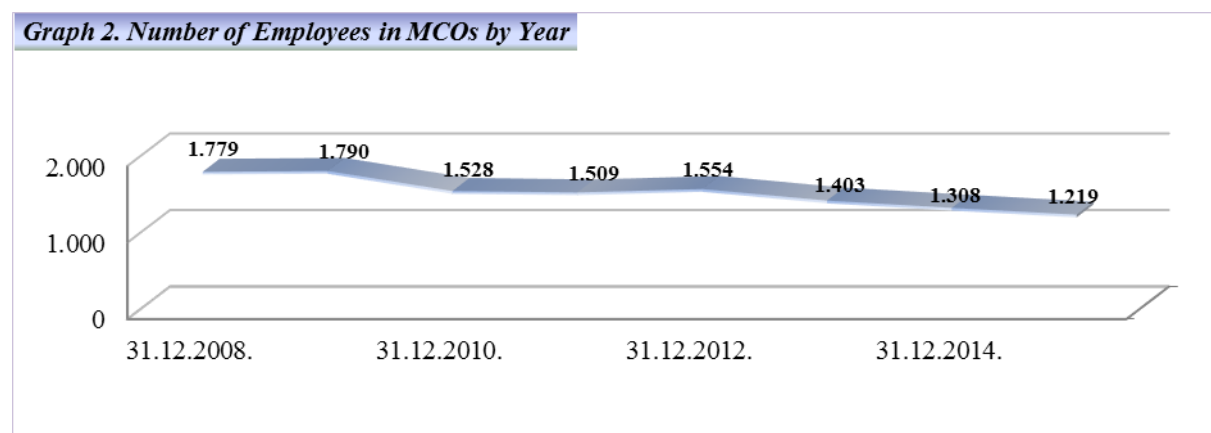
No.	Qualification	31.12.2014		Total	Share (%)	30.06.2015		Total	Share (%)	Index
		MCF	MCC			MCF	MCC			
1	2	3	4	5=(3+4)	6	7	8	9=(7+8)	10	11=9/5
1.	PSQ	3	0	3	0.23	3	0	3	0.25	100
2.	S	1	0	1	0.08	1	0	1	0.08	100
3.	HS	13	0	13	0.99	14	0	14	1.15	108
4.	SSQ	600	6	606	46.33	523	9	532	43.64	88
5.	PSSQ	128	2	130	9.94	121	1	122	10.01	94
6.	CD	518	9	527	40.29	507	9	516	42.33	98
7.	MR	26	1	27	2.06	28	1	29	2.38	107
8.	DR	1	0	1	0.08	2	0	2	0.16	200
TOTAL		1 290	18	1 308	100.00	1 199	20	1 219	100.00	93

The employees structure is dominated by secondary school qualification with 43.64%, university degrees with 42.33% and two-year post-secondary qualification with 10.01%. The percentage of employees with secondary school qualification is dropping by 12%, with two-year post-secondary qualification by 6%, while the share percentage of employees with Master's degrees is increasing by 7%

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 30.06.2015, MCOs had 1 219 employees, down by 32% 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 56% and 33%, respectively.



2. FINANCIAL INDICATORS OF MCO BUSINESS OPERATIONS

2.1. Balance Sheet

As of 30.06.2015, the balance sheet volume of MCOs amounts to KM 406.9 million, which is lower by KM 45.4 million or 10% compared to the balance as of 31.12.2014. The balance sheet volume increased with 4 MCFs and one MCC compared to the end of the previous year, while 6 MCFs recorded a drop and one MCF maintained approximately the same balance sheet level compared to the reporting period.

A drop in the balance sheet total of up to 10% was recorded with 4 MCFs compared to 31.12.2014, while one MCF recorded a drop of 10%. In the first six months of 2015, one MCF reduced its assets by even KM 10.9 million and recorded a drop of even 24% compared to the end of the previous year, which significantly affected the drop in assets at sector level.

The fact that bankruptcy proceedings of the assets of one MCF were initiated had the most significant influence on the drop in assets at the level of the microcredit sector of the FB&H, and its financial indicators were thus not included in the analysis of the microcredit system of the FB&H.

Six MCFs with assets in the amount of KM 372 million or 91% have the largest share in total MCO balance.

- KM 000 -

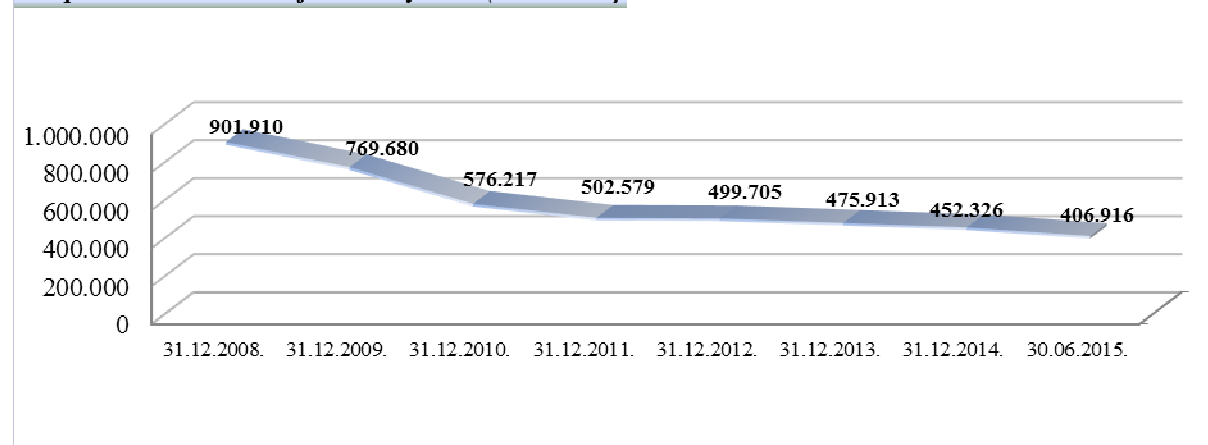
Table 2. Balance Sheet MCOs

DESCRIPTION	31.12.2014			30.06.2015					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
ASSETS									
1. Cash	36 912	2 001	38 913	19 220	5	264	2	19 484	50
2. Facilities to banks	3 523	0	3 523	743	0	0	0	743	21
3. Loans	376 275	5 031	381 306	336 331		11 504		347 835	91
4. Loan loss provisions	26 140	11	26 151	4 297		26		4 323	17
5. Net loans	350 135	5 020	355 155	332 034	84	11 478	96	343 512	97
6. Business premises and other fixed assets	39 373	29	39 402	30 033	7	24	0	30 057	76
7. Long-term investments	3 061	0	3 061	3 061	1	0	0	3 061	100
8. Other assets	13 820	71	13 891	10 156	3	158	2	10 314	74

9. Provisions for other assets items, except loans	1 618	1	1 619	253		2		255	16
TOTAL ASSETS	445 206	7 120	452 326	394 994	100	11 922	100	406 916	90
LIABILITIES									
10. Loan commitments	260 474	4 303	264 777	190 187	48	8 815	74	199 002	75
11. Other liabilities	26 134	309	26 443	19 531	5	503	4	20 034	76
12. Capital	158 598	2 508	161 106	185 276	47	2 604	22	187 880	117
TOTAL LIABILITIES	445 206	7 120	452 326	394 994	100	11 922	100	406 916	90
Off-balance records	182 483	56	182 539	125 051		45		125 096	69

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 901.9 million. The balance sheet total of MCOs as of 30.06.2015 amounted to KM 406.9 million and it is lower by even 55% 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 75% and 69%, respectively.

Graph 3. Asset Amount of MCOs by Year (in KM 000)



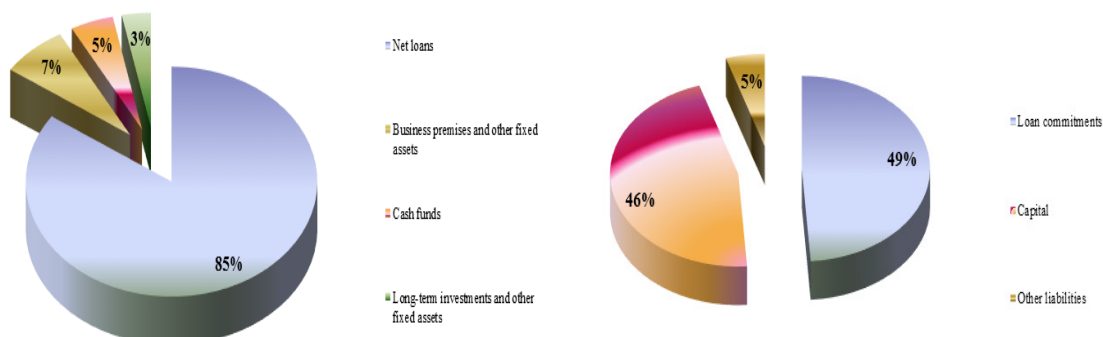
In the assets structure of MCOs, cash funds amount to KM 19.5 million or 5% with a rate of decrease of 50% compared to 31.12.2014 and largely related to cash funds of MCFs. Facilities to banks amount to KM 0.7 million and are down by 79% compared to the end of the previous year.

Net loans, i.e. gross loans net of loan loss provisions amount to KM 343.5 million or 85% of total assets and are lower by KM 11.6 million or 3% compared to 31.12.2014. Net loan growth compared to the end of the previous year was recorded by 7 MCFs and 1 MCC, while a drop was recorded by 4 MCFs. Compared to 31.12.2014, a net loan drop of up to 10% was recorded by 3 MCFs, while one MCF recorded a net loan drop of 21% in the reporting period.

Business premises and other fixed assets amount to KM 30.1 million or 7% of total assets and this balance sheet item is lower by KM 9.3 million or 24% compared to the end of the previous year. The fixed assets percentage compared to total assets (net of donated capital) is 8.56%, at sector level, which is within the framework of the allowed amount (up to 10%). Individually, three MCFs violate this standard. Only one MCF recorded long-term investments in the amount of KM 3.1 million, while other assets (net of provisions for other assets items except loans) amount to KM 10.1 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 2.53% and individually, this item is above 10% in the case of one MCF.

Graph 4. Assets and Liabilities Structure of MCOs



Loan commitments in the MCO liabilities structure are the main source of funding, amounting to KM 199 million or 49% of total liabilities and being down by 25% compared to 31.12.2014.

- KM 000 -

Table 3. Maturity Structure of Taken Loans

DESCRIPTION	31.12.2014				30.06.2015				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	78 848	217	79 065	30	85 973	1 035	87 008	44	110
2. Liabilities on long-term loans	181 626	4 086	185 712	70	104 214	7 780	111 994	56	60
TOTAL	260 474	4 303	264 777	100	190 187	8 815	199 002	100	75

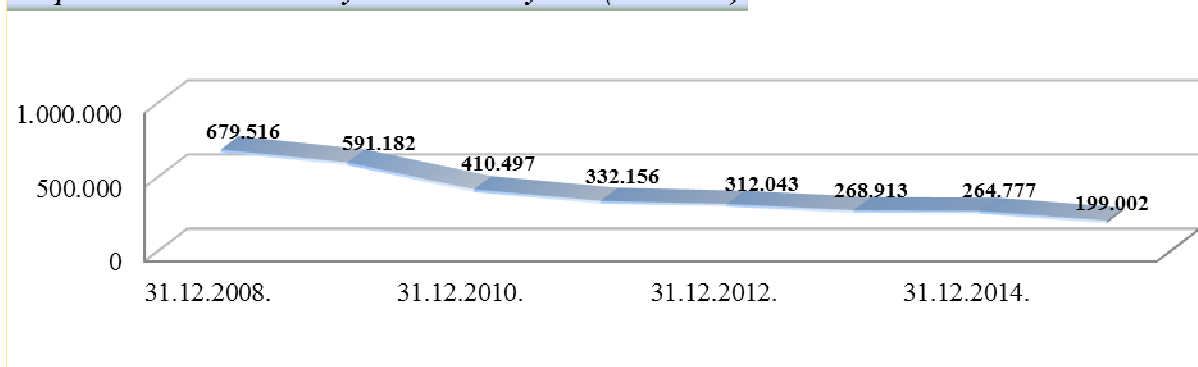
Out of total loan commitments, long-term loans (of which there is no record in the case of 2 MCFs) amount to KM 112 million or 56% and are lower by 40% compared to the end of the previous year. Out of total loan commitments, short-term loans (of which there is no record in the case of 3 MCFs) amount to KM 87 million or 44% and have a 10% growth rate compared to the end of the previous year. As of 30.06.2015, 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. Additionally, the mistrust of creditors that claimed over KM 50 million from one MCF, which has suffered substantial losses and is fully illiquid and insolvent due to the poor quality of its loan portfolio and poor management of the maturity of assets and liabilities, is one of the major risks for the development and growth of the sector. Since the beginning of the second quarter of 2014, the aforementioned MCF's accounts with commercial banks have been frozen for failing to meet obligations to creditors. During the second quarter of 2015, bankruptcy proceedings of the aforementioned MCF's assets were initiated.

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 30.06.2015 amounted to KM 199 million, and are lower by even 71% compared to the end of 2008. A comparison of these two

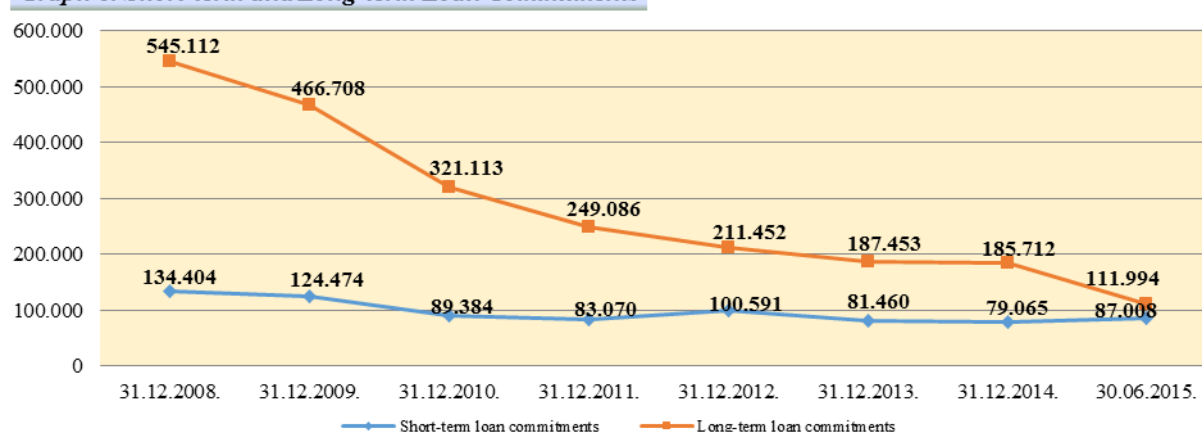
periods in the case of individual MCOs shows that two MCFs recorded the biggest drop in total liabilities by taken loans by even 86% and 78%, respectively.

Graph 5. Liabilities Amount by Taken Loans by Year (in KM 000)



In addition to the fact that loan commitments are lower by 71% compared to 2008 and lower by 25% compared to the end of the previous year, looking at the liabilities on taken loans by maturity, long-term loans have dropped by even 79% compared to 2008 and by 40% compared to the end of 2014, while short-term loans are lower by 35% compared to 2008, but have recorded an increase of 10% compared to the end of 2014.

Graph 6. Short-term and Long-term Loan Commitments



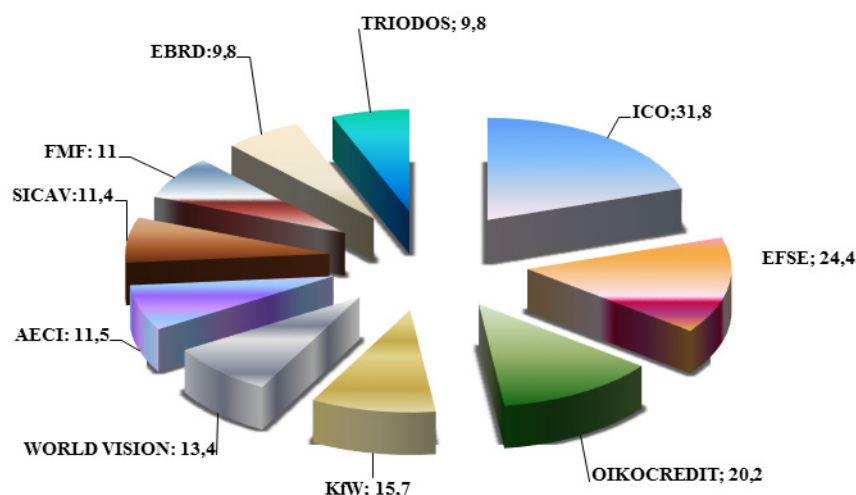
The ten most significant creditors of MCOs are:¹

- 1.) ICO – Instituto de Credito Oficial, Spain (KM 31.8 million);
- 2.) EFSE – European Fund for Southeast Europe, Luxembourg (KM 24.4 million);
- 3.) Oikokredit, Netherlands (KM 20.2 million);
- 4.) KfW - Kreditanstalt fur Wiederaufbau, Germany (KM 15.7 million);
- 5.) World Vision International, USA (KM 13.4 million);
- 6.) AECI – Spanish Agency for International Development Cooperation (KM 11.5 million);
- 7.) Responsibility SICAV, Switzerland (KM 11.4 million);
- 8.) Federal Ministry of Finance, Federation of B&H (KM 11 million);
- 9.) EBRD – European Bank for Reconstruction and Development, Great Britain (KM 9.8 million);

¹ The most significant creditors of MCOs also include the creditors of the MCF whose assets are subject to bankruptcy proceedings and whose indicators are elaborated separately from the microcredit system of the FB&H.

10.) Triodos – Doen, Netherlands (KM 9.8 million).

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



Other liabilities amount to KM 20 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 9.12%, and individually, a total of 6 MCFs recorded more than 10% of other liabilities compared to total liabilities.

Off-balance records as of 30.06.2015 amount to KM 125.1 million, which includes write-offs (KM 124.8 million) and barter deals (KM 0.3 million in the case of two MCFs), and are down by 31% compared to the balance as of 31.12.2014.

2.2. Capital

The total capital of MCOs as of 30.06.2015 amounts to KM 187.9 million or 46% of total liabilities, which is up by KM 26.8 million or 17% compared to the end of 2014. The capital of MCFs amounts to KM 185.3 million or 98,6%, and the capital of one MCC to KM 2.6 million or 1.4%.

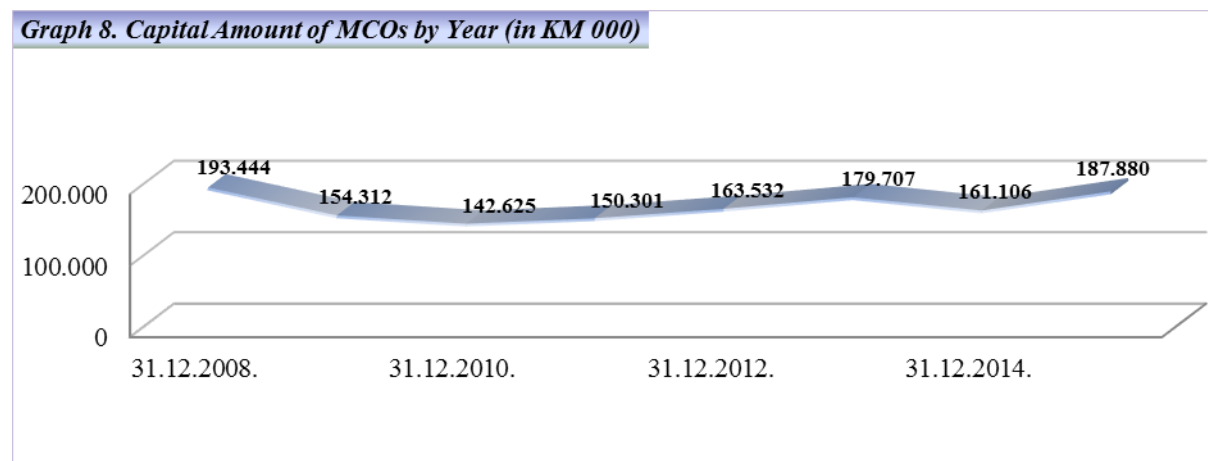
The capital increase of the microcredit system in the FB&H was primarily influenced by the fact that the financial indicators of one MCF that is subject to bankruptcy proceedings, and whose capital is negative and amounts to KM -45.7 million, have not been included in the financial indicators of the microcredit system in the FB&H. Instead, they are elaborated in a separate part of this Information.

The total capital of the microcredit sector (net of donated capital) amounts to 32.46% of total assets, with 4 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.

Table 4. Capital Structure of MCOs

DESCRIPTION	31.12.2014					30.06.2015					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	67 521	43	0	0	67 521	55 800	30	0	0	55 800	83
Core capital	3 820	2	600	24	4 420	3 820	2	600	23	4 420	100
Surplus/deficit of income over expenses	84 795	53	0	0	84 795	123 226	67	0	0	123 226	145
Issue premiums	0	0	0	0	0	0	0	0	0	0	0
Unallocated profit	0	0	-392	-16	-392	0	0	96	4	96	-24
Legal reserves	0	0	2 300	92	2 300	0	0	1 908	73	1 908	83
Other reserves	2 462	2	0	0	2 462	2 430	1	0	0	2 430	99
TOTAL CAPITAL	158 598	100	2 508	100	161 106	185 276	100	2 604	100	187 880	117

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. The total capital of MCOs as of 30.06.2015 amounted to KM 187.9 million and is lower by 3% 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 capital drop by 63% and 47%, respectively.



In the capital structure of MCFs, the excess of income over expenses is the most important, and it amounts to KM 123.2 million and makes up 67% of total MCF capital, which is up by KM 38.4 million or 45% compared to the end of the previous year. A deficit of income over expenses for the period from 01.01. to 30.06.2015 was recorded by 4 MCFs, while 7 MCFs recorded an excess of income over expenses and one MCC recorded a net profit. As of 30.06.2015, an excess of income over expenses, i.e. a profit from regular operations was recorded by 5 MCFs and 1 MCC, while 6 MCFs recorded a deficit of income over expenses from regular operations. Out of those 6 MCFs, 2 of them recorded a positive result at the end of the second quarter of 2015 due to extraordinary income, which was significantly higher than the generated deficit of income over expenses from regular operations in the case of some MCFs. Extraordinary income is a direct result of the increased collection of receivables for written-off loans.

A significant source of MCF capital is donated capital, which amounts to KM 55.8 million or 30% of total MCF capital. The amount of donated capital, as reported by MCOs, is lower by KM 11.7 million compared to the end of the previous year, i.e. by 17%. The drop in donated

capital of the microcredit system in the FB&H was primarily influenced by the fact that the financial indicators of one MCF that is subject to bankruptcy proceedings, and whose donated capital amounts to KM 10.6 million, have not been included in the financial indicators of the microcredit system in the FB&H.

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 30.06.2015 amounts to KM 3.8 million or 2% of total MCF capital. Other reserves, which relate to 2 MCFs, amount to KM 2.4 million or 1% of total MCF capital. The core capital of one MCC amounts to KM 600 thousand and its profit to KM 96 thousand.

2.3. Loan Portfolio

The main activity of MCOs is microlending, to which the amount of KM 347.8 million or 85% of total assets of the microcredit sector is related. The level of total sector loans depends on loans of MCFs, which account for KM 336.3 million or 96.7% of total loans, while the MCC accounts for KM 11.5 million or 3.3% of total loans. Net loans, which make up total loans net of loan loss provisions are presented in Table 5.

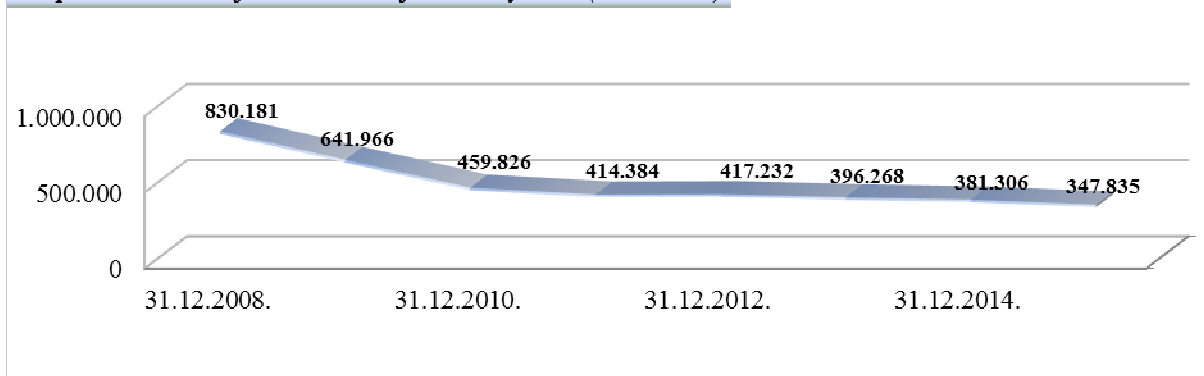
- KM 000 -

<i>Table 5. Net Loans</i>								
No.	DESCRIPTION	31.12.2014			30.06.2015			Index
		MCFs	MCCs	Total	MCFs	MCCs	Total	
1	2	3	4	5=(3+4)	6	7	8=(6+7)	9=8/5
1.	Loans	376 275	5 031	381 306	336 331	11 504	347 835	91
2.	Loan loss provisions	26 140	11	26 151	4 297	26	4 323	17
3.	Net loans (1.-2.)	350 135	5 020	355 155	332 034	11 478	343 512	97

Net loans amount to KM 343.5 million and are lower by 3% compared to 31.12.2014, while gross loans are also lower by 9% compared to the end of the previous year.

Loan loss provisions amount to KM 4.3 million and are down by 83% compared to 31.12.2014. The decrease in loan loss provisions of the microcredit system in the FB&H was primarily influenced by the fact that the financial indicators of one MCF that is subject to bankruptcy proceedings, and whose loan loss reserves amount to KM 8.6 million, have not been included in the financial indicators of the microcredit system in the FB&H. The loan loss provisions to total loan portfolio ratio amounts to 1.24% and recorded an improvement of 5.62% compared to 31.12.2014.

Graph 9. Gross Portfolio Amount of MCOs by Year (in KM 000)



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. The total gross portfolio as of 30.06.2015 amounted to KM 347.8 million and dropped by 58% 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 81% and 73%, respectively.

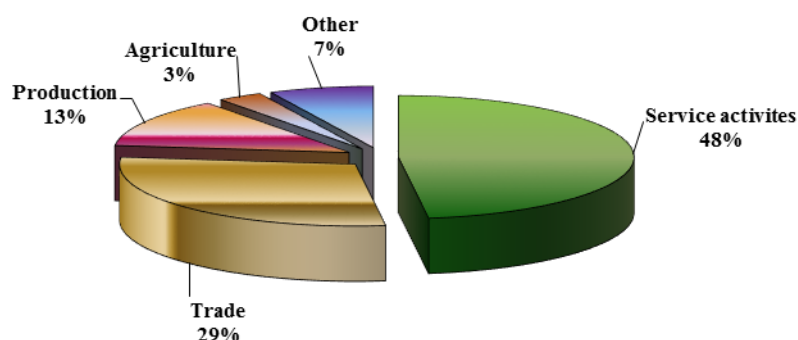
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Table 6. Sector and Maturity Structure of Microloans as of 30.06.2015

No.	Microloans	Short-term loans	Long-term loans	Receivables due	TOTAL	%
1	2	3	4	5	6=(3+4+5)	7
1.	Legal entities					
a.)	Service activities	190	3 059	18	3 267	48%
b.)	Trade	184	1 768	15	1 967	29%
c.)	Agriculture	4	204	1	209	3%
d.)	Production	126	749	7	882	13%
e.)	Other	140	381	2	523	7%
	TOTAL 1:	644	6 161	43	6 848	100%
2.	Natural persons					
a.)	Service activities	8 057	62 619	379	71 055	21%
b.)	Trade	3 086	20 852	161	24 099	7%
c.)	Agriculture	11 268	109 270	449	120 987	35%
d.)	Production	1 000	6 763	41	7 804	2%
e.)	Housing needs	2 335	57 159	186	59 680	18%
f.)	Other	12 470	44 416	476	57 362	17%
	TOTAL 2:	38 216	301 079	1 692	340 987	100%
	TOTAL (1+2):	38 860	307 240	1 735	347 835	

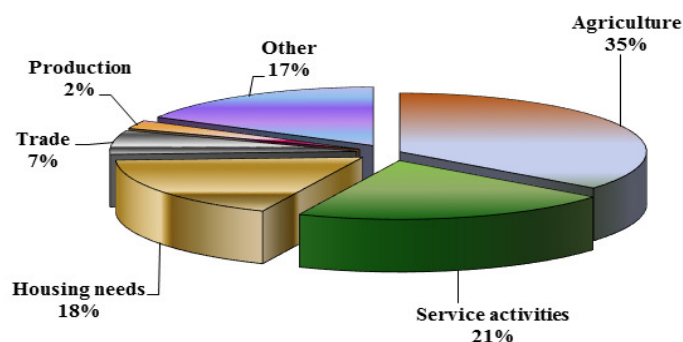
Out of the total number of microloans, KM 6.8 million or 2% were granted to legal entities and KM 341 million or 98% were granted to natural persons. In the maturity structure of microloans, short-term loans with receivables due account for KM 40.6 million or 12% and long-term loans for KM 307.2 million or 88%. Receivables due total KM 1.7 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 3.3 million or 48% for service activities and KM 2 million or 29% for trade. Out of the total microloan amount to legal entities, KM 0.9 million or 13% were granted for production, while KM 0.2 million or 3% were granted for agriculture and KM 0.5 million or 7% for other purposes.

Graph 11. Sector Structure of Microloans to Natural Persons



As for loans to **natural persons**, KM 121 million or 35% was placed for agriculture, followed by KM 71.1 million or 21% for service activities, KM 59.7 million or 18% for housing needs, KM 24.1 million or 7% for trade, KM 7.8 million or 2% for production and KM 57.3 million or 17% for other purposes.

- KM 000 -

Table 7. Sector Structure of Microloans				
Microloans for:	31.12.2014	30.06.2015	Share	Index
Agriculture	128 758	121 196	35%	94
Service activities	81 896	74 322	22%	91
Other	62 892	57 885	17%	92
Housing needs	57 874	59 680	17%	103
Trade	36 119	26 066	7%	72
Production	13 767	8 686	2%	63
TOTAL	381 306	347 835	100%	91

Based on the analysis of the industry, it can be concluded that microlending is largely directed toward lending of agriculture (35%) 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, the total loan percentage for all loan products shows a drop between 6% and 37%, with the exception of loans for housing needs, which are up by 3%. In terms of microloan maturity, long-term microloans are down by 3% compared to the end of the previous year, while short-term microloans (including receivables due) are down by 38%.

- KM 000 -

DESCRIPTION	31.12.2014	30.06.2015	Share	Index
Long-term microloans	315 991	307 240	88%	97
Short-term microloans with receivables due	65 315	40 595	12%	62
TOTAL	381 306	347 835	100%	91

According to reports that microcredit organisations submitted to the Agency in relation to the amount of risk portfolio as a result of the May 2014 natural disasters, as of 30.06.2015, the active loan portfolio, which was not past due as of 30.04.2014 and which was at risk as a result of the natural disasters, amounted to KM 7 million. The loan portfolio that was past due as of 30.04.2014 and was additionally at risk as a result of the natural disasters, amounted to KM 0.1 million as of 30.06.2015. As a result of the natural disasters, a moratorium was declared for 16 loan accounts in the total amount of KM 40 thousand. The loan portfolio that was renegotiated – rescheduled as a result of the natural disasters amounted to KM 2.6 million as of 30.06.2015. Loans for agriculture (42%) and loans for housing needs (26%) have the largest share in the amount of rescheduled loans as a result of the natural disasters.

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 30.06.2015 can be seen in Table 9.

- KM 000 -

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	2	3	4	5	6	7	8	9=(4x3)/100	10=(7x6)/100	11=(8x3)/100	12=(9+10+11)
1.	0	0%	335 125	96.35	0%	0	264	0	0	0	0
2.	1 – 15	2%	3 972	1.14	2%	64	0	79	1	0	80
3.	16 – 30	15%	4 437	1.28	100%	79	0	665	79	0	744
4.	31 – 60	50%	1 389	0.40	100%	40	0	694	40	0	734

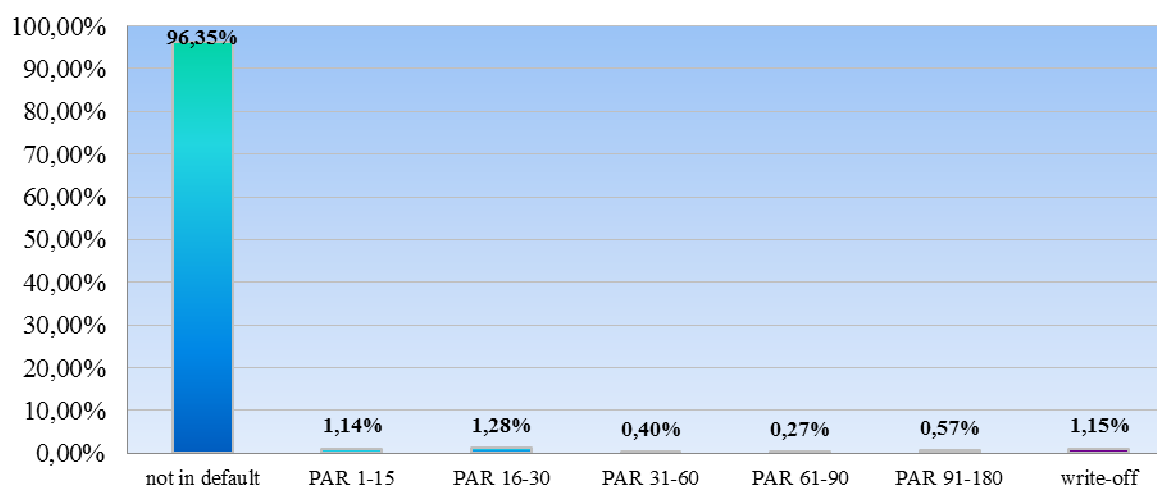
5.	61 – 90	80%	926	0.27	100%	40	0	741	40	0	781
6.	91 – 180	100%	1 986	0.57	100%	96	0	2 144	96	0	2 240
UKUPNO			347 835	100		319	264	4 323	256	0	4 579
7.	More than 180	Write-off	1 094		100%	97					

*Column 9, days past due category (91-180) includes additional provisions of one MCF for replacement loans, rescheduled loans, and contractual obligations.

The amount of defaulted loans for more than one day is KM 12.7 million or 3.65%, while 96.35% of loans are not defaulted. The total amount of interest due by current loans which are defaulted for more than one day is KM 0.3 million. The total amount of calculated reserves on all bases is KM 4.6 million and is down by KM 23.2 million or 84% compared to 31.12.2014. The decrease in total reserves of the microcredit system in the FB&H was primarily influenced by the fact that the financial indicators of one MCF that is subject to bankruptcy proceedings, and whose total reserves amount to KM 9.2 million, have not been included in the financial indicators of the microcredit system in the FB&H.

In the first six months of 2015, the MCO write-off amounted to KM 2.1 million of principal and KM 0.2 million of interest.

Graph 12. Portfolio Quality of MCOs

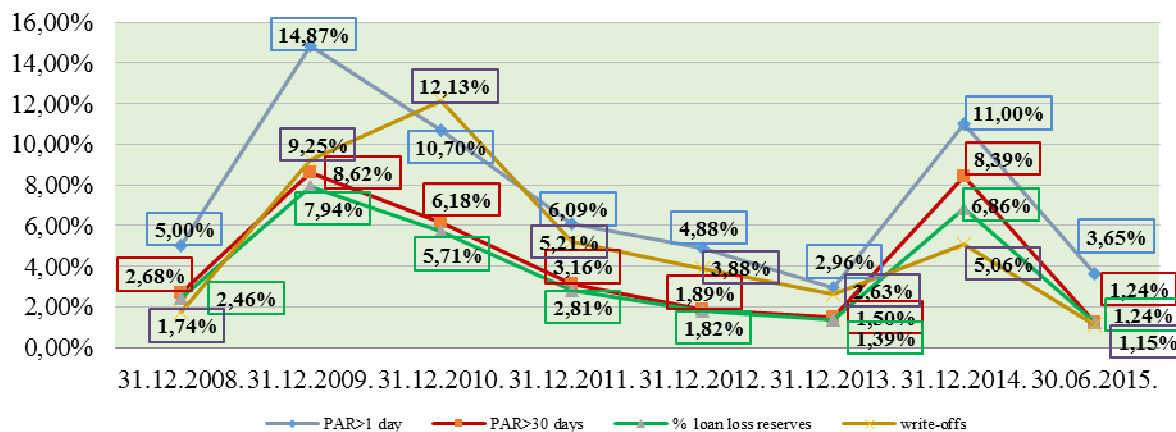


2.3.1. Key Indicators of Loan Portfolio Quality

Compared to the end of the previous year, as of 30.06.2015, the microcredit portfolio recorded a drop of 9% (KM 33.5 million), but showed an improvement of the indicators of active loan portfolio quality. The fact that bankruptcy proceedings of the assets of one MCF were initiated had the most significant influence on the drop of the microcredit portfolio at the level of the microcredit sector of the FB&H, but also on the improvement of the indicators of active loan portfolio quality, and its financial indicators, which significantly influenced the deterioration of the indicators of the microcredit system in previous quarters, were thus not included in the analysis of the microcredit system in the FB&H. The majority of MCOs is exposed to the pressure of competition both from larger MCOs and from banks. Many smaller MCOs are thus faced with a lack of funds for financing the loan portfolio.

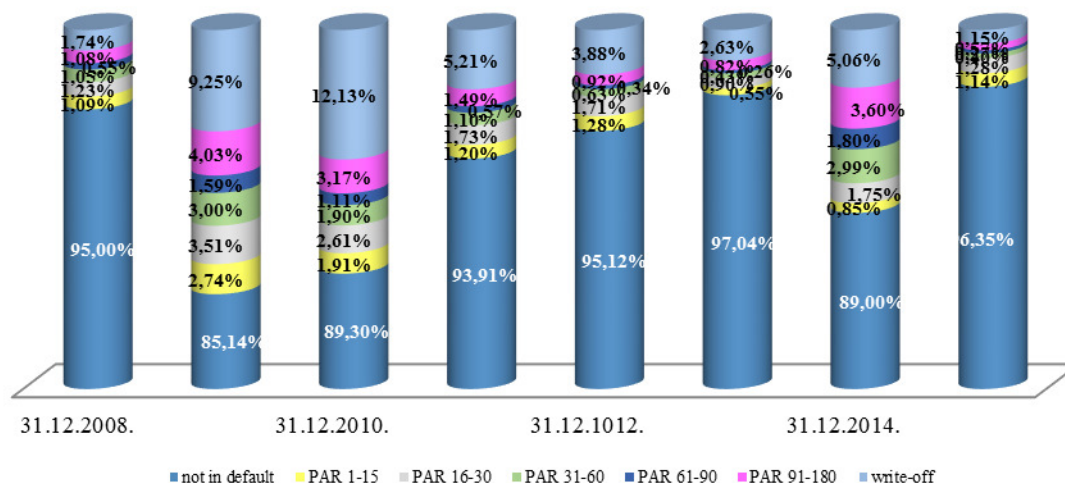
The improvement of active portfolio quality indicators was rendered by the decrease of the loan loss provisions rate from 6.86%, which is what it amounted as of 31.12.2014, to 1.24%. Similarly, the risk portfolio for more than 30 days past due also improved significantly, decreasing from 8.39%, which is what it amounted at the end of the previous year, to 1.24%. The total sector result based on the risk portfolio is within the framework of the prescribed standard (below 5%), with two MCFs violating the prescribed standard if observed individually. The risk portfolio for more than one day past due recorded a significant improvement, decreasing from 11%, to which it amounted as of the end of the previous year, to 3.65%.

Graph 13. Active Portfolio Quality Indicators of MCOs



In the first six months of 2015, MCOs wrote off 1 442 loan accounts (1 413 write-offs relate to natural persons and 29 to legal entities) in the total amount of KM 2.3 million, of which KM 2.1 million relate to the written-off principal.

Graph 14. Gross Portfolio Classification of MCOs by Year



As of 30.06.2015, the percentage of write-offs at sector level amounted to 1.15%, with this indicator being down by 3.91 percentage points compared to the end of the previous year and thus being within the framework of the standard prescribed by the Agency. One MCF does not meet the Agency's standard in terms of the write-off percentage, which must be below 3%.

Microcredit organisations continued with their efforts to collect receivables by write-offs and managed to collect KM 4.8 million of written-off principal and KM 0.5 million of written-off interest in the first six months of 2015, while the permanent write-off in the same reporting period amounted to KM 21 thousand of principal and KM 38 thousand of interest. Regarding the efficiency of the collection of write-offs in the second quarter of 2015, one MCC had 22% of write-off collection compared to the total amount of receivables by write-offs, 5 MCFs had a collection efficiency percentage ranging from 5% to 7%, while 6 MCFs had a collection efficiency percentage below 5%.

As of 30.06.2015, total receivables by write-offs, which are in the off-balance records, amount to as KM 124.8 million, down by 32% compared to the end of the previous year. The decrease in receivables by write-offs at the level of the microcredit sector of the FB&H was primarily influenced by the fact that one MCF, whose receivables by write-offs amount to over KM 90 million, is subject to bankruptcy proceedings, due to which its financial indicators have not been included in the analysis of the microcredit system in the FB&H.

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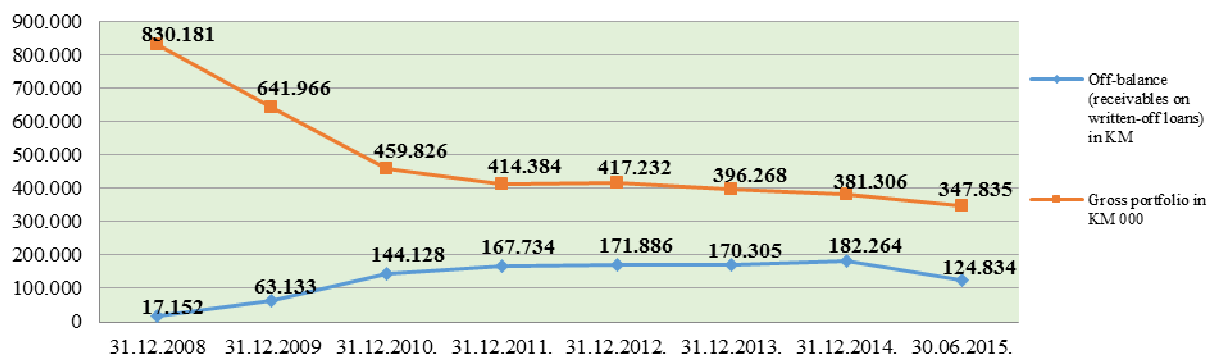
DESCRIPTION	NATURAL PERSONS		LEGAL ENTITIES		TOTAL	
	Written-off principal	Written-off interest	Written-off principal	Written-off interest	Written-off principal	Written-off interest
1	2	3	4	5	6	7
Initial balance as of 01.01.2015.	111 638	11 803	2 856	303	114 494	12 106
Changes in 2015:						
New write-off in the current year	2 032	190	56	4	2 088	194
<i>Write-off in the period 01.01.-31.03.</i>	969	95	25	2	994	97
<i>Write-off in the period 01.04.-30.06.</i>	1 063	95	31	2	1 094	97
<i>Write-off in the period 01.07.-30.09.</i>	0	0	0	0	0	0
<i>Write-off in the period 01.10.-31.12.</i>	0	0	0	0	0	0
Collected in the current year	4 752	493	64	6	4 816	499
<i>Collection of write-offs in the period 01.01.-31.03.</i>	2 259	224	40	3	2 299	227
<i>Collection of write-offs in the period 01.04.-30.06.</i>	2 493	269	24	3	2 517	272
<i>Collection of write-offs in the period 01.07.-30.09.</i>	0	0	0	0	0	0
<i>Collection of write-offs in the period 01.10.-31.12.</i>	0	0	0	0	0	0
Permanent write-off in the current year	21	38	0	0	21	38
<i>Permanent write-off in the period 01.01.-31.03.</i>	8	28	0	0	8	28
<i>Permanent write-off in the period 01.04.-30.06.</i>	13	10	0	0	13	10
<i>Permanent write-off in the period 01.07.-30.09.</i>	0	0	0	0	0	0
<i>Permanent write-off in the period 01.10.-31.12.</i>	0	0	0	0	0	0
Balance as of 30.06.2015	108 897	11 462	2 848	301	111 745	11 763

*Note: The data in Table 10 differs from total receivables by write-offs shown in the off-balance records in the amount of KM 1.3 million, which includes court expenses, penalty and process interest and a portion of off-court settlements in the case of two MCFs.

Compared to 2008, the gross portfolio of MCOs is lower by 58%, while receivables by write-offs are more than 7 times higher and make up 36% of the total loan portfolio as of

30.06.2015. There are significant deviations in the quality of the portfolio between different MCOs, which are evident from the data that three 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 45% 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



MCOs are obligated to start court disputes for the collection of write-offs which fell due and have not been collected for more than 180 days.

2.3.2. Loan Repayment with Guarantorship as Security Instrument and Clients' Complaints

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 30.06.2015 in the Federation of B&H, the total number of loan accounts in the active loan portfolio of MCOs was 147 402, 1.35% of which were being repaid by guarantors, which is down by 0.09 percentage points compared to the percentage of loans being paid off by guarantors out of the total number of loans as of 31.12.2014 (2014: 1.44%). According to quarterly reports, the total gross loan portfolio in the MCO sector as of 30.06.2015 amounted to KM 347 835 thousand KM, with the share of the outstanding loan debt being paid off by guarantors amounting to 1.44%, down by 0.15 percentage points compared to the share of outstanding loan debt being paid off by guarantors out of the total gross loan portfolio at the end of 2014 (2014: 1.59%).

According to MCO reports and pursuant to the Decision on Manner of Customer Complaint Management of Banks, MCOs and Leasing Companies („Official Gazette of the Federation of B&H“, No. 23/14 and 62/14), in the period from 01.04. to 30.06.2015, a total of 72 complaints was filed against MCOs. In the case of 2 MCFs, there is no evidence of complaints.

Co-debtors/guarantors have filed 29 complaints, debtors 21 complaints, while other stakeholders filed 22 complaints. The MCOs resolved 17 complaints positively, 40 complaints negatively, while 15 complaints are in the process of being handled.

2.4. Weighted Nominal and Effective Interest Rates on Microloans

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

In accordance with monthly statements on weighted nominal and effective interest rates by loan, in the second quarter of 2015, MCOs placed microloans in the total amount of KM 92.1 million, which is up by KM 8.7 million or 10% compared to the microloan amount placed in the same period of the previous year. As of 30.06.2015, MCOs had 147 402 active loan accounts, which is lower by 11 411 loan accounts or 7% compared to the end of the previous year. As of 30.06.2015, the average amount of microloans at sector level was KM 2 360, the average amount of microloans in MCFs was KM 2 299, while the average amount of microloans in the MCC was KM 9 969.

No.	DESCRIPTION	Total amount of microloan payment in Q2 2015 (in KM 000)	Weighted nominal interest rate (average)	Weighted effective interest rate (average)
1.	Short-term microloans for:	21 219	18.34%	25.57%
1.1.	Service activities	4 710	16.82%	24.35%
1.2.	Trade	1 895	17.91%	24.30%
1.3.	Agriculture	6 876	13.94%	21.20%
1.4.	Production	718	17.08%	22.56%
1.5.	Housing needs	1 159	22.69%	28.07%
1.6.	Non-purpose – basic needs	1 591	23.97%	29.11%
1.7.	Other	4 270	24.23%	33.01%
2.	Long-term microloans for:	70 879	20.85%	24.60%
2.1.	Service activities	14 199	21.43%	25.57%
2.2.	Trade	4 865	20.46%	24.32%
2.3.	Agriculture	24 060	19.73%	23.18%
2.4.	Production	1 792	20.20%	24.34%
2.5.	Housing needs	14 010	20.31%	23.04%
2.6.	Non-purpose – basic needs	1 654	24.81%	29.21%
2.7.	Other	10 299	23.10%	28.13%
TOTAL		92 098	20.28%	24.82%

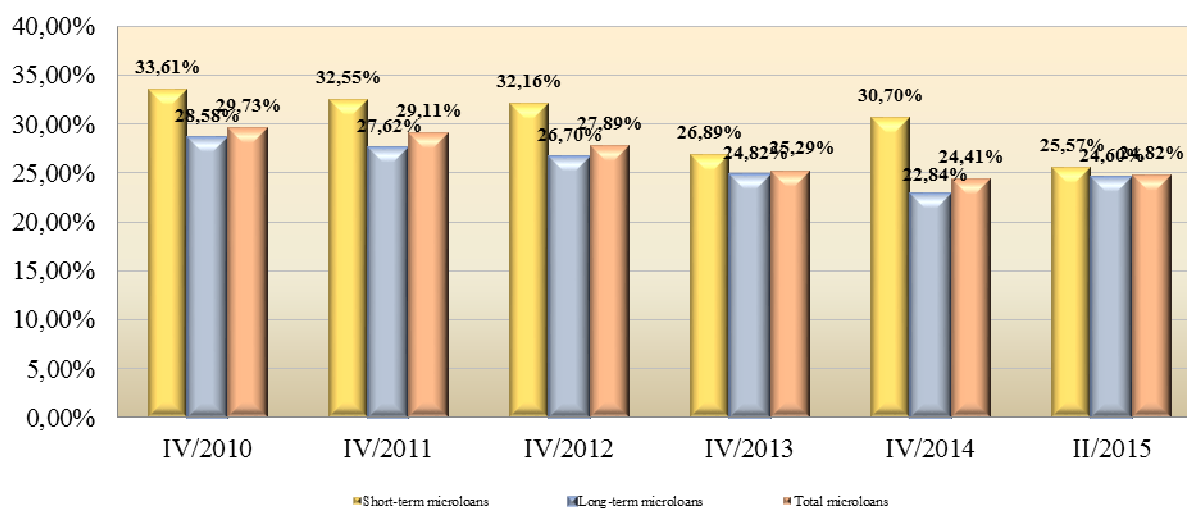
The average weighted nominal interest rate on short-term loans ranges from 13.94% for agriculture up to 24.23% for other loans, and the effective interest rate ranges from 21.20% for agriculture up to 33.01% for other loans. The average weighted nominal interest rate on long-term loans ranges from 19.73% for agriculture up to 24.81% for non-purpose loans, and

the effective interest rate ranges from 23.04% for housing loans up to 29.21% 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 and housing needs, while the most expensive loans are non-purpose and other loans.

The average weighted effective interest rates on short-term, long-term and total microloans in the Federation of B&H by quarter are shown in the table below.

AVERAGE WEIGHTED EFFECTIVE INTEREST RATE on:	IV/2010	IV/2011	IV/2012	IV/2013	IV/2014	II/2015
Short-term microloans	33.61%	32.55%	32.16%	26.89%	30.70%	25.57%
Long-term microloans	28.58%	27.62%	26.70%	24.82%	22.84%	24.60%
Total microloans	29.73%	29.11%	27.89%	25.29%	24.41%	24.82%

Graph 16. Average Weighted EIRs on Microloans (in %)



Microcredit organisations increased, although only slightly, effective interest rates on total microloans, so that, at the end of the second quarter of 2015, average weighted effective interest rates in the microcredit sector on total loans amounted to 24.82%, and recorded an increase of 0.41 percentage points compared to the fourth quarter of 2014. Compared to the same period, average weighted effective interest rates on short-term loans amounted to 25.57% and recorded a drop of 5.13 percentage points. Average weighted effective interest rates on long-term loans amounted to 24.60% at the end of the second quarter of 2015 and are up by 1.76 percentage points compared to the fourth quarter of the previous year.

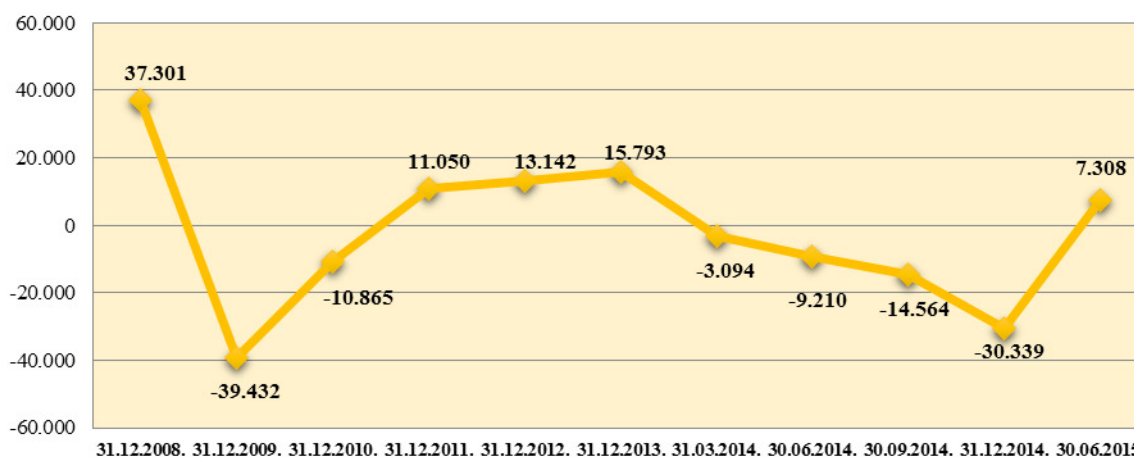
However, when observing the interest rate amounts throughout the years of MCO business operations, it can be concluded that the interest rates at the end of the second quarter of 2015 are significantly down compared to previous years.

2.5. Income Statement

In the period from 01.01. to 30.06.2015, one MCC recorded a net profit in the amount of KM 96 thousand (01.01. to 30.06.2014: KM 170 thousand net loss). In that period, MCFs recorded more income over expenses in the total amount of KM 7 212 thousand, while they recorded less income over expenses in the total amount of KM 9 040 thousand in the same period of the previous year.

In the period from 01.01. to 30.06.2015, out of a total of 11 MCFs, 7 MCFs had more income over expenses in the total amount of KM 7 547 thousand, while 4 MCFs recorded less income over expenses in the total amount of KM 335 thousand.

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



At the level of the microcredit sector in the Federation of B&H, a positive financial result in the amount of KM 7 308 thousand has been recorded, which is up by KM 16 518 thousand compared to the same period of the previous year.

The improvement of the financial result of the microcredit system in the FB&H was primarily influenced by the fact that the financial indicators of one MCF that is subject to bankruptcy proceedings, and whose shortfall of income over expenses amounts to KM 23.2 million in the reporting period, have not been included in the financial indicators of the microcredit system in the FB&H.

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

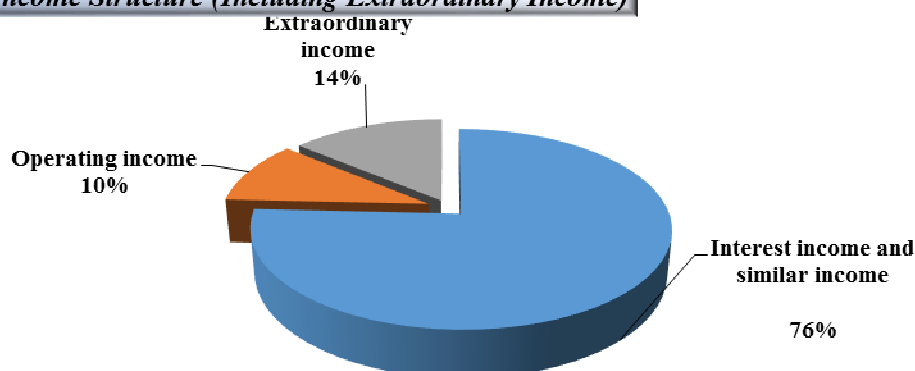
- KM 000 -

Table 13. Income Statement MCOs										
No.	DESCRIPTION	For the period 01.01. - 30.06.2014				For the period 01.01. - 30.06.2015				Index
		MCFs	MCCs	Total	%	MCFs	MCCs	Total	%	
1	2	1	2	3=(1+2)	4	5	6	7=(5+6)	8	9=(7/3)
1.	INCOME									
1.1.	Interest-based income and similar income	34 912	88	35 000	88	32 093	675	32 768	88	94
1.2.	Operating income	4 744	12	4 756	12	4 413	50	4 463	12	94
2.	TOTAL INCOME (1.1.+1.2.)	39 656	100	39 756		36 506	725	37 231	100	94
3.	EXPENSES									
3.1.	Interest-based expenses and similar expenses	7 382	21	7 403	13	5 248	203	5 451	15	74
3.2.	Operating expenses	31 408	239	31 647	58	26 706	422	27 128	77	86
3.3.	Expenses for loan loss provisions and other losses	15 766	10	15 776	29	2 863	15	2 878	8	18
4.	TOTAL EXPENSES (3.1.+3.2.+3.3.)	54 556	270	54 826		34 817	640	35 457	100	65
5.	EXTRAORDINARY INCOME	6 404	4	6 408		6 006	11	6 017		94

6.	EXTRAORDINARY EXPENSES	544	4	548		483	0	483		88
7.	TOTAL INCOME - EXPENSES (2+5-4-6)	-9 040	-170	-9 210		7 212	96	7 308		-79
8.	SURPLUS/DEFICIT OF INCOME OVER EXPENSES	-9 040		-9 040		7 212		7 212		-80
9.	PROFIT BEFORE TAXES		-170	-170			96	96		
10.	TAXES		0	0			0	0		
11.	NET PROFIT/LOSS		-170	-170			96	96		
12.	TOTAL FIN. RESULT			-9 210				7 308		

The total income of MCOs in the period from 01.01. to 30.06.20145 amounts to KM 37.2 million, which almost completely account for MCF income. The total income is lower by KM 2.5 million or 6% compared to the same period of the previous year. The biggest income portion is contributed by interest income, which amounts to KM 32.8 million or 88% of total income and is lower by KM 2.2 million or 6% compared to the same period of the previous year, while operating income amounts to KM 4.5 million or 12% of total income and is lower by KM 0.3 million or 6% compared to the same period of the previous year.

Graph 18. Income Structure (Including Extraordinary Income)

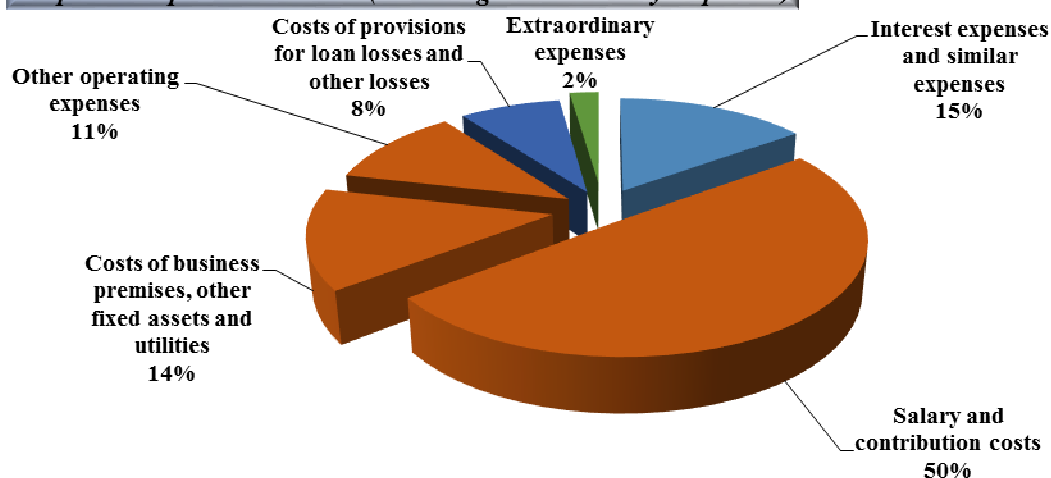


Extraordinary income of MCOs generated in the period from 01.01. to 30.06.2015 amounts to KM 6 million, which is down by KM 0.4 million or 6% compared to the same period of the previous year. Extraordinary income is dominated by the collection of receivables from write-offs. Extraordinary income of MCOs generated in the first six months of 2015 amounts to KM 0.5 million and is down by KM 0.1 million or 12% compared to the same period of the previous year.

Total expenses amount to KM 35.5 million, 34.8 million or 98.2% of which account for the expenses of MCFs, and KM 0.7 million or 1.8% for the expenses of one MCC. Compared to the same period of the previous year, total expenses are down by KM 19.4 million or 35%. In the expenses structure, KM 5.5 million or 15% of total expenses account for interest expenses on taken loans and other similar expenses, which are lower by KM 2 million or 26% compared to the same period of the previous year. Operating expenses amount to KM 27.1 million or 77% of total expenses and are lower by KM 4.5 million or 14% compared to the same period of the previous year. Operating expenses include salary and contributions' expenses in the amount of KM 18 million (01.01. to 30.06.2014: KM 19.3 million), business premises' expenses, other fixed assets and utility costs in the amount of KM 5.1 million (01.01. to 30.06.2014: KM 6.8 million) and other operating expenses in the amount of KM 4 million (01.01. to 30.06.2014: KM 5.5 million). Expenses for loan loss provisions and other

losses amount to KM 2.9 million or 8% of total expenses and are down by even KM 12.9 million or 82% compared to the same period of the previous year.

Graph 19. Expenses Structure (Including Extraordinary Expenses)

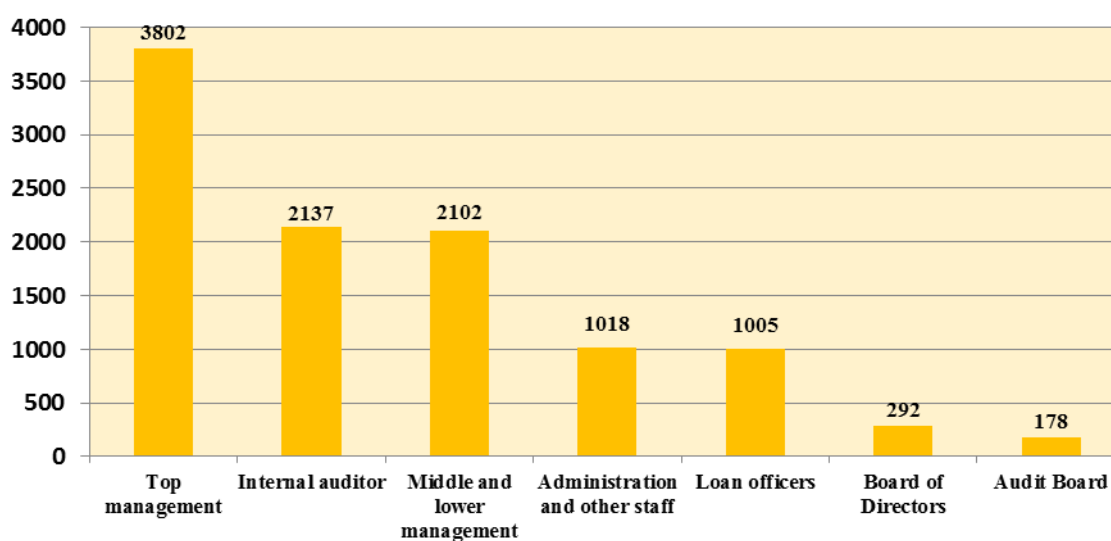


2.5.1. Standard Monthly Income in Microcredit Activities

The standard of reasonable market value is the value achieved on the labour market and the average salary of the Federation of B&H is observed as relevant data because it represents the ratio of the labour market. However, since each industry has its own peculiarities, the microcredit industry, too, has its peculiarities and standards that apply to microcredit activity are used for comparison purposes. The standard of the microcredit market is the approximate or equal standard value paid for the same service on the microcredit market industry in an approximate or equal amount with the average of the relevant group, i.e. the average of the overall microcredit industry. In order to determine the average, MCO values, the business operations of which are in line with the business standards prescribed by the decision on other general terms and conditions of microcredit organisations, are used because wages in these organisations are market-based considering that prescribed measurable standards ensure that the MCOs operate in accordance with the business principles of due diligence, which they are obligated to do in accordance with Art. 40 of the Law on Associations and Foundations.

Salary and contributions' expenses generated in the period 01.01. to 30.06.2015 are lower by 7% compared to the same period of the previous year. According to MCO reports, as of 30.06.2015, the average monthly net salary of MCO employees was KM 1 138 and the average monthly net amount of incentives, stimulations and bonuses was KM 42. This means that the average monthly net salary with bonuses was KM 1 180 in the microcredit sector. As of 30.06.2015, the average monthly net salary of a senior management member in the microcredit sector was KM 3 802 including bonuses, while average monthly net compensations paid to management board members in MCOs were KM 292 and to audit board members KM 178. As of the reporting date, the average monthly net salaries of internal auditors in MCOs were KM 2 137 including bonuses, of middle and low management KM 2 102, of loan officers KM 1 005 and of administration and other staff KM 1 018.

Graph 20. Average Monthly Salary/Compensation in MCOs, Including Bonuses (in KM)



Article 39 of the Law on MCOs stipulates that the microcredit foundations shall invest the excess income over expenses in performing microcredit activities and that the direct or indirect allocation of the excess of income over expenses to founders, members of bodies, responsible persons and employees in the microcredit foundation is not allowed. In fact, it has been noted that some MCFs pay salaries/compensations that significantly deviate from the microcredit sector average. In the case of one MCF, the average monthly net salary of the senior management is 2 times higher compared to the sector average.

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 4 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. In the first six months of 2015, out of 12 MCOs, 7 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 206 169 million. Only one MCF has a share of even 62% in the total amount of transactions with related entities.

-in KM-

No.	Description of transaction	Transaction amount in the period 01.01.-30.06.2015	Share (%)
1.	Transactions with the founder and founder-related entities	121 347	58.86%
2.	Payment by invoices for delivered goods/services	62 068	30.11%
3.	Refunding of expenses	8 377	4.06%
4.	Payment of joint expenses of a related person	8 377	4.06%
5.	Lease of business premises	6 000	2.91%
6.	Short-term loans from banks	0	0.00%
7.	Regular and penalty interest, management fees	0	0.00%
8.	Borrowings from legal entities and natural persons	0	0.00%
9.	Legal services	0	0.00%
10.	Loan annuities	0	0.00%
11.	Short-term deposits to banks	0	0.00%
12.	Receivables based on lease	0	0.00%
TOTAL		206 169	100.00%

Table 14 provides a breakdown of transactions with related entities in the period from 01.01. to 30.06.2015, which shows that the majority transactions performed by MCOs are based on payments made to the MCOs' founders and their related entities (58.86%) and based on payments by invoices for delivered goods/services (30.11%). In addition to the aforementioned transactions, MCOs also reported the transactions with related entities based on the lease of business premises, the payment of joint expenses and other.

The reported transactions of MCOs with related entities refer to transactions conducted with entities related to the MCOs' founders and their related entities (68%), members of the audit board (25%), members of the supervisory board (5%), and the director (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.

4. FINANCIAL INDICATORS OF BANKRUPT MCO BUSINESS OPERATIONS

One MCF with improper business operations and business practices at odds with the principles of due care and diligence, as well as multiple and continuous violations of the prescribed requirements for MCO operations significantly destabilises the microcredit market by causing direct damage to the foundation's property, its creditors, clients, and donations that are of general and common interest for the citizens of the Federation of B&H.

In the interest of the stability of the microcredit system, the Agency has taken a number of corrective actions toward the aforementioned MCF, however, at the proposal of the MCF at hand, the Agency's decisions were postponed by provisional court measures until the

resolution of the administrative dispute, and the Agency's jurisdiction under the Law on Agency and the LoMCO were completely derogated in this case, as a result of which the Agency is prevented from acting in a manner that would effectively regulate the market and adequately protect the stability of the microcredit system in the Federation of B&H. At the request of the creditors, on 16.03.2015, the Municipal Court in Sarajevo initiated proceedings to determine the conditions for initiating bankruptcy proceedings against the Foundation and appointed an interim bankruptcy administrator. On 03.06.2015, the Municipal Court in Sarajevo initiated bankruptcy proceedings of this MCF's assets.

As of 30.06.2015, the balance sheet total of this bankrupt MCF was KM 12.5 million, down by KM 23.3 million or 65% compared to the end of the previous year. Gross loans of this MCF, as the most important assets item, amounted to KM 10.9 million and were down by KM 35.1 million or 76% compared to 31.12.2014, while net loans amounted to KM 2.4 million and were down by KM 21.3 million or 90% compared to the reporting period. Loan portfolio quality indicators deteriorated compared to the end of the previous year. The loan loss provisions rate thus amounted to 78.52% as of 30.06.2015 and recorded an increase in the amount of even 29.97 percentage points compared to 31.12.2014, when it amounted to 48.55%. Furthermore, the risk portfolio for more than 30 days past due amounted to 82.89% (the prescribed limit is up to 5%) and recorded a significant deterioration of even 22.32 percentage points compared to the reporting period, when it amounted to 60.57%. Similarly, the percentage of write-offs amounted to 219.02% as of 30.06.2015 (the prescribed limit is up to 3%) and also recorded an increase in the amount of 193.64 percentage points compared to 31.12.2014, when it amounted to 25.38%. As of 30.06.2015, this MCF's total receivables by write-offs, which are in the off-balance records, amounted to KM 92.2 million and were up by KM 37.7 million or 69% compared to the end of the previous year.

As of 30.06.2015, loan commitments amounted to KM 52.9 million and are down by 1% compared to the previous year. The total capital of this MCF amounted to KM -45.7 million as of 30.06.2015, down by KM 23.3 million compared to the balance as of 31.12.2014.

In the period from 01.01. to 30.06.2015, this MCF generated less income over expenses in the amount of KM 23.2 million, up by KM 6.2 million compared to the same period of the previous year.

III CONCLUSIONS AND RECOMMENDATIONS

By analysing MCO reports as of 30.06.2015, 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 10%) and loan portfolio (by 9%), however, indicators of loan portfolio quality show significant improvement, in addition to the drop in the number of employees (by 7%) as well as loan commitments (by 25%). The capital of MCFs recorded an increase of 17% compared to the end of the previous year due to the negative financial result of one MCF. These indicators of the microcredit sector of the FB&H were mostly impacted by the fact that one MCF's assets are subject to bankruptcy proceedings, due to which its financial indicators were not included in the analysis of the microcredit system in the FB&H.

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. 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. 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, and for that reason all MCOs that are not operationally sustainable should consider mergers or acquisitions in order to protect the assets of MCFs, which would be in line with the business principle of due diligence.

In the period to come, the imperative of MCOs 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. The measures being taken in accordance with the current legal solutions do not yield adequate results and it is therefore necessary to additionally organise MCO business operations, extend the Agency's regulatory competences in order to eliminate irregularities, ensure legal business operations and achieve the objectives of microlending.

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

- 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;
- Reducing interest rates on microloans;
- Controlling interest rates and achieving objectives from the LoMCO through the active involvement of 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, which should influence the reduction of interest rates;
- Establishing mechanisms to check the justification 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 boards of directors, which the aforementioned exercise at the expense of the assets of MCOs and which are directly compensated by high interest rates;
- Increasing the responsibilities of management boards, ensuring independence from the management and control of the management by management boards;
- 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;
- 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;
- 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,
- Fully implementing valid regulations and increasing the transparency of business operations; and
- 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.

No.: U.O. – 74-3/15
Sarajevo, 01.09.2015

IV ANNEXES

Annex 1. Regulations of the Banking Agency for business operations of MCOs

Annex 2. Main data on MCOs

Annex 3. External auditor's reports for the years that ended on 31.12.2013 and 31.12.2014

Annex 4. Balance sheet of MCFs

Annex 5. Balance sheet of MCCs

Annex 6. Income statement of MCFs

Annex 7. Income statement of MCCs

Annex 8. Overview of donated funds of MCFs

Annex 1.

REGULATIONS OF THE BANKING AGENCY FOR THE BUSINESS OPERATIONS OF MCOs AS OF 30.06.2015

Decisions of the Banking Agency related to MCO operations	Official Gazette of the Federation of B&H
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 Fees Microcredit Organisations Pay to the Banking Agency of the Federation of B&H	46/11
10. Decision on Minimum Standards for Activities of Microcredit Organisation to Prevent Money Laundering and Financing Terrorist Activities	48/12
11. Decision on Conditions and Manner of Customer Complaint Management by Banks, Microcredit Organisations and Leasing Companies	23/14, 26/14 and 62/14
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 and 62/14
14. Decision on Minimum Requirements in Terms of Content, Comprehensibility and Availability of General and Special Business Conditions of Providers of Financial Services	62/14

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

Annex 2.

MAIN DATA ON MCOs

No	Name of microcredit organisation	Address and seat	Director	Tel/Fax	E-mail and Web	30.06.2015			
						Assets amount in KM 000	Capital amount in KM 000	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	sead.mucic@eki.ba www.eki.ba	11 922	2 604	20	1
2.	MKF "EKI" Sarajevo	ul. Džemala Bijedića bb 71 000 SARAJEVO	Sadina Bina	033/ 754-380, 754-388 fax	sadina.bina@eki.ba www.eki.ba	109 172	55 073	263	68
3.	MKF "LIDER" Sarajevo	ul. Turhanija 2 71 000 SARAJEVO	Džavid Sejfović	033/ 250-580, 250-581 fax	dzavids@lider.ba www.lider.ba	14 299	10 446	57	12
4.	"LOK MKF" Sarajevo	ul. Skenderija 13 71 000 SARAJEVO	Elma Čardaklija - Bašić	033/ 564-200, 564-201 fax	central.office@lok.ba www.lok.ba	35 172	6 097	135	32
5.	MKF "MELAHA" Sarajevo	ul. Hamdije Kreševljakovića 59 71 000 SARAJEVO	Jakob Finci	033/ 205-737 tel/fax	info@melaha.ba www.melaha.ba	1 231	420	5	0
6.	MKF "MI-BOSPO" Tuzla	ul. Bosne srebrene bb 75 000 TUZLA	Nejira Nalić	035/ 270-283, 252-448 fax	mi-bospo@mi-bospo.org www.mi-bospo.org	47 310	18 152	147	24
7.	MKF "MIKRA" Sarajevo	ul. Marka Marulića 2/VI 71 000 SARAJEVO	Sanin Čampara	033/ 616-162, 717-141 fax	mikra@mikra.ba www.mikra.ba	20 768	5 973	96	21
8.	MKF "MIKRO ALDI" Goražde	ul. Panorama bb 73 000 GORAŽDE	Ferida Softić	038/ 226-456, 221-004 fax	info@mikroaldi.org www.mikroaldi.org	5 387	4 073	29	7
9.	"PARTNER MKF" Tuzla	ul. 15. maja bb 75 000 TUZLA	Senad Sinanović	035/ 300-250, 300-269 fax	partner@partner.ba www.partner.ba	126 913	64 006	300	59
10.	"PRVA ISLAMSKA MKF" Sarajevo	ul. Jukićeva 75 71 000 SARAJEVO	Edina Hadžimurtezić	033/ 666-233, 666-224 fax	info@mfi.ba	1 708	1 573	8	0
11.	MKF "SANI" Zenica	ul. Mehmedalije Tarabara 10 72 000 ZENICA	Sulejman Haračić	032/ 405-606 tel/fax	mikrosanizenica@yahoo.com	354	264	5	0
12.	MKF "SUNRISE" Sarajevo	ul. Zagrebačka 50 71 000 SARAJEVO	Anis Aganović	033/ 727-350, 812-231 fax	sunrise@microsunrise.ba www.microsunrise.ba	32 680	19 199	154	40
13.	MKF "PRIZMA" (BANKRUPT) Sarajevo	ul. Bistrik Medresa 43 71 000 SARAJEVO	Abdulaziz Mahmutović, stečajni upravnik	033/ 573-320, 446-583 fax	hq@prizma.ba www.prizma.ba	/	/	/	/
TOTAL						406 916	187 880	1 219	264

Annex 3.

EXTERNAL AUDITOR'S REPORT FOR THE YEAR THAT ENDED ON 31.12.2013

No.	Name of MCO	Year	Name of audit firm that audited the MCO	Date of report	Daily newspaper and date of publication	Auditor's opinion	Highlighted facts
UNQUALIFIED REPORTS							
1.	MKF EKI Sarajevo	31.12.2013	KPMG B-H d.o.o. Sarajevo	30.04.2014	Dnevni avaz 27.05.2014	UNQUALIFIED REPORT	
2.	MKF LIDER Sarajevo	31.12.2013	Revik d.o.o. Sarajevo	06.02.2014	Oslobodenje 16.05.2014	UNQUALIFIED REPORT	
3.	MKF MELAHA Sarajevo	31.12.2013	Revik d.o.o. Sarajevo	18.04.2014	Oslobodenje 28.05.2014	UNQUALIFIED REPORT	
4.	MKF MI-BOSPO Tuzla	31.12.2013	KPMG B-H d.o.o. Sarajevo	10.04.2014	Oslobodenje 29.05.2014	UNQUALIFIED REPORT	
5.	MKF MIKRO ALDI Gorazde	31.12.2013	Revik d.o.o. Sarajevo	06.03.2014	Oslobodenje 12.05.2014	UNQUALIFIED REPORT	
6.	PARTNER MKF Tuzla	31.12.2013	Deloitte d.o.o. Sarajevo	19.03.2014	Oslobodenje 26.04.2014	UNQUALIFIED REPORT	
7.	PRVA ISLAMSKA MKF Sarajevo	31.12.2013	Revik d.o.o. Sarajevo	15.04.2014	Dnevni avaz 19.05.2014	UNQUALIFIED REPORT	
8.	MKF SANI Zenica	31.12.2013	Revik d.o.o. Sarajevo	09.05.2014	Oslobodenje 24.05.2014	UNQUALIFIED REPORT	
UNQUALIFIED REPORTS WITH HIGHLIGHTED FACTS							
9.	MKD ADRIA d.o.o. Mostar (MKD EKI d.o.o. Sarajevo)	31.12.2013	KPMG B-H d.o.o. Sarajevo	30.04.2014	Dnevni avaz 27.05.2014	UNQUALIFIED REPORT	Highlighted facts, without qualified opinion, due to the failure to fulfill the regulatory requirement related to the return on assets.
10.	MKF SUNRISE Sarajevo	31.12.2013	Deloitte d.o.o. Sarajevo	14.03.2014	Oslobodenje 30.04.2014	UNQUALIFIED REPORT	<i>Highlighted fact</i> , without qualified opinion, due to the failure to fulfill the regulator's requirement related to the limit of fixed assets in the amount of 10% relative to total assets net of donated funds.

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11.	MKF MIKRA Sarajevo	31.12.2013	Deloitte d.o.o. Sarajevo	17.03.2014	Dnevni avaz 17.04.2014	UNQUALIFIED REPORT	<i>Highlighted facts</i> , without qualified opinion, due to the failure to fulfill some of the general business conditions established by the Banking Agency of the Federation of Bosnia and Herzegovina (FBA) as the regulator.
12.	LOK MKF Sarajevo	31.12.2013	Baker Tilly Re Opinion d.o.o. Sarajevo	05.02.2014	Dnevni avaz Oslobodenje 11.03.2014	UNQUALIFIED REPORT	<i>Highlighted facts</i> , without qualified opinion, due to the influence of the negative effects of the financial crisis on the business operations of legal entities, i.e. the ability to continue the business operations of the Foundation, as well as due to the failure to fulfill some of the other business conditions established by the Agency as the regulator, and the adoption of a conservative policy of forming additional provisions in order to harmonise the fair value of property with the market prices in the environment
QUALIFIED OPINION WITH HIGHLIGHTED FACTS							
13.	MKF PRIZMA Sarajevo	31.12.2013	Aditon d.o.o. Banja Luka*	30.04.2014	Dnevni list 30.05.2014	QUALIFIED OPINION – As of 31.12.2013, the loan portfolio included loans amounting to KM 1 855 thousand, which show the characteristics of renegotiated loans, therefore, the external auditor was unable to determine whether additional provisioning of the loan portfolio was needed as of 31.12.2013 and accordingly, corrections of the balance sheet and income statement of the MCF for the year that ended on that date.	Highlighted facts due to the failure to observe the provisions of the agreements with creditors and fulfill the regulatory requirements of the Agency in terms of meeting certain financial indicators, the dispute with the Agency and the impact of the negative effects of the financial crisis and political instability on the business operations of legal entities.

**Note: With its document No. 07-1547/14 from 05.05.2014, the Agency refused to issue an approval for ADITON d.o.o. Banja Luka being selected as the independent external auditor that would audit the financial statements of the MCF „Prizma“ Sarajevo as of 31.12.2013, and declared the report of the external auditor for 2013 invalid, since the audit of this MCF was not carried out in accordance with Article 18 of the Law on Microcredit Organisations.*

EXTERNAL AUDITOR'S REPORT FOR THE YEAR THAT ENDED ON 31.12.2014

No.	Name of MCO	Year	Name of audit firm that audited the MCO	Date of report	Daily newspaper and publication date	Auditor's opinion	Highlighted facts
UNQUALIFIED REPORTS							
1.	MKF LIDER Sarajevo	31.12.2014	Revik d.o.o. Sarajevo	17.03.2015	Oslobođenje 15.05.2015	UNQUALIFIED REPORT	
2.	MKF MIKRO ALDI Goražde	31.12.2014	Revik d.o.o. Sarajevo	10.04.2015	Oslobođenje 11.05.2015	UNQUALIFIED REPORT	
3.	PARTNER MKF Tuzla	31.12.2014	KPMG B-H d.o.o. Sarajevo	01.04.2015	Oslobođenje 06.05.2015	UNQUALIFIED REPORT	
4.	MKF SANI Zenica	31.12.2014	Revik d.o.o. Sarajevo	15.5.2015	Oslobođenje 21.05.2015	UNQUALIFIED REPORT	
5.	PRVA ISLAMSKA MKF Sarajevo	31.12.2014	Revik d.o.o. Sarajevo	06.05.2015	Dnevni avaz 01.06.2015	UNQUALIFIED REPORT	
6.	MKF MI-BOSPO Tuzla	31.12.2014	KPMG B-H d.o.o. Sarajevo	10.04.2015	Oslobođenje 27.05.2015	UNQUALIFIED REPORT	
7.	MKF MELAHA Sarajevo	31.12.2014	Revik d.o.o. Sarajevo	22.04.2015	Oslobođenje 28.05.2015	UNQUALIFIED REPORT	
8.	MKF EKI Sarajevo	31.12.2014	KPMG B-H d.o.o. Sarajevo	07.05.2015	Dnevni avaz 25.05.2015	UNQUALIFIED REPORT	
UNQUALIFIED REPORTS WITH HIGHLIGHTED FACTS							
9.	MKF MIKRA Sarajevo	31.12.2014	Deloitte d.o.o. Sarajevo	09.04.2015	Oslobođenje 07.05.2015	UNQUALIFIED REPORT	<i>Highlighted facts</i> , without qualified opinion, due to the failure to fulfill some of the general business conditions established by the Banking Agency of the Federation of Bosnia and Herzegovina (FBA) as the regulator.

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10.	MKF SUNRISE Sarajevo	31.12.2014	Deloitte d.o.o. Sarajevo	20.04.2015	Oslobođenje 07.05.2015 Dnevni avaz 07.05.2015	UNQUALIFIED REPORT	<i>Highlighted fact</i> , without qualified opinion, due to the failure to fulfill the regulator's requirement related to the limit of fixed assets in the amount of 10% relative to total assets net of donated funds.
11.	MKD EKI Sarajevo	31.12.2014	KPMG B-H d.o.o. Sarajevo	18.05.2015	Dnevni avaz 25.05.2015	UNQUALIFIED REPORT	Highlighted facts, without qualified opinion, due to the failure to fulfill the regulatory requirement related to the return on assets.
QUALIFIED REPORTS WITH HIGHLIGHTED FACTS							
12.	LOK MKF Sarajevo	31.12.2014	Deloitte d.o.o. Sarajevo	06.04.2015	Oslobođenje 13.05.2015	<p>QUALIFIED REPORT – The auditor could not be convinced that the book value of non-current assets held for sale was stated in accordance with the International Financial Reporting Standard 5: „Non-current Assets Held for Sale and Discontinued Operations“, i.e. lower than the fair value net of costs of sale, and was thus unable to determine the potential effects of the aforementioned on the audited financial statements of the Foundation for the year that ended on 31 December 2014.</p> <p>NOTE: The MCF decided to withdraw the report of the independent auditor due to learning certain materially significant facts after the date of issue of this report.</p>	<i>Highlighted fact</i> , without qualified opinion, due to the failure to observe certain provisions of loan agreements signed with Deutsche Bank AG and Agencia Espanola de Cooperacion Internacional – Instituto de Credito Oficial, as well as due to the failure to fulfill certain regulatory requirements prescribed by the Banking Agency of the Federation of Bosnia and Herzegovina („FBA“).
FOUNDATIONS THAT FAILED TO SUBMIT AN INDEPENDENT EXTERNAL AUDTOR'S REPORT							
13.	MKF PRIZMA (BANKRUPT) Sarajevo	31.12.2014	/	/	/	The MCF has informed the Agency that it will be objectively unable to realise the regular annual audit on time.	

Annex 4.

BALANCE SHEET OF MCFs

in KM 000

No.	DESCRIPTION	31.12.2014	%	30.06.2015	%	Index
1	2	3	4	5	6	7=5/3
ASSETS						
1.	Cash (1a+1b)	36 912	8	19 220	5	52
1a)	Cash and non-interest bearing deposit accounts	18 253	4	11 884	3	65
1b)	Interest-bearing deposit accounts	18 659	4	7 336	2	39
2.	Facilities to banks	3 523	1	743	0	21
3.	Loans	376 275		336 331		89
3a)	Loan loss reserves	26 140		4 297		16
3b)	Net loans (3-3a)	350 135	79	332 034	84	95
4.	Business premises and other fixed assets	39 373	9	30 033	8	76
5.	Long-term investments	3 061	0	3 061	0	100
6.	Other assets	13 820	3	10 156	3	73
7.	Minus: provisions for other assets items, except loans	1 618		253		16
8.	TOTAL ASSETS	445 206	100	394 994	100	89
LIABILITIES						
9.	Short-term loan commitments	78 848	17	85 973	22	109
10.	Long-term loan commitments	181 626	41	104 214	26	57
11.	Other liabilities	26 134	6	19 531	5	75
12.	TOTAL LIABILITIES	286 608	64	209 718	53	73
13.	Donated capital	67 521		55 800		83
14.	Core capital	3 820		3 820		100
15.	Surplus of income over expenses	187 612		181 847		97
15a)	For previous years	172 658		174 325		101
15b)	For current year	14 954		7 522		50
16.	Deficit of income over expenses	102 817		58 621		57
16a)	For previous years	57 745		58 286		101
16b)	For current year	45 072		335		1
17.	Other reserves	2 462		2 430		99
18.	TOTAL CAPITAL	158 598	36	185 276	47	117
19.	TOTAL LIABILITIES	445 206	100	394 994	100	89
OFF-BALANCE RECORDS						
	- written-off loans	182 208		124 789		68
	- agent business	275		262		95

Annex 5.

BALANCE SHEET OF MCCs

in KM 000

No.	DESCRIPTION	31.12.2014	%	30.06.2015	%	Index
1	2	3	4	5	6	7=5/3
ASSETS						
1.	Cash (1a+1b)	2 001	28	264	2	13
1a)	Cash and non-interest bearing deposit accounts	2 001	28	264	2	13
1b)	Interest-bearing deposit accounts	0	0	0	0	n/a
2.	Facilities to banks	0	0	0	0	n/a
3.	Loans	5 031		11 504		229
3a)	Loan loss reserves	11		26		236
3b)	Net loans (3-3a)	5 020	71	11 478	96	229
4.	Business premises and other fixed assets	29	0	24	0	83
5.	Long-term investments	0	0	0	0	n/a
6.	Other assets	71	1	158	2	223
7.	Minus: provisions for other assets items, except loans	1		2		200
8.	TOTAL ASSETS	7 120	100	11 922	100	167
LIABILITIES						
9.	Short-term loan commitments	217	3	1 035	9	477
10.	Long-term loan commitments	4 086	58	7 780	65	190
11.	Other liabilities	309	4	503	4	163
12.	TOTAL LIABILITIES	4 612	65	9 318	78	202
13.	Donated capital	0		0		n/a
14.	Core capital	600		600		100
15.	Issue premiums	0		0		n/a
16.	Unallocated profit (16a+16b)	-392		96		-24
16a)	Of previous years	-5		0		0
16b)	Of current year	-387		96		-25
17.	Legal reserves	2 300		1 908		83
18.	Other reserves	0		0		n/a
19.	TOTAL CAPITAL	2 508	35	2 604	22	104
20.	TOTAL LIABILITIES	7 120	100	11 922	100	167
OFF-BALANCE RECORDS						
	- written-off loans	56		45		80
	- agent business	0		0		n/a

Annex 6.

INCOME STATEMENT OF MCFs

in KM 000

No.	DESCRIPTION	For the period 01.01. - 30.06.2014	%	For the period 01.01. - 30.06.2015	%	Index
1	2	3	4	5	6	7=(5/3)
I	FINANCIAL INCOME AND EXPENSES					
1.	Interest income and similar income					
1.1.	Interest by interest-bearing deposit accounts with deposit institutions	20	0	59	0	295
1.2.	Interest on facilities to banks	93	0	6	0	6
1.3.	Loan interest	32 513	93	31 619	99	97
1.4.	Other financial income	2 286	7	409	1	18
1.5.	Total interest income and similar income (1.1. to 1.4.)	34 912	100	32 093	100	92
2.	Interest expenses and similar expenses					
2.1.	Interest on borrowed funds	7 069	96	4 811	92	68
2.2.	Other financial expenses	313	4	437	8	140
2.3.	Total interest expenses and similar expenses (2.1. to 2.2.)	7 382	100	5 248	100	71
3.	Net financial income (1.5. - 2.3.)	27 530		26 845		98
II	OPERATING INCOME AND EXPENSES					
4.	Operating income					
4.1.	Fees for services performed	4 105	87	3 198	72	78
4.2.	Other operating income	639	13	1 215	28	190
4.3.	Total operating income (4.1. do 4.2.)	4 744	100	4 413	100	93
5.	Operating expenses					
5.1.	Salary and contributions costs	19 176	61	17 630	66	92
5.2.	Costs of business premises, other fixed assets and utility costs	6 776	22	5 091	19	75
5.3.	Other operating expenses	5 456	17	3 985	15	73
5.4.	Total operating expenses (5.1. to 5.3.)	31 408	100	26 706	100	85
6.	Loan loss provisions and provisions for other losses	15 766		2 863		18
7.	Surplus/deficit of income over expenses from regular operations (3.+4.3.-5.4.-6.)	-14 900		1 689		-11
8.	Extraordinary income	6 404		6 006		94
9.	Extraordinary expenses	544		483		89
10.	Surplus/deficit of income over expenses (7.+8.-9.)	-9 040		7 212		-80

Annex 7.

INCOME STATEMENT OF MCCs

in KM 000

No.	DESCRIPTION	For the period 01.01. - 30.06.2014	%	For the period 01.01. - 30.06.2015	%	Index
1	2	3	4	5	6	7=(5/3)
I	FINANCIAL INCOME AND EXPENSES					
1.	Interest income and similar income					
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	84	95	675	100	804
1.4.	Other financial income	4	5	0	0	0
1.5.	Total interest income and similar income (1.1. to 1.4.)	88	100	675	100	767
2.	Interest expenses and similar expenses					
2.1.	Interest on borrowed funds	10	48	187	92	1.870
2.2.	Other financial expenses	11	52	16	8	145
2.3.	Total interest expenses and similar expenses (2.1. to 2.2.)	21	100	203	100	967
3.	Net financial income (1.5. - 2.3.)	67		472		704
II	OPERATING INCOME AND EXPENSES					
4.	Operating income					
4.1.	Fees for services performed	12	100	47	94	392
4.2.	Other operating income	0	0	3	6	n/a
4.3.	Total operating income (4.1. to 4.2.)	12	100	50	100	417
5.	Operating expenses					
5.1.	Salary and contributions costs	174	73	348	82	200
5.2.	Costs of business premises, other fixed assets and utility costs	34	14	25	6	74
5.3.	Other operating expenses	31	13	49	12	158
5.4.	Total operating expenses (5.1. to 5.3.)	239	100	422	100	177
6.	Loan loss provisions and provisions for other losses	10		15		150
7.	PROFIT/LOSS FROM REGULAR BUSINESS OPERATIONS (3.+4.3.-5.4.-6.)	-170		85		-50
8.	Extraordinary income	4		11		275
9.	Extraordinary expenses	4		0		0
10.	PROFIT/LOSS BEFORE TAXES	-170		96		-56
11.	TAXES	0		0		n/a
12.	NET PROFIT/LOSS	-170		96		-56

Annex 8.

OVERVIEW OF DONATED FUNDS OF MCFs²
as of 30.06.2015

KM 000

No.	Donor	MKF EKI Sarajevo	MKF LIDER Sarajevo	LOK MKF Sarajevo	MKF MELAHA Sarajevo	MKF MI-BOSPO Tuzla	MKF MIKRA Sarajevo	MKF MIKRO ALDI Goražde	PARTNER MKF Tuzla	MKF PRIZMA U STEČAJU Sarajevo	PRVA ISLAMSKA MKF	MKF SUNRISE Sarajevo	TOTAL
Credit fund donations		6 326	5 891	4 639	0	3 354	4 070	804	16 561	7 490	2 245	1 942	53 322
1.	Mercy Corps								10 091				10 091
2.	USAID	3 046		543					3 046	3 046			9 681
3.	CHF-(SIDA, MEDI, HILP)		5 891										5 891
4.	UNHCR			1 198		479		200	1 229	992		614	4 712
5.	LIP			1 479		947			675			1 214	4 315
6.	CRS						4 070						4 070
7.	UNDP	1 932		153					59	672			2 816
8.	PRM/USA State Department			577						2 006			2 583
9.	Islamic Relief WW, Predstavništvo Sarajevo										2 245		2 245
10.	UMCOR			637		377			317	774			2 105
11.	IRC					371			805				1 176
12.	SIDA Housing	1 080											1 080
13.	Women's World Banking					1 034							1 034
14.	OXSIFAM							500					500
15.	ECE, Njemačka								339				339
16.	USDA Know-How Project	237											237
17.	Church World Service					146							146
18.	Other	31		52				104				114	301
Fixed assets donations		8	0	286	0	12	235	0	229	61	0	10	841
19.	Mercy Corps								229				229
20.	Unipromet						170						170
21.	Nedžad Beglerović			102									102
22.	CRS						65						65
23.	ICMC									53			53
24.	Other	8		184		12				8		10	222
Operating expenses donations		1 004	874	2 810	500	1 344	17	0	1 928	3 088	2	709	12 276
25.	LIP			1 515					201			709	2 425
26.	PRM									2 047			2 047
27.	USAID					1 344			488				1 832
28.	UNHCR								176	840			1 016
29.	CHF		874										874
30.	Mercy Corps								809				809
31.	SIDA Housing	748											748
32.	PM			556									556
33.	BCT			519									519
34.	JKPHD La Benevolencija				500								500
35.	NBR			220									220
36.	CGAP								45	150			195
37.	EBRD	105							1				106
38.	IFC	104											104
39.	Other	47					17		208	51	2		325
UKUPNO DONIRANI KAPITAL		7.338	6.765	7.735	500	4.710	4.322	804	18.718	10.639	2.247	2.661	66.439

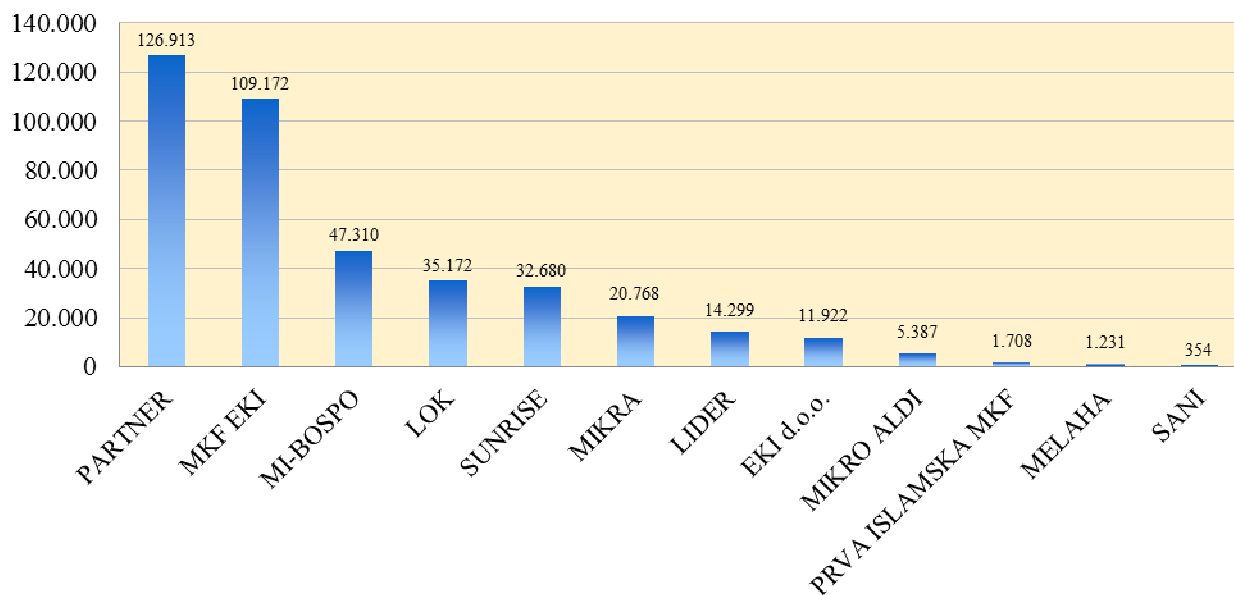
² The overview of donated funds of MCFs also includes the donated funds of one MCF whose assets is subject to bankruptcy proceedings and whose financial indicators are not included in the analysis of the microcredit sector of the FB&H.

GRAPHS

- Graph 1. Assets amount of MCOs as of 30.06.2015 in KM 000
- Graph 2. Gross portfolio amount of MCOs as of 30.06.2015 in KM 000
- Graph 3. Loan commitments amount of MCOs as of 30.06.2015 in KM 000
- Graph 4. Capital amount of MCOs as of 30.06.2015 in KM 000
- Graph 5. Donated capital amount (by reports) of MCOs as of 30.06.2015 in KM 000
- Graph 6. Surplus/deficit of income over expenses of MCFs, i.e. net profit/loss of MCCs for the period 01.01.-30.06.2015 in KM 000
- Graph 7. Operational sustainability of MCOs in the period 01.01.-30.06.2015
- Graph 8. Number of employees of MCOs as of 30.06.2015
- Graph 9. Number of organisational units of MCOs seated in the Federation of B&H as of 30.06.2015
- Graph 10. Number of active loan accounts of MCOs with the balance as of 30.06.2015
- Graph 11. Number of written-off loans in the off-balance records as of 30.06.2015
- Graph 12. Loan amount in KM 000 written-off in the period 01.01.-30.06.2015
- Graph 13. Collection amount by written-off loans in KM 000 in the period 01.01.-30.06.2015
- Graph 14. Total receivables amount by written-off loans of MCOs in KM 000 with balance as of 30.06.2015
- Graph 15. Total receivables by written-off loans vs. total gross portfolio of MCOs as of 30.06.2015
- Graph 16. Risk portfolio over 30 days past due as of 30.06.2015
- Graph 17. Fixed assets and capital vs. total assets as of 30.06.2015
- Graph 18. Average monthly compensations to members of management/supervisory board of MCOs for the period 01.01.-30.06.2015
- Graph 19. Average monthly income of senior management in MCOs for the period 01.01.-30.06.2015
- Graph 20. Average monthly income of loan officers of MCOs for the period 01.01.-30.06.2015
- Graph 21. Total microloans disbursed in Q2 2015 in KM 000
- Graph 22. Average weighted EIR on total loans as per MCO reports of in Q2 2015
- Graph 23. Average weighted EIR on short-term loans as per MCO reports in Q2 2015
- Graph 24. Average weighted EIR on long-term loans as per MCO reports in Q2 2015

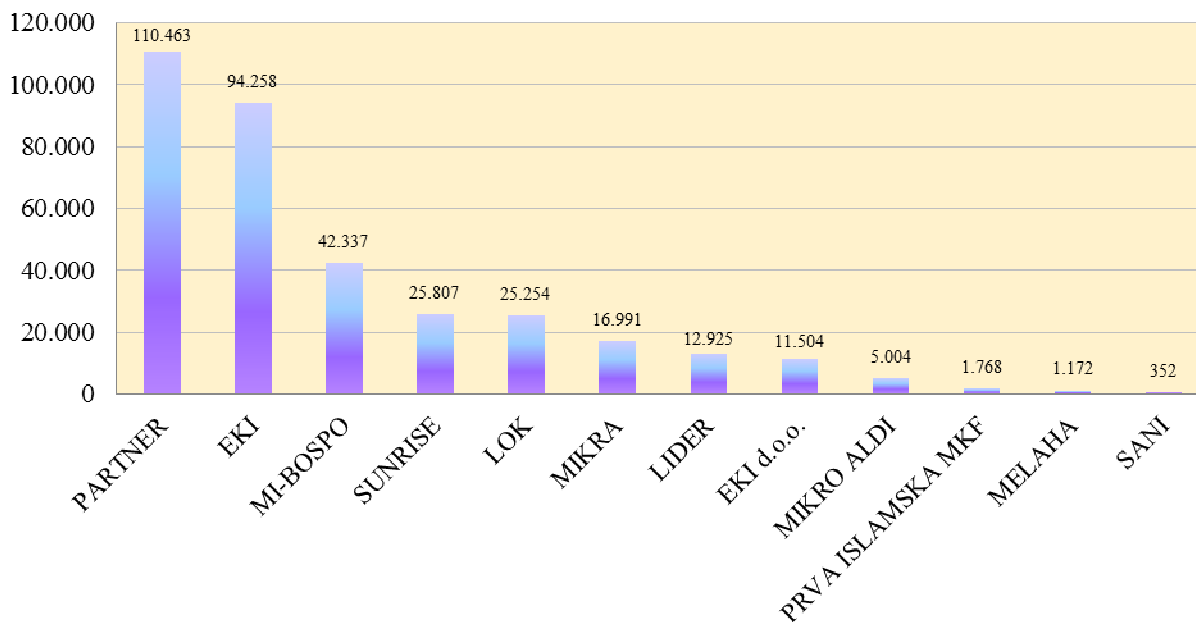
Graph 1.

Assets amount of MCOs as of 30.06.2015 in KM 000



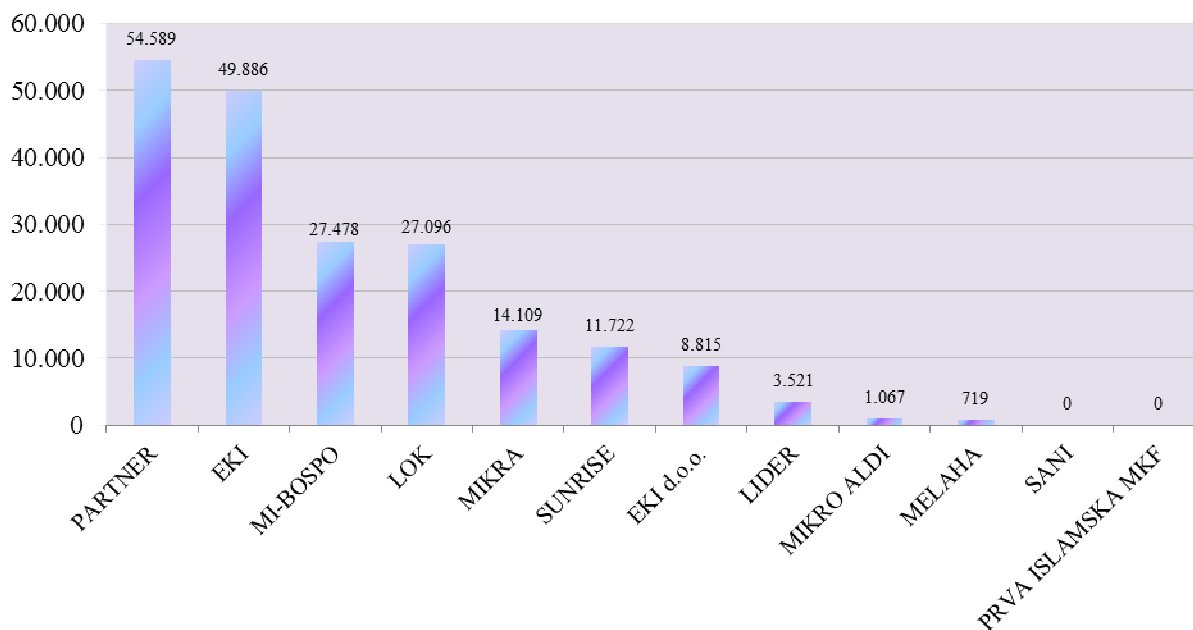
Graph 2.

Gross portfolio amount of MCOs as of 30.06.2015 in KM 000



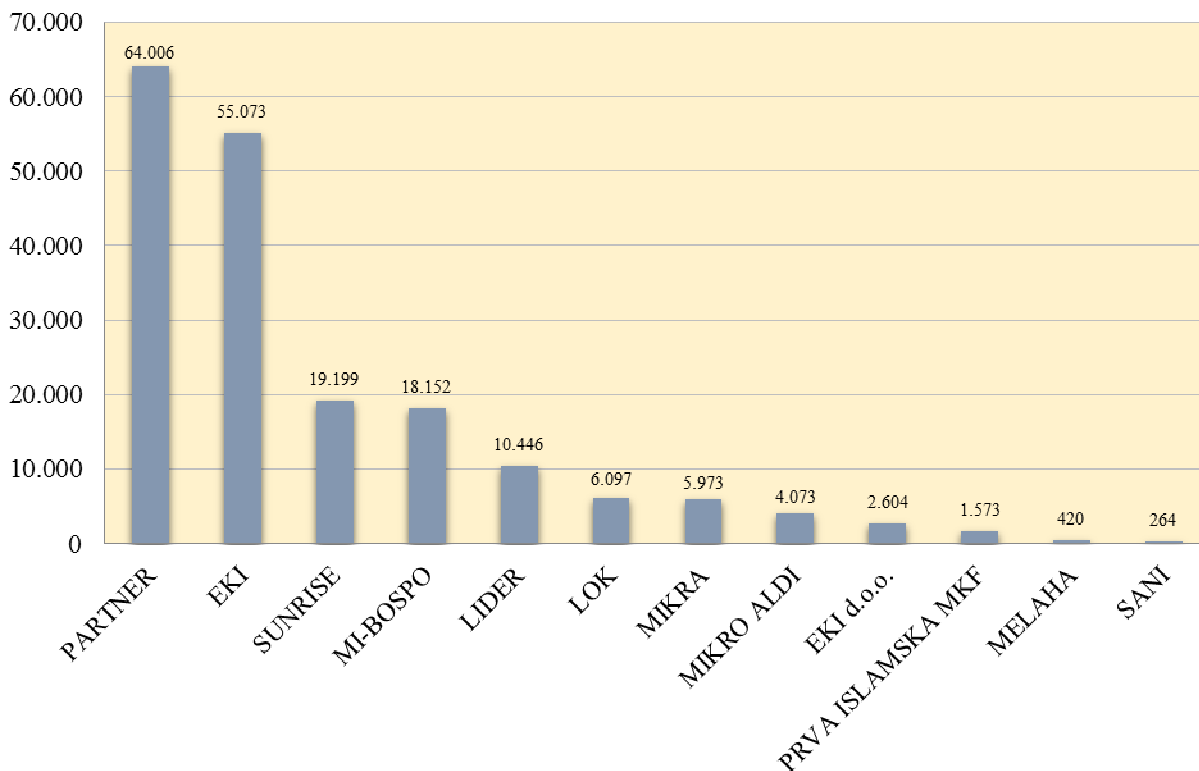
Graph 3.

Loan commitments amount of MCOs as of 30.06.2015 in KM 000



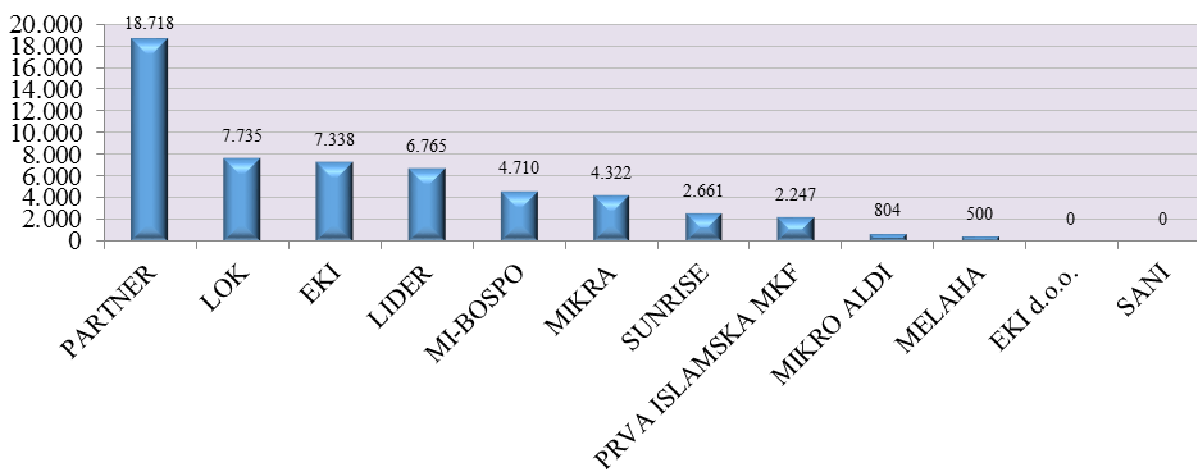
Graph 4.

Capital amount of MCOs as of 30.06.2015 in KM 000



Graph 5.

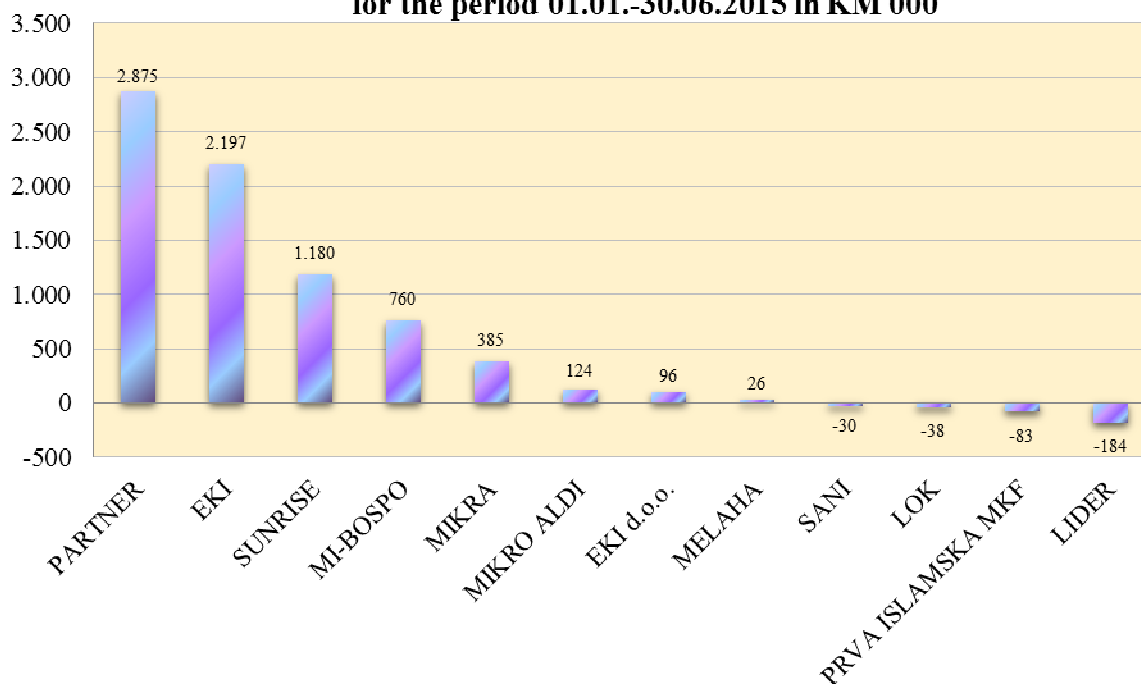
Donated capital amount (by reports) of MCOs as of 30.06.2015 in KM 000



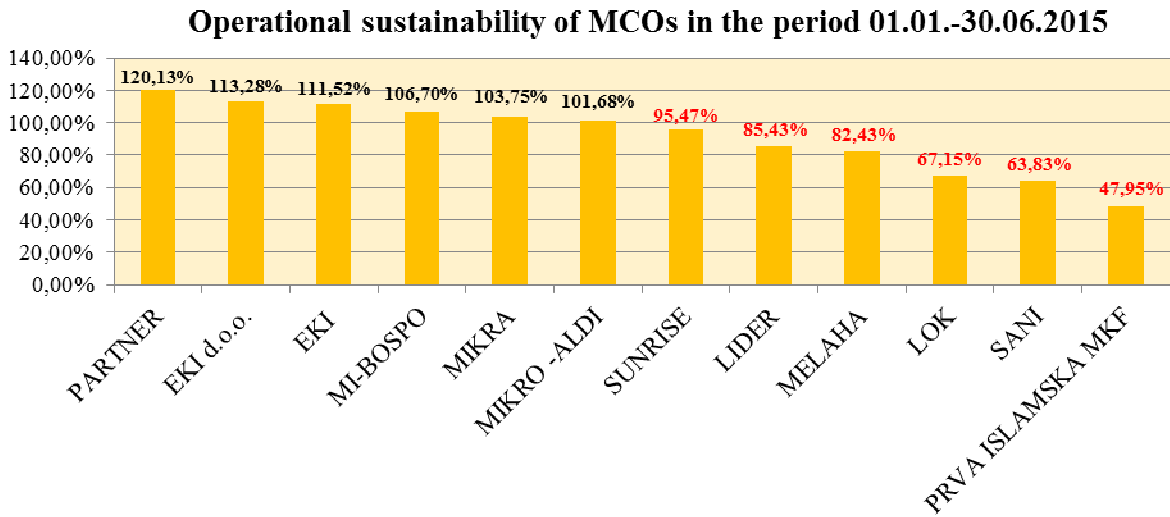
Graph 6.

Surplus/deficit of income over expenses of MCFs, i.e. net profit/loss of MCCs

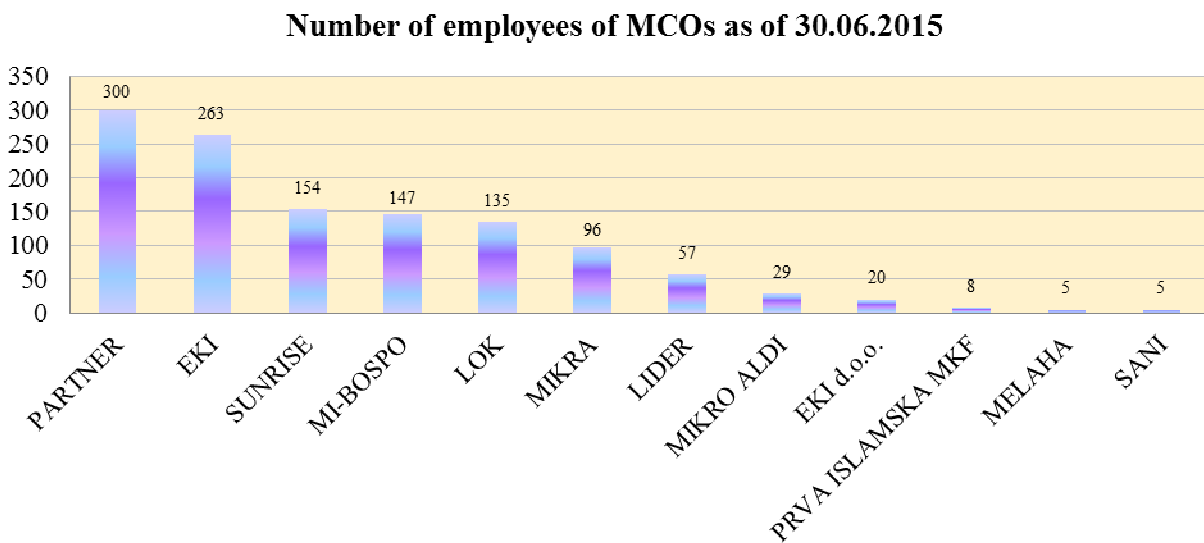
for the period 01.01.-30.06.2015 in KM 000



Graph 7.

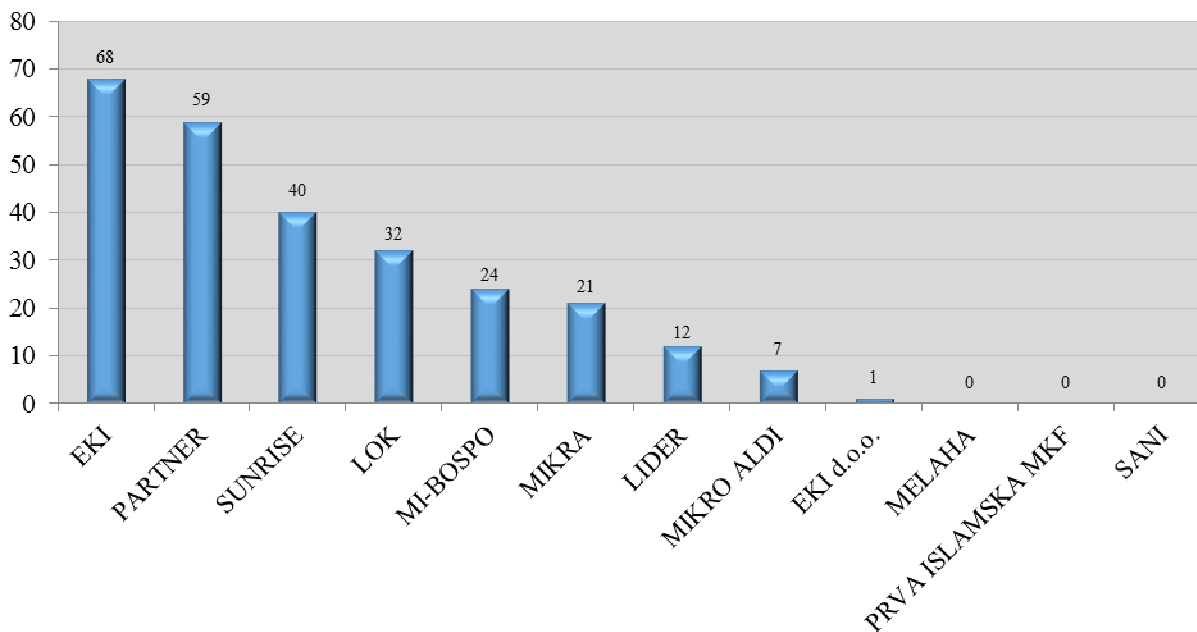


Graph 8.



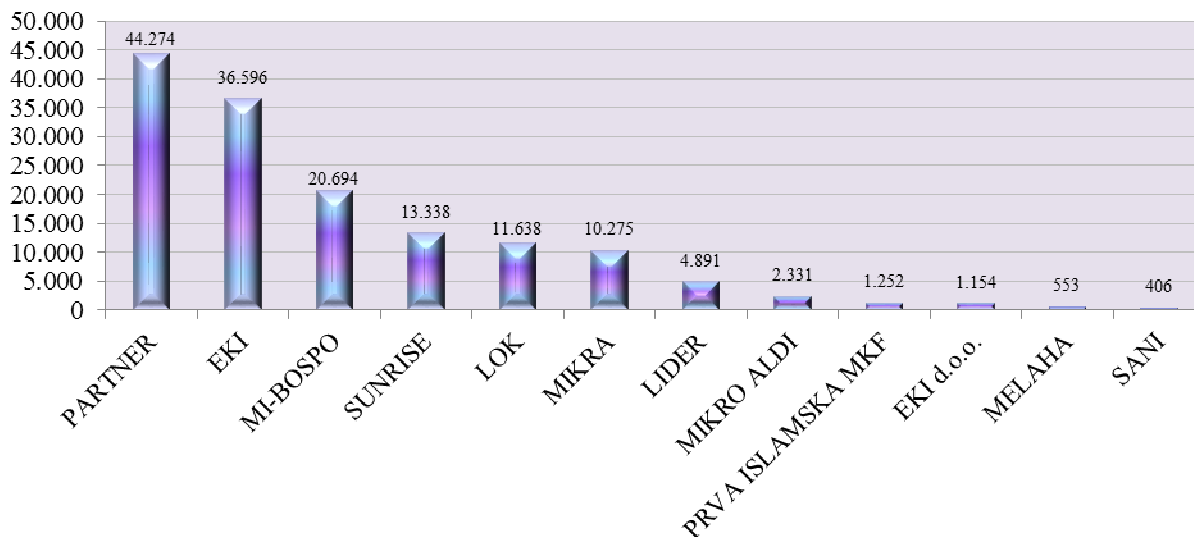
Graph 9.

Number of organisational units of MCOs seated in the Federation of B&H as of 30.06.2015



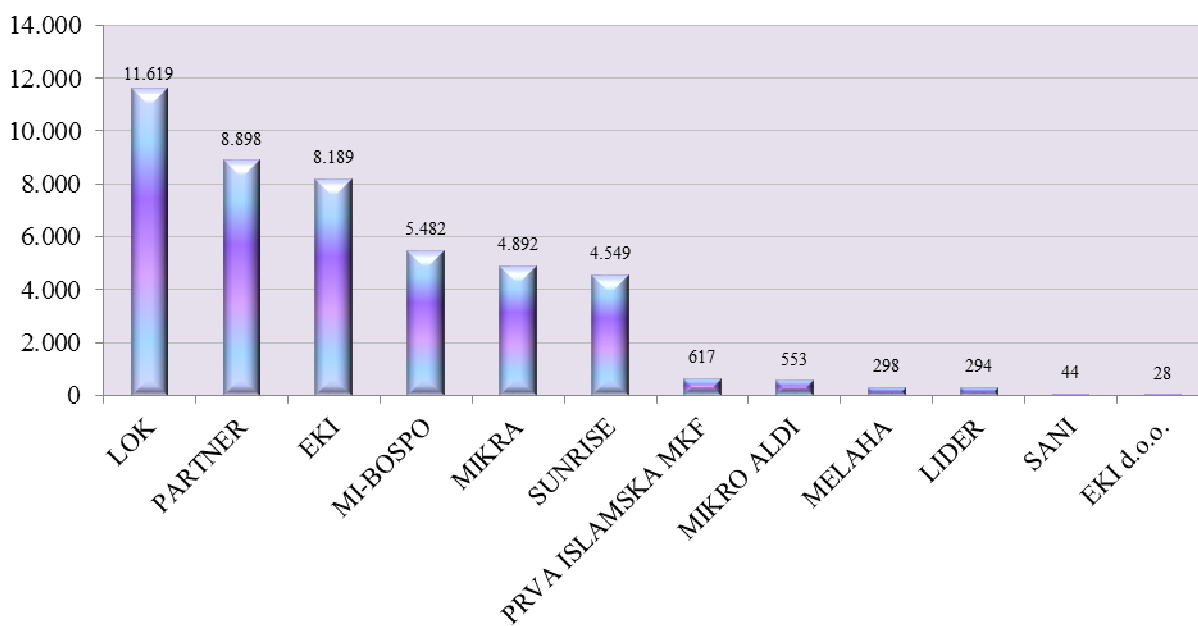
Graph 10.

Number of active loan accounts of MCOs with the balance as of 30.06.2015



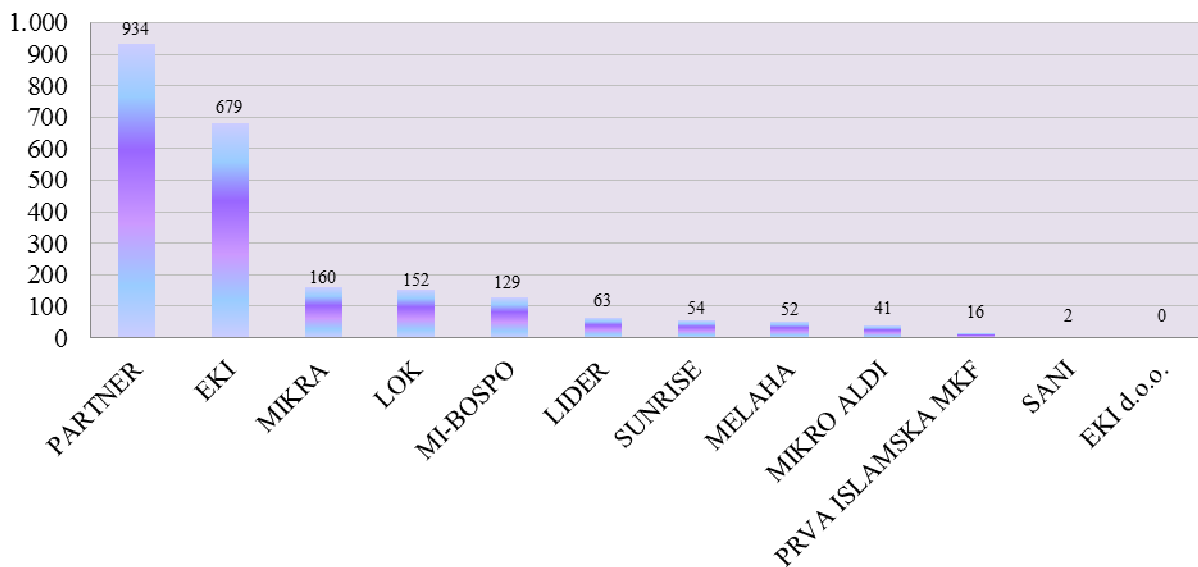
Graph 11.

Number of written-off loans in the off-balance records as of 30.06.2015



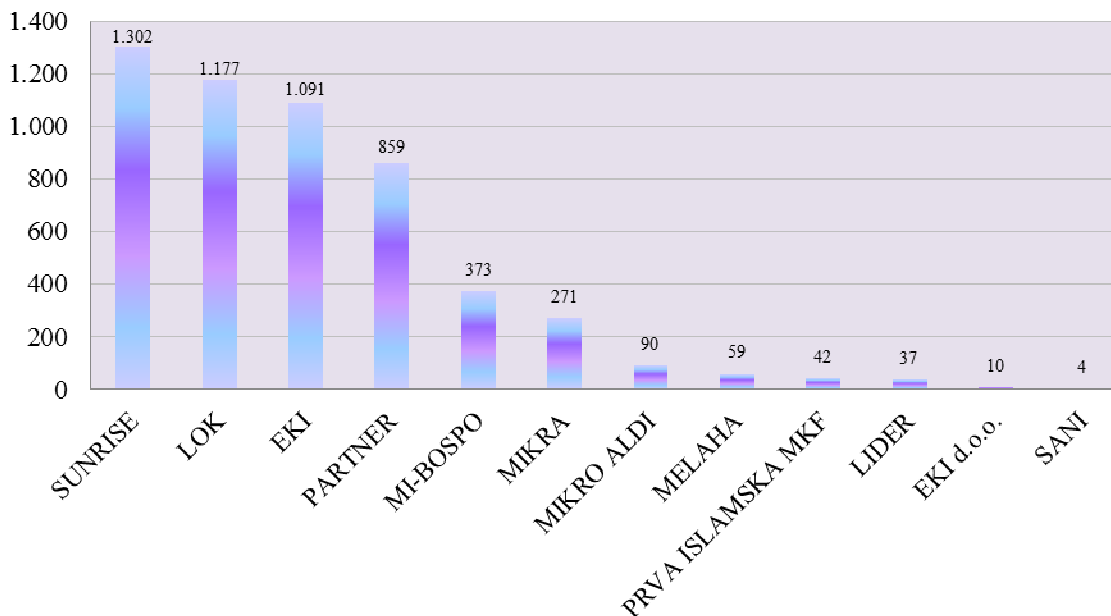
Graph 12.

Loan amount in KM 000 written-off in the period 01.01.-30.06.2015



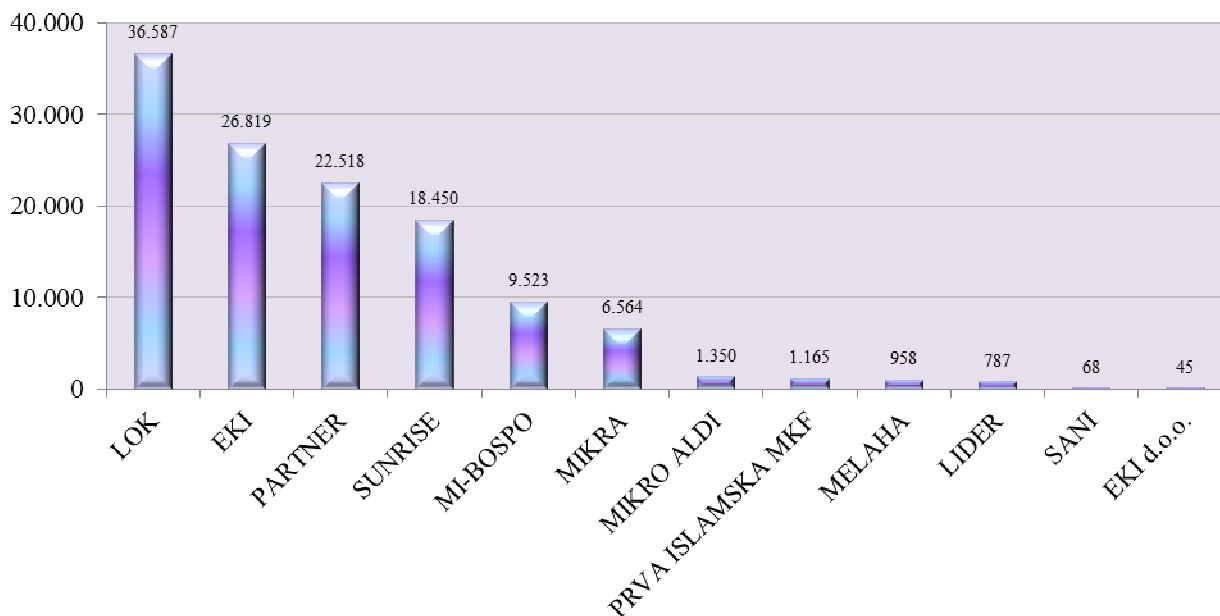
Graph 13.

Collection amount by written-off loans in KM 000 in the period 01.01.-30.06.2015



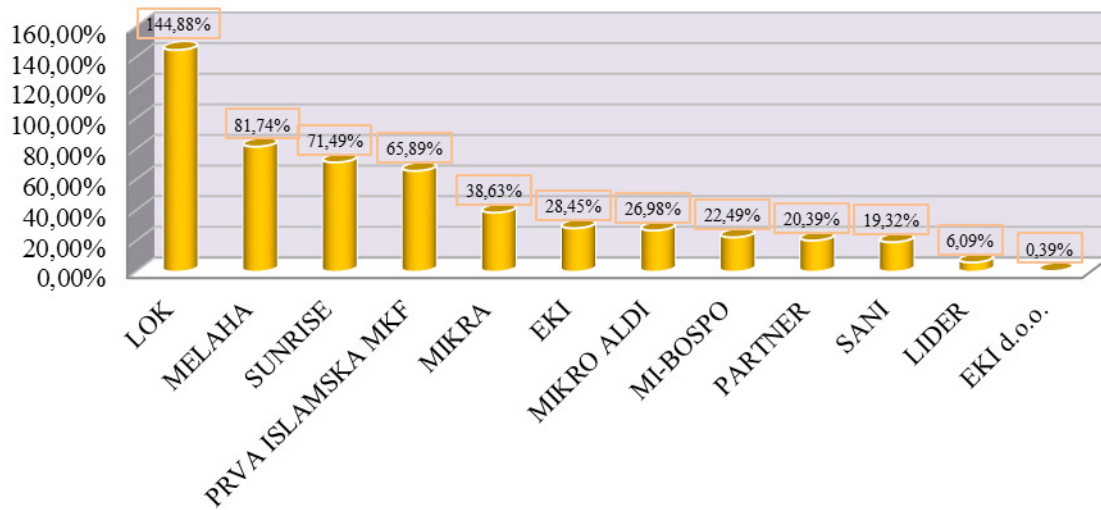
Graph 14.

Total receivables amount by written-off loans of MCOs in KM 000 with balance as of 30.06.2015



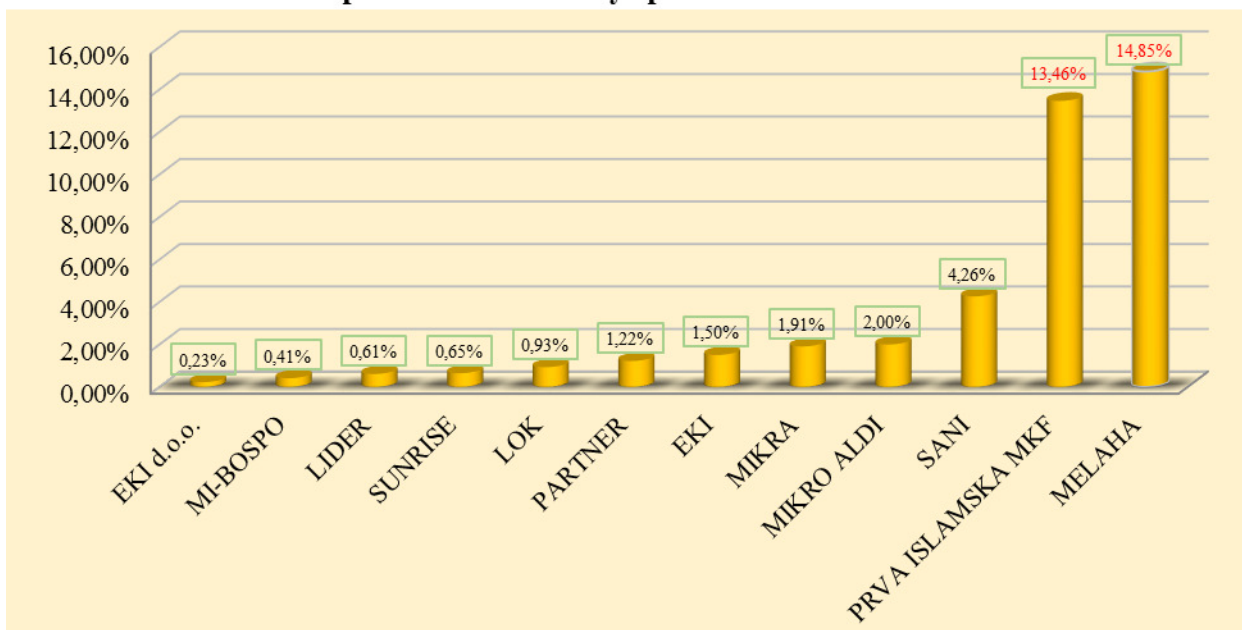
Graph 15.

Total receivables by written-off loans vs. total gross portfolio of MCOs as of 30.06.2015



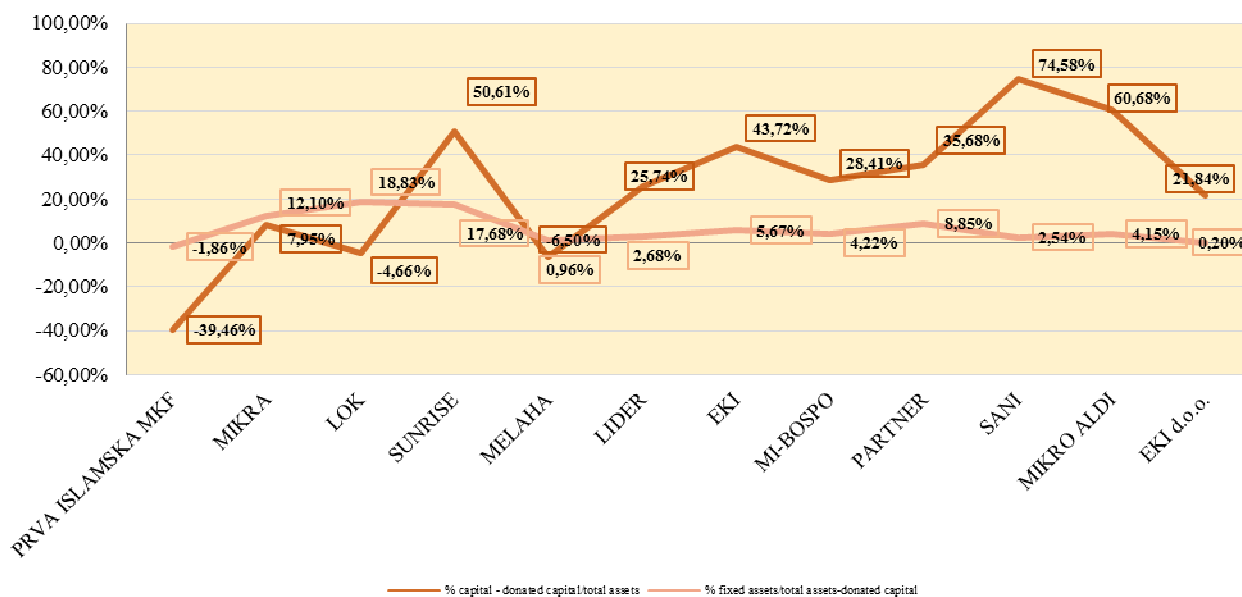
Grafikon 16.

Risk portfolio over 30 days past due as of 30.06.2015



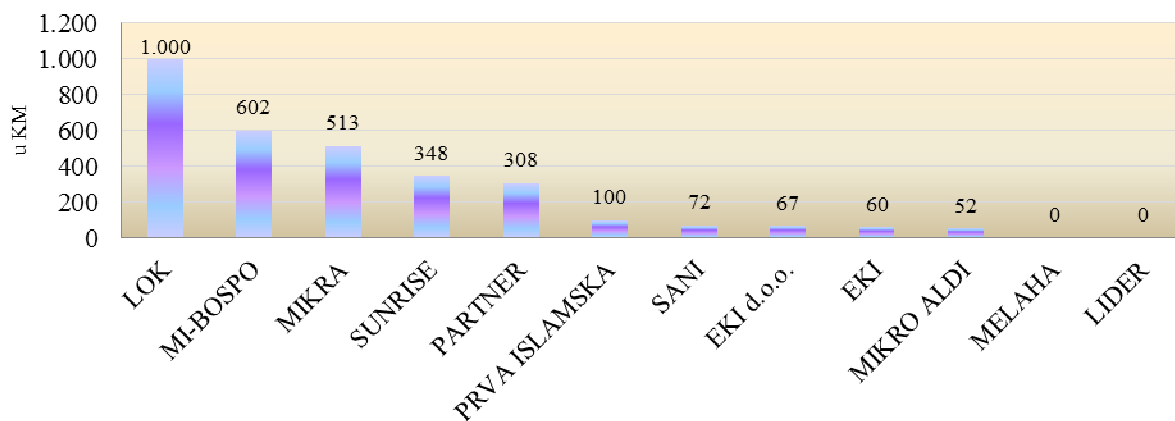
Graph 17.

Fixed assets and capital vs. total assets as of 30.06.2015



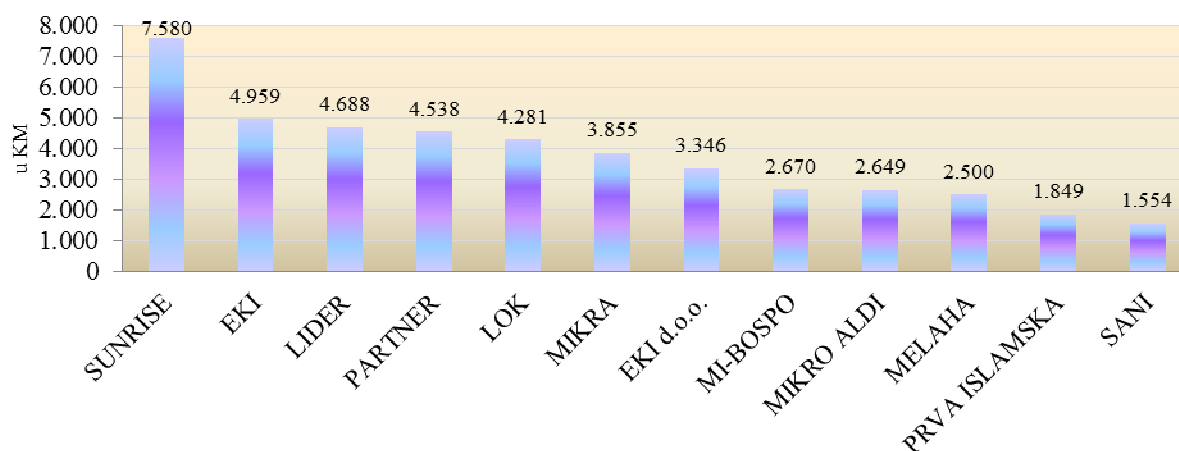
Graph 18.

Average monthly compensations to members of management/supervisory board of MCOs for the period 01.01.-30.06.2015



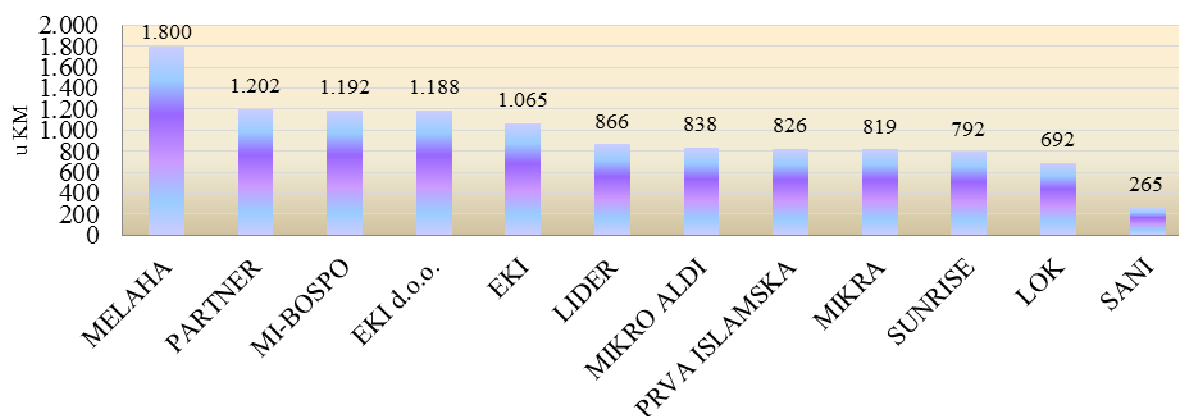
Graph 19.

Average monthly income of senior management in MCOs for the period 01.01.-30.06.2015



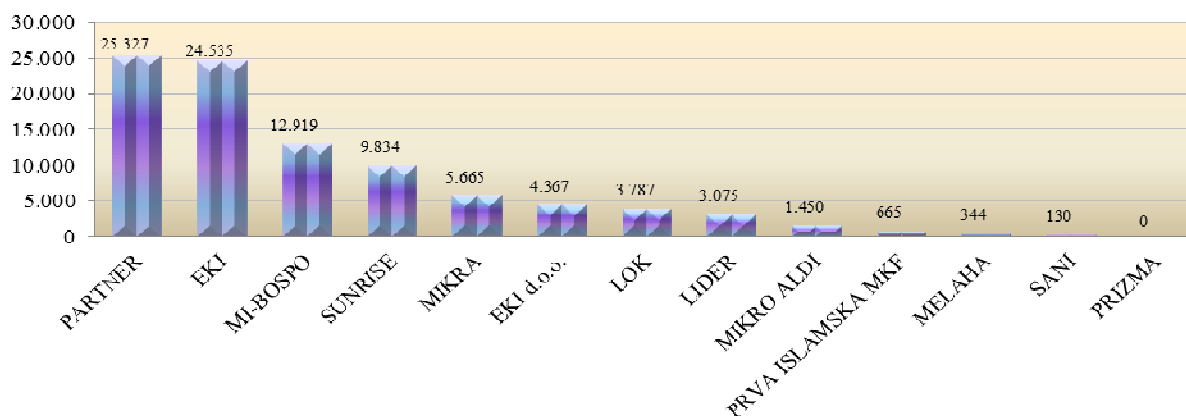
Graph 20.

Average monthly income of loan officers of MCOs for the period 01.01.-30.06.2015



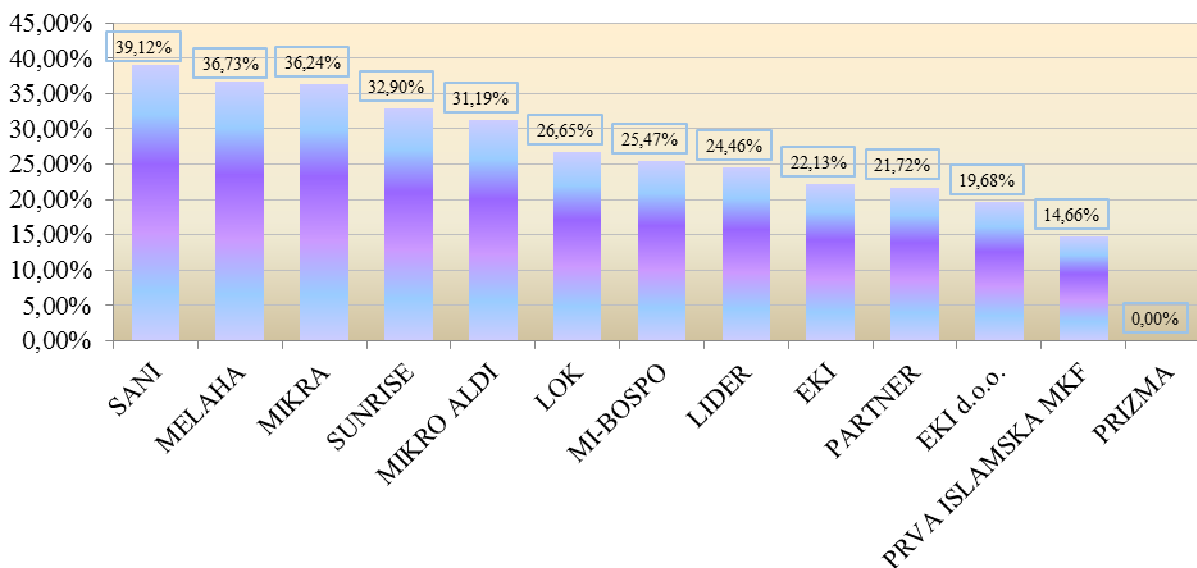
Graph 21.

Total microloans disbursed in Q2 2015 in KM 000



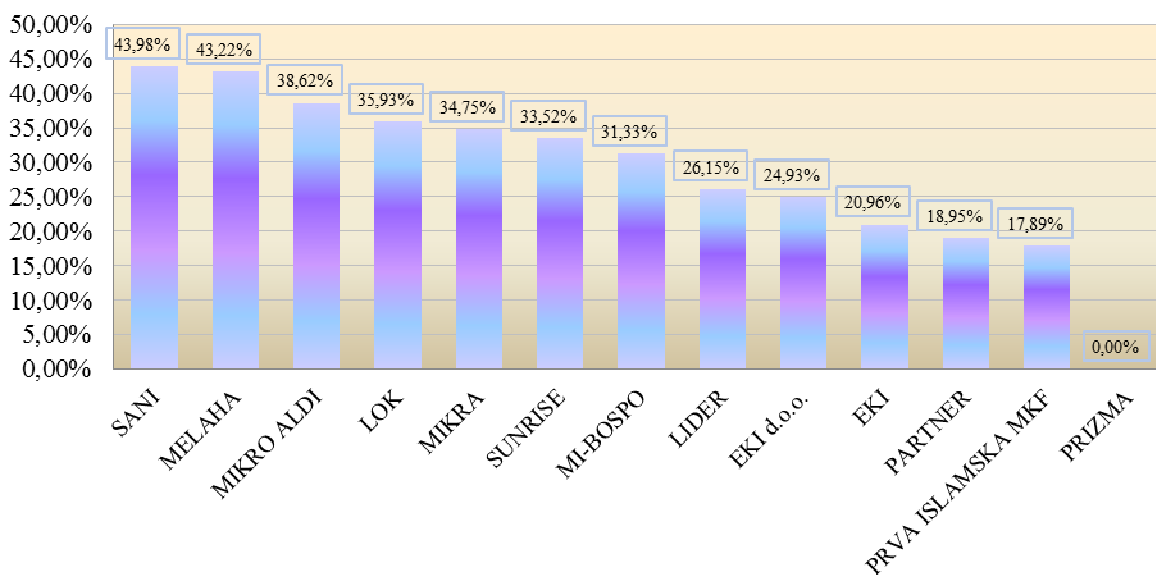
Graph 22.

Average weighted EIR on total loans as per MCO reports of in Q2 2015



Graph 23.

Average weighted EIR on short-term loans as per MCO reports in Q2 2015



Graph 24.

Average weighted EIR on long-term loans as per MCO reports in Q2 2015

