



**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 30.09.2014**

Sarajevo, November 2014

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 30.09.2014 based on the analysis of monthly and quarterly reports on business operations, information and data submitted to the Agency by microcredit organisations (*off-site* supervision) and data obtained during on-site examinations (*on-site* supervision).

CONTENTS

I	INTRODUCTION	3
II	BUSINESS PERFORMANCE OF MCOs IN THE FEDERATION OF B&H	6
	1. MICROCREDIT SECTOR STRUCTURE.....	6
	1.1. Number of Microcredit Organisations	6
	1.2. Organisational Units	6
	1.3. Human Resources	7
	2. FINANCIAL INDICATORS OF MCO BUSINESS OPERATIONS.....	8
	2.1. Balance Sheet	8
	2.2. Capital	12
	2.3. Loan Portfolio.....	14
	2.4. Weighted Nominal and Effective Interest Rates on Microloans	22
	2.5. Income Statement	24
	3. TRANSACTIONS WITH RELATED ENTITIES.....	27
III	CONCLUSIONS AND RECOMMENDATIONS	29
IV	ANNEXES	31

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, write-offs and other reports on individual business segments as well as a monthly interest rate report.

As of 30.09.2014, 13 MCOs, 12 of which are MCFs (non-profit organizations) and 1 of which is an MCC (profit organization), had the Agency's licence for business operations in the Federation of B&H. They operated through 282 organisational units. As of 30.09.2014, the total headcount of the microcredit sector was 1 332, which is 71 employees or 5% less compared to 31.12.2013.

As of 30.09.2014, the balance sheet total of MCOs amounted to KM 466 million, KM 461.2 million or 99% of which relate to MCFs and KM 4.8 million or 1% to the MCC out of the total MCO balance. The balance sheet total of MCOs at the end of the 3Q 2014 was lower by KM 9.9 million or 2% compared to the balance as of 31.12.2013. This drop was primarily influenced by the drop in the balance sheet total of one of the three largest MCFs, which reduced the aforementioned by even KM 32.2 million or 36%. Without the data of this MCF, the microcredit sector would record an increase in the balance sheet total compared to the end of the previous year. As of 30.09.2014, total MCO gross loans, as the most significant item of MCO assets, amounted to KM 387.9 million and make up 83% of total assets of MCOs, and are therefore lower by 2% compared to the balance as at the end of the previous year, while net loans amounted to KM 372 million and are lower by 5% compared to the balance as of 31.12.2013. Microlending is largely directed toward agriculture (36%) and service activities (22%) and is mostly related to long-term loans to natural persons. MCOs have increased effective interest rates on total microloans, which is how, at the end of the third quarter of 2014, the average weighted effective interest rates on total loans in the microcredit sector amounted to 25.41%, and thus saw a slight increase of 0.12 percentage points compared to the fourth quarter of 2013.

Compared to the end of the previous year, as of 30.09.2014, the microcredit portfolio saw a drop of 2%, caused by the decrease in the portfolio in one of the three largest MCFs, which reduced the aforementioned by KM 17.6 million or 25% and showed a deterioration of quality indicators of the active loan portfolio by increasing the loan loss provisions rate from 1.39%, which is what it amounted to as of 31.12.2013, to 4.10%. Furthermore, the risk portfolio exceeding 30 days past due was also increased from 1.50% to 4.80%. The total sector result as to the risk portfolio is within the framework of the standard prescribed by the Agency, while out of 13 MCOs, 3 MCFs do not meet the Agency's standard in terms of the risk portfolio,

which must be below 5%. The risk portfolio exceeding more than one day past due also saw a deterioration and was increased from 2.96%, which is what it amounted to at the end of the previous year, to 7.91%. At sector level, the percentage of write-offs amounted to 4.36% as of 30.09.2014 and this indicator was higher by 1.73 percentage points compared to the end of the previous year, and is significantly outside the framework of the prescribed standard in terms of percentage of write-offs, which must be below 3%. Individually, three MCFs do not meet this standard. The extraordinarily poor result of the business operations of one MCF with a significant volume of operations had the key impact on the deterioration of the quality indicators of the active loan portfolio of the microcredit sector in the Federation of B&H. In the case of this MCF, the loan loss provisioning rate amounted to 21.26% as of 30.09.2014 and recorded an increase of 18.87 percentage points compared to 31.12.2013, when it amounted to 2.93%. Furthermore, the risk portfolio for more than 30 days past due amounted to 25.65% (the prescribed limit is up to 5%) and saw a significant increase of 23.14 percentage points compared to the reporting period, when it amounted to 2.51%. In the same way, the write-off percentage was 19.94% as of 30.09.2014 (the prescribed limit is up to 3%) and also recorded an increase of 14.94 percentage points compared to 31.12.2013, when it amounted to 5%.

It can be concluded from the aforementioned that this MCF has committed multiple and continuous violations of the standards and prescribed limits and destabilised the microcredit sector of the Federation of B&H.

The main source of funding of MCOs are loan commitments, which amounted to KM 275 million or 59% of total MCO liabilities as of 30.09.2014 and are higher by 2% compared to the balance as of 31.12.2013. Total MCO capital as of 30.09.2014 amounted to KM 165.2 million or 35% of total MCO liabilities, which is lower by KM 14.5 million or 8% compared to the end of the previous year, with the capital of MCFs amounting to KM 164.9 million or 99.8% and the capital of one MCC amounting to KM 0.3 million or 0.2%. The capital drop of the microcredit sector was primarily influenced by the capital drop in one of the three largest MCFs, which reduced its capital by KM 26.3 million or 116% compared to the reported period. Without the data of this MCF, the microcredit sector would record a slight increase in capital compared to the end of the previous year. The most significant MCF capital items are excess income over expenses in the amount of KM 100.6 million, which constitutes 61% of total MCF capital, followed by donated capital, which amounted to KM 58 million or 35% of total MCF capital, whereas one MCC does not have donated capital. Core capital and other MCF reserves amounted to KM 6.3 million, i.e. 4% of total MCF capital. The core capital of one MCD amounts to KM 600 thousand, and the loss to KM 268 thousand.

In the period from 01.01. to 30.09.2014, out of a total of 12 MCFs, 4 MCFs had less income over expenses in the total amount of KM 26 370 thousand, while 8 MCFs recorded more income over expenses in the total amount of KM 12 074 thousand. Out of the 4 MCFs that recorded less income over expenses in the amount of KM 26 370 thousand in the period from 01.01. to 30.09.2014, one of the three largest MCFs recorded a shortfall in the amount of KM 26 316 thousand, i.e. 99.8% of the total generated shortfall of MCFs, while only 54 thousand of the total generated loss of income over expenses, i.e. 0.2%, refers to the other three MCFs. Without the data of this MCF, which is contrary to the sector trend as of 30.09.2014 and which has completely destabilised the microcredit market as well as impacted the deterioration of sector result and performance indicators, the microcredit sector records a positive result in the amount of KM 11 752 thousand, which is reflected positively in the performance indicators as well.

In the first nine months of 2014, one MCC recorded a net loss in the amount of KM 268 thousand. Therefore, at the level of the microcredit sector in the Federation of B&H, a negative financial result in the amount of KM 14 564 thousand has been recorded, which is lower by KM 26 878 thousand compared to the same period of the previous year, when the sector recorded a positive result.

Generally, the microcredit sector in the Federation of B&H is showing signs of recovery, however, the total indicators of the business performance of the microcredit sector are significantly undermined due to **the extraordinarily poor results of the business operations of just one MCF with a significant volume of operations.**

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. The majority of MCFs has recorded an increase in the level of assets and has significantly improved its 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.

Applying the principles of legality and maintenance of prescribed standards, as well as the application of the principle of due care or good business operations is the sole responsibility and obligation of the management bodies, and it is a minimum requirement for successful and stable MCO operations and therefore a necessary requirement for maintaining an MCO operating licence.

One MCF with a significant volume of operations, 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 effectively regulating the market and adequately protecting the stability of the microcredit system in the Federation of B&H.

The failure to adopt the earlier proposed amendments to the LoMCO, which, in accordance with the Conclusion of the Government of the Federation of B&H, would enable more efficient corrective measures for institutions and bodies violating the LoMCO and the Agency's regulations, led to significant damage to the donated capital and the foundation's property. Unfortunately, the consequences are felt by the whole microcredit system, which includes clients, creditors as well as employees of MCOs, which the Agency has previously warned against. The failure to adopt the proposed amendments to the LoMCO was favourable to several individuals finding a safe haven for irregularities and damage made to the the foundation's millions in assets in the current regulations that insufficiently sanction damages made to the property of a foundation and donated funds, which are of common interest, as defined in the Law on Associations and Foundations.

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. In relation to this, the Agency has reservations in the case of one MCO with a significant volume of operations regarding the accuracy of the reports submitted on 30.09.2014. 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 the MCF at hand was revoked on 09.10.2014 after the necessary procedures were carried out.

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

1. MICROCREDIT SECTOR STRUCTURE

1.1. Number of Microcredit Organisations

As of 30.09.2014, 13 MCOs have operating licences of the Agency, 12 of which are MCFs (non-profit organisations) and 1 of which is an MCC (profit organisation), as well as 29 organisational units of MCCs seated in Republika Srpska. All MCFs that have obtained the operating licence from the Agency have performed a re-registration in accordance with the LoMCO, i.e. they came to be as a result of the change in the form of MCOs established in accordance with the Law on Microcredit Organisations („Official Gazette of the Federation of B&H, No.: 24/00). Therefore, all MCFs are legal successors of the property, rights and obligations of MCOs established in accordance with the Law on Microcredit Organisations from 2000.

Annex 2 includes the main data on MCFs and MCC, which have the Agency's operating licence for microlending business operations as of 30.09.2014.

1.2. Organisational Units

As of 30.09.2014, there was a total of 282 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 186 organisational units of microcredit organisations are seated in the Federation of B&H, 93 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 28 organisational units, i.e. by 9% compared to the end of the previous year. A total of 153 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.

In the first nine months of 2014, the Agency issued 10 approvals for the establishment of organisational units of MCOs, 36 approvals for the closing of organisational units and 14 approvals for changing the address of organisational units of MCOs. In that period, one MCF, which has a 12% share in the balance sheet total of MCOs, closed even 25 organisational units, which constitutes a decrease of 56% compared to the number of organisational units at the end of the previous year. 8 MCOs have organisational units outside of the Federation of B&H, and 3 MCOs operate exclusively from their seat, i.e. they have no open organisational units in either the Federation of B&H or in Republika Srpska. The Agency has issued operating licences for the business operations of the organisational units of one MCC, which

is seated in Republika Srpska and operates in the Federation of B&H through 29 branches and field offices.

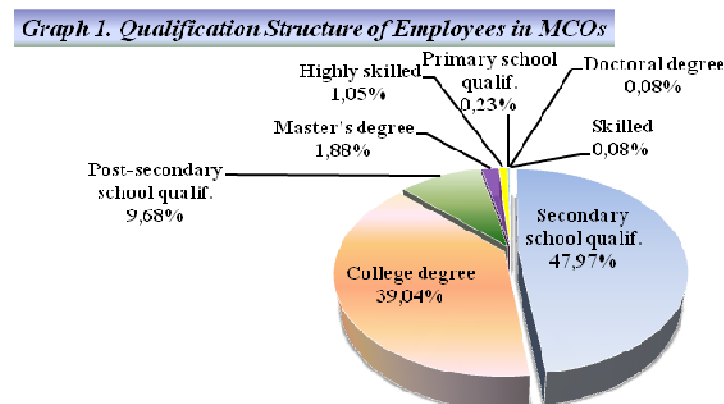
1.3. Human Resources

As of 30.09.2014, the total headcount of the microcredit sector was 1 332, which is lower by 71 employees or 5% compared to 31.12.2013. This drop in the number of employees at sector level was mostly influenced by the drop in the number of employees at one of the three largest MCOs, which has recorded a drop of 45% or 84 employees compared to the end of the previous year. MCFs employ 1 317 employees or 98.9% and the MCC 15 employees or 1.1%.

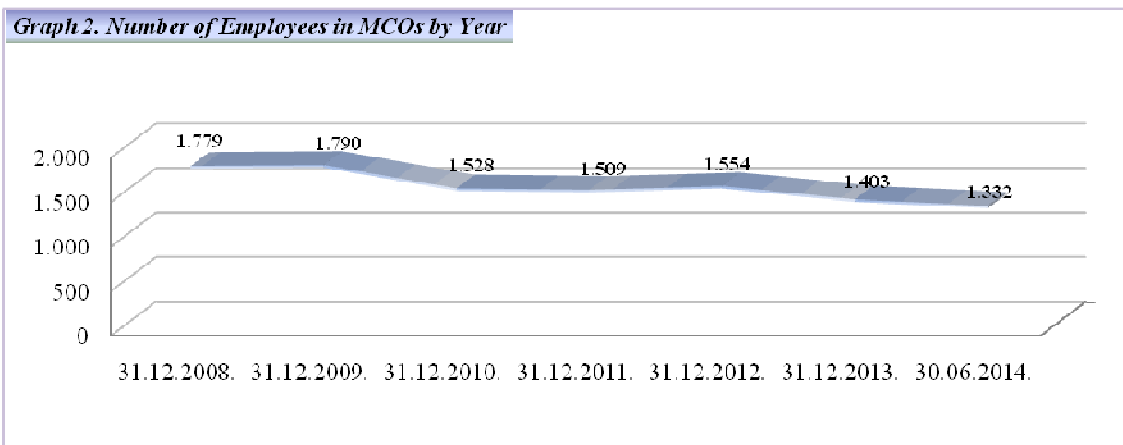
Table 1. Staff Qualifications

No.	Qualification	31.12.2013.		Total	Share (%)	30.09.2014		Total	Share (%)	Index
		MCFs	MCCs			MCFs	MCCs			
1	2	3	4	5=(3+4)	6	7	8	9=(7+8)	10	11=9/5
1.	PSQ	3	0	3	0.21	3	0	3	0.23	100
2.	S	1	0	1	0.07	1	0	1	0.08	100
3.	HS	15	0	15	1.07	14	0	14	1.05	93
4.	SSQ	707	2	709	50.53	635	4	639	47.97	90
5.	PSSQ	138	1	139	9.91	127	2	129	9.68	93
6.	CD	513	6	519	36.99	512	8	520	39.04	100
7.	MR	16	0	16	1.14	24	1	25	1.88	156
8.	DR	1	0	1	0.07	1	0	1	0.08	100
TOTAL		1 394	9	1 403	100 00	1 317	15	1 332	100.00	95

The employees structure is dominated by secondary school qualification with 47.97%, university degrees with 39.04% and two-year post-secondary qualification with 9.68%. The share of employees with secondary school qualification is dropping by 10%, with two-year post-secondary qualification by 7%, while the number of employees with Master's degrees is increasing by even 56% .



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 30.09.2014, MCOs had 1 332 employees, down by 26% 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 54% and 47%, respectively.



2. FINANCIAL INDICATORS OF MCO BUSINESS OPERATIONS

2.1. Balance Sheet

As of 30.09.2014, the balance sheet volume of MCOs amounts to KM 466 million, which is lower by KM 9.9 million or 2% compared to the balance as of 31.12.2013. The balance sheet volume increased with 7 MCFs and one MCC, while 3 MCFs recorded a drop and two MCFs 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 1 MCF compared to 31.12.2013, while a drop of up to 20% was also recorded with 1 MCF. One of the three largest MCFs reduced its assets by even KM 32.2 million in the first nine months and recorded a drop of even 36% compared to the end of the previous year, which affected the drop in assets at sector level. Without the data of this MCF, the sector would have recorded a slight increase.

Six MCFs with assets in the amount of KM 420.8 million or 90% have the largest share in total MCO balance.

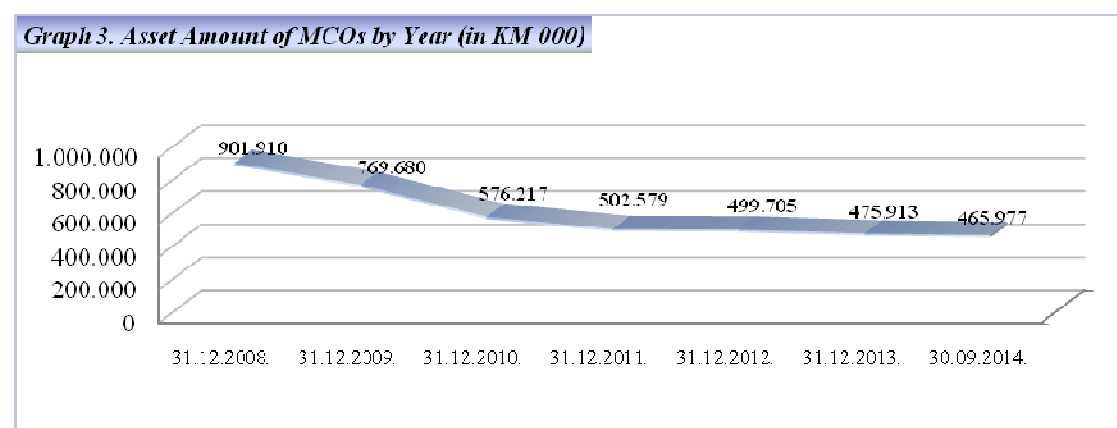
- KM 000 -

Table 2. Balance Sheet MCOs

DESCRIPTION	31.12.2013. godine			30.09.2014. godine					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	24 123	88	24 211	34 190	7	2 731	57	36 921	152
2. Facilities to banks	4 054	0	4 054	3 563	1	0	0	3 563	88
3. Loans	395 382	886	396 268	385 935		1 989		387 924	98
4. Loan loss provisions	5 507	16	5 523	15 905		13		15 918	288
5. Net loans	389 875	870	390 745	370 030	80	1 976	41	372 006	95
6. Business premises and other fixed assets	42 596	50	42 646	39 989	9	32	1	40 021	94
7. Long-term investments	761	0	761	761	0	0	0	761	100
8. Other assets	14 018	28	14 046	13 940	3	51	1	13 991	100
9. Provisions for other assets items, except loans	549	1	550	1.285		1		1 286	234
TOTAL ASSETS	474 878	1.035	475 913	461 188	100	4 789	100	465 977	98

LIABILITIES									
10. Loan commitments	268 565	348	268 913	270 695	58	4 303	90	274 998	102
11. Other liabilities	27 201	92	27 293	25 616	6	159	3	25 775	94
12. Capital	179 112	595	179 707	164 877	36	327	7	165 204	92
TOTAL LIABILITIES	474 878	1.035	475 913	461 188	100	4 789	100	465 977	98
Off-balance records	170 598	55	170 653	175 360		58		175 418	103

An overview of the balance sheet total of MCOs throughout the years reveals that the largest amount of the aforementioned was recorded at the end of 2008, when it amounted to KM 902 million. The balance sheet total of MCOs as of 30.09.2014 amounted to KM 466 million and it is lower by even 48% 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 72% and 66%, respectively.



In the assets structure of MCOs, cash funds amount to KM 36.9 million or 8% with a growth rate of even 52% compared to 31.12.2013 and largely related to cash funds of MCFs. Facilities to banks amount to KM 3.6 million or 1%, which is lower by 12% compared to the end of the previous year.

Net loans, i.e. gross loans net of loan loss provisions amount to KM 372 million or 80% of total assets and are lower by KM 18.7 million or 5% compared to 31.12.2013. Net loan growth compared to the end of the previous year was recorded by 8 MCFs and 1 MCC, a drop was recorded by 3 MCFs, while 1 MCF maintained approximately the same net loan level compared to the reporting period. Compared to 31.12.2013, a net loan drop of up to 10% was recorded by 1 MCFs, a drop of up to 20% was recorded by 1 MCF. One of the three largest MCFs reduced net loans by even KM 27.4 million in the first nine months of 2014 and recorded a net loan drop of 39% compared to the end of the previous year, which accordingly affected the decline of this balance sheet item at sector level..

Business premises and other fixed assets amount to KM 40 million or 8% of total assets and this balance sheet item is lower by KM 2.6 million or 6% compared to the end of the previous year. The fixed assets percentage compared to total assets (net of donated capital) is 9.81%, at sector level, which is slightly below the allowed amount (up to 10%). Individually, four MCFs violate this standard. Only one MCF recorded long-term investments in the amount of KM 0.8 million, while other assets (net of provisions for other assets items except loans) amount to KM 12.7 million, which include calculated interest, advances, accrued and deferred items, etc. These two balance sheet items make up 3% of total assets of the microcredit sector.

Other assets percentage at sector level compared to total assets is 3% 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 275 million or 59% of total liabilities and being up by 3% compared to 31.12.2013.

- KM 000 -

Table 3. Maturity Structure of Taken Loans

DESCRIPTION	31.12.2013. godine				30.09.2014. godine				Index
	MCFs	MCCs	TOTAL	%	MCFs	MCCs	TOTAL	%	
1	2	3	4=(2+3)	5	6	7	8=(6+7)	9	10=8/4
1. Liabilities on short-term loans	81 258	202	81 460	30	88 775	217	88 992	32	109
2. Liabilities on long-term loans	187 307	146	187 453	70	181 920	4 086	186 006	68	99
TOTAL	268 565	348	268 913	100	270 695	4 303	274 998	100	102

Out of total loan commitments, long-term loans (of which there is no record in the case of 2 MCFs) amount to KM 186 million or 68% and are lower by 1% 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 89 million or 32% and have a growth rate of 9% compared to the end of the previous year. As of 30.09.2014, two MCFs did not have loan commitments.

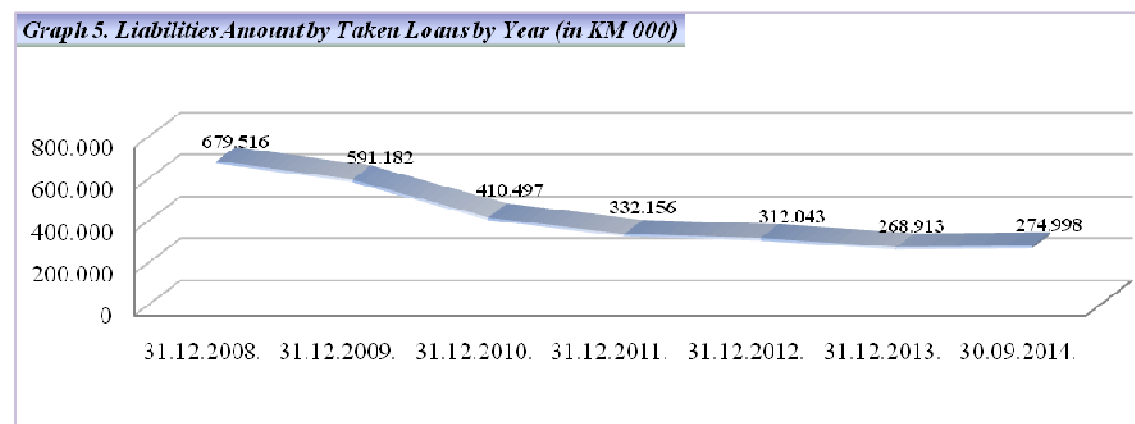
Given that creditors, both local commercial banks and various international socially-oriented commercial funds, are generally very cautious and abstain from lending a large number of MCOs, many MCOs are deprived of funds with which they would finance its microcredit activity and generate sufficient income from regular operations to cover their expenses.

Additionally, the mistrust of 22 creditors that claimed over KM 55 million from one MCF, which has a significant volume of operations, has suffered substantial losses and is fully illiquid 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.

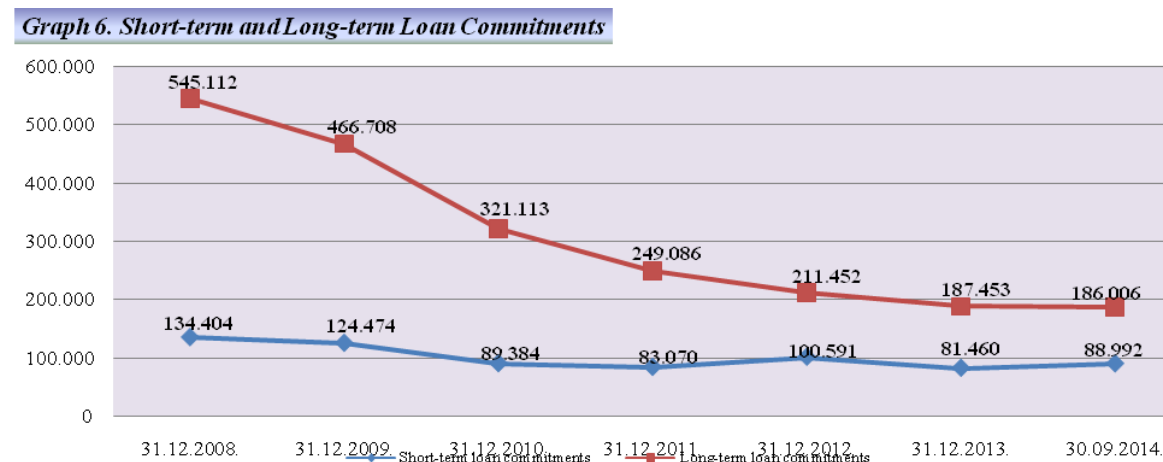
Since the beginning of the second quarter of 2014, the aforementioned MCF's accounts with commercial banks have been blocked for failing to meet obligations to creditors. According to a report on the blocked accounts in the Transaction Account Register of the Central Bank of B&H, a total of 37 accounts of this MCO was blocked at commercial banks in B&H since 03.11.2014, which implies continuous illiquidity. According to the submitted MCO liquidity reports as of 30.09.2014, maintaining liquidity in one MCO can significantly affect the difficulties in keeping the amount of the active loan portfolio at approximately the same level or at a level reduced up to 5%.

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 30.09.2014 amounted to KM 275 million, and are lower by even 60% 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 87% and 82%, respectively.



As can be seen in the graph below, in addition to the fact that loan commitments are lower by 60% compared to 2008 and higher by 2% compared to the end of the previous year, looking at the liabilities on taken loans by maturity, it is worrisome that long-term loans have dropped by even 66% compared to 2008 and are constantly dropping, while short-term loans are lower by 34% compared to 2008, but have recorded a growth of 9% compared to 31.12.2013.

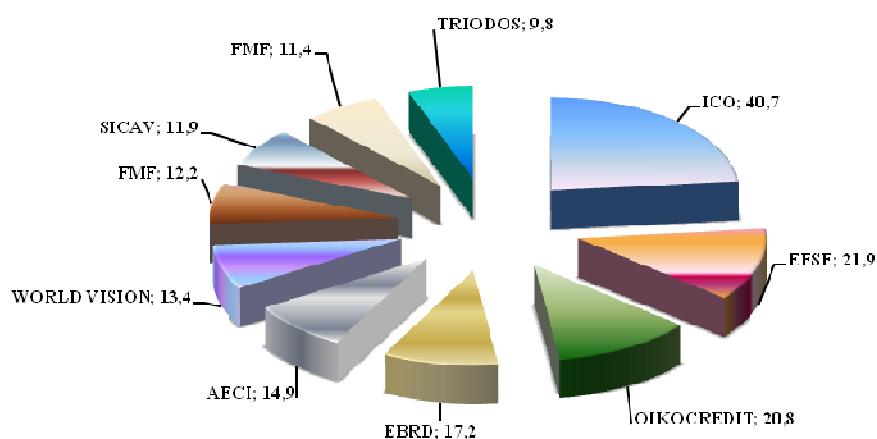


The ten most significant creditors of MCOs with 63% of total loan commitments owed to them are:

- 1) ICO - Instituto de Credito Oficial, Spain (KM 40.7 million)
- 2) EFSE – European Fund for Southeast Europe, Luxembourg (KM 21.9 million)
- 3) Oikokredit, Netherlands (KM 20.8 million)
- 4) EBRD – European Bank for Reconstruction and Development, Great Britain (KM 17.2 million)
- 5) AECI – Spanish Agency for International Development Cooperation (KM 14.9 million)
- 6) World Vision International, USA (KM 13.4 million)
- 7) KfW – Kreditanstalt für Wiederaufbau, Germany (KM 12.2 million);
- 8) Responsibility SICAV, Switzerland (KM 11.9 million)

- 9) Federal Ministry of Finance, Federation of B&H (KM 11.4 million)
- 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 25.8 million or 6% of total liabilities. These include liabilities to employees, suppliers, accrued expenses and others. The percentage of other liabilities at sector level compared to total liabilities is 8.57%, and individually, a total of six MCFs recorded more than 10% of other liabilities compared to total liabilities.

Off-balance records as of 30.09.2014 amount to KM 175.4 million, which includes write-offs (KM 175.1 million) and barter deals (KM 0.3 million in the case of three MCFs), and are up by 3% compared to the balance as of 31.12.2013.

2.2. Capital

The total capital of MCOs as of 30.09.2014 amounts to KM 165.2 million or 35% of total liabilities, which is lower by KM 14.5 million or 8% compared to the end of 2013. The capital of MCFs amounts to KM 164.9 million or 99.8%, and the capital of one MCC to KM 0.3 million or 0.2%. The capital drop of the microcredit sector was primarily influenced by the capital drop in one of the three largest MCFs, which reduced its capital by KM 26.3 million or 116% compared to the reported period. Without the data of this MCF, the microcredit sector would record a slight increase in capital compared to the end of the previous year.

The total capital of the microcredit sector (net of donated capital) amounts to 23% of total assets, with 5 MCFs and 1 MCC 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.

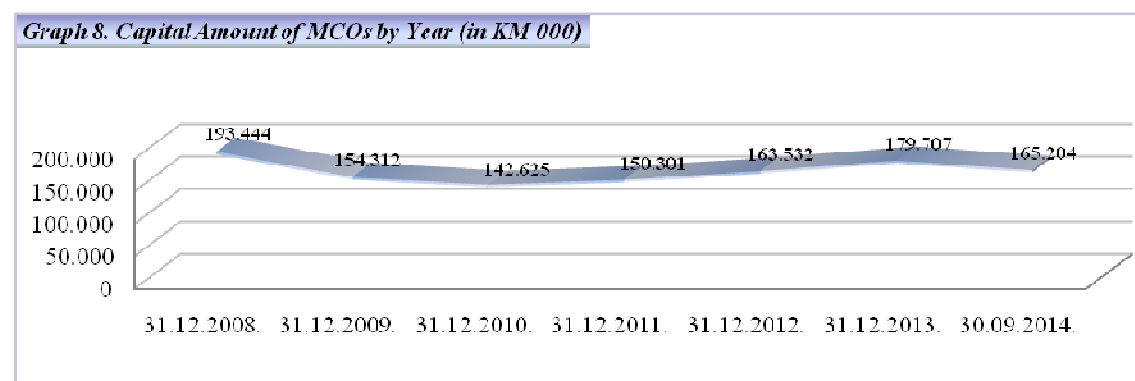
- KM 000 -

Table 4. Capital Structure of MCOs

DESCRIPTION	31.12.2013					30.09.2014					Index
	Balance for MCFs	%	Balance for MCCs	%	TOTAL	Balance for MCFs	%	Balance for MCCs	%	TOTAL	
1	2	3	4	5	6=2+4	7	8	9	10	11=7+9	12=11/6
Donated capital	49 640	28	0	0	49 640	58 021	35	0	0	58 021	117
Core capital	8 291	4	600	101	8 891	3 821	2	600	183	4 421	50
Surplus/deficit of income over expenses	117 975	66	0	0	117 975	100 557	61	0	0	100 557	85

Issue premiums	0	0	0	0	0	0	0	0	0	0	0
Unallocated profit	0	0	-106	-18	-106	0	0	-273	-83	-273	258
Legal reserves	0	0	101	17	101	0	0	0	0	0	0
Other reserves	3 206	2	0	0	3 206	2 478	2	0	0	2 478	77
TOTAL CAPITAL	179 112	100	595	100	179 707	164 877	100	327	100	165 204	92

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 30.09.2014 amounted to KM 165.2 million, and is lower by 15% compared to the end of 2008. A comparison of these two period in the case of individual MCOs shows that two MCFs recorded the biggest capital drop, by 118% or 54%, respectively.



In the capital structure of MCFs, the excess of income over expenses is the most important, and it amounts to KM 100.6 million and makes up 61% of total MCF capital, which is lower by KM 17.4 million or 15% compared to the end of the previous year. A deficit of income over expenses for the period from 01.01. to 30.09.2014 was recorded by four MCFs, while 8 MCFs recorded an excess of income over expenses and one MCC recorded a net loss. As of 30.09.2014, an excess of income over expenses from regular operations was recorded by 6 MCFs, while 6 MCFs and 1 MCC recorded a deficit of income over expenses, i.e. loss of regular operations. Out of those 6 MCFs, 2 of them recorded a positive result at the end of the third quarter of 2014 due to extraordinary income, which was significantly higher than the generated deficit of income over expenses in the case of some MCFs. Extraordinary income is a direct result of the increased collection of receivables for written-off loans.

A significant source of MCF capital is donated capital, which amounts to KM 58 million or 35% of total MCF capital, while one MCC has no donated capital. The amount of donated capital, as reported by MCOs, is higher by KM 8.4 million compared to the end of the previous year, i.e. 17%, and it almost completely accounts for the increase in donated capital in the case of one MCF that was found, during an on-site control, to have previously incorrectly reported on it to the Agency. In accordance with Article 11 of the Decision on General Conditions for Operations of Microcredit Organisations, MCOs shall keep records on donated funds and treat them as donated capital on which they have to report to the Agency. As per official quarterly reports, being submitted to the Agency, 11 MCFs include the amount of donated capital in their reports and keep records on their balance.

The core capital of MCF as of 30.09.2014 amounts to KM 3.8 million or 2% of total MCF capital. Other reserves, which relate to 2 MCFs, amount to KM 2.5 million or 2% of total

MCF capital. The core capital of one MCC amounts to KM 600 thousand and its loss to KM 268 thousand.

2.3. Loan Portfolio

The main activity of MCOs is microlending, to which the amount of KM 387.9 million or 83% of total assets of the microcredit sector is related. The level of total sector loans depends on loans of MCFs, which account for KM 385.9 million or 99,5% of total loans, while the MCC accounts for KM 2 million or 0,5% of total loans. Net loans, which make up total loans net of loan loss provisions are presented in Table 5.

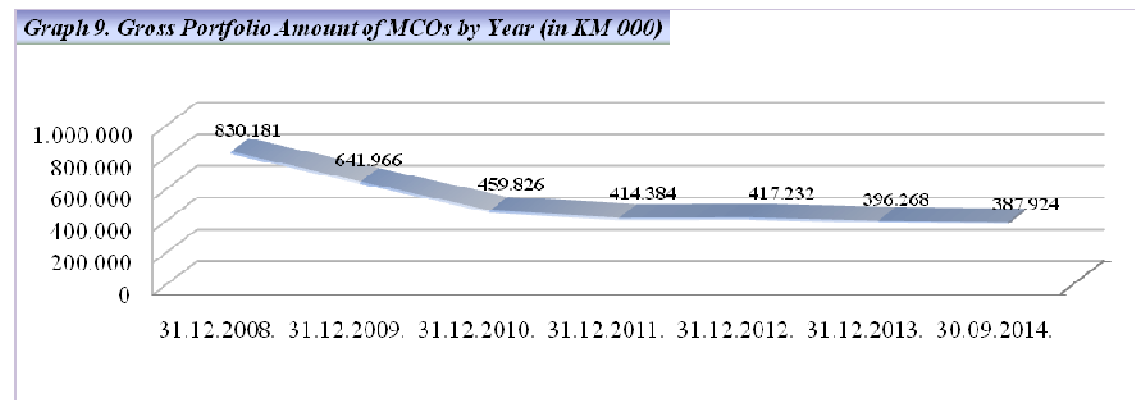
- KM 000 -

Table 5. Net loans

No.	DESCRIPTION	31.12.2013			30.09.2014			Index
		MCFs	MCCs	Total	MCFs	MCCs	Total	
1	2	3	4	5=(3+4)	6	7	8=(6+7)	9=8/5
1.	Loans	395 382	886	396 268	385 935	1 989	387 924	98
2.	Loan loss provisions	5 507	16	5 523	15 905	13	15.918	288
3.	Net loans (1.-2.)	389 875	870	390 745	370 030	1 976	372 006	95

Net loans amount to KM 372 million and are lower by 5% compared to 31.12.2013, while gross loans are also lower by 2% compared to the end of the previous year.

Loan loss provisions amount to KM 15.9 million and are up by 188% compared to 31.12.2013. The loan loss provisions to total loan portfolio ratio amounts to 4.10% and recorded a drop of 2.71% compared to 31.12.2013. One of the three largest MCFs increased loan loss provisions by KM 9.8 million or 570% compared to 31.12.2013, which has affected the significant increase in loan loss provisions at sector level and the drop of portfolio quality ratios.



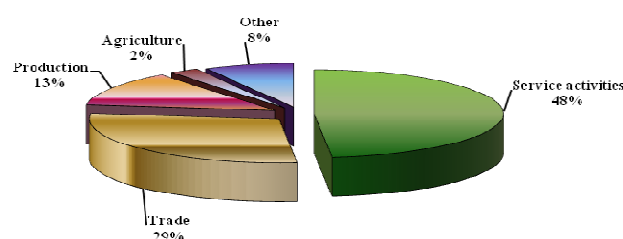
An overview of the gross portfolio of MCOs throughout the years of MCO operations shows that the largest amount was recorded at the end of 2008, when it amounted to KM 830.2 million. The total gross portfolio as of 30.09.2014 amounted to KM 387.9 million and dropped by 53% compared to the end of 2008. A comparison of these two periods in the case of individual MCOs reveals that two MCFs recorded the biggest gross portfolio drop, by even 77% and 73%, respectively.

- KM 000 -

Table 6. Sector and Maturity Structure of Microloans as of 30.09.2014						
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	571	3 071	17	3 659	48%
b.)	Trade	479	1 653	20	2 152	29%
c.)	Agriculture	43	142	2	187	2%
d.)	Production	292	668	9	969	13%
e.)	Other	133	444	4	581	8%
TOTAL 1:		1 518	5 978	52	7 548	100%
2.	Natural persons					
a.)	Service activities	13 076	65 376	2 201	80 653	21%
b.)	Trade	9 933	23 154	1 862	34 949	9%
c.)	Agriculture	14 906	121 514	2 163	138 583	37%
d.)	Production	4 112	9 460	1 057	14 629	4%
e.)	Housing needs	3 071	50 105	191	53 368	14%
f.)	Other	18 337	39 144	714	58 194	15%
TOTAL 2:		63 434	308 753	8 188	380 376	100%
TOTAL (1+2):		64 952	314 732	8 240	387 924	

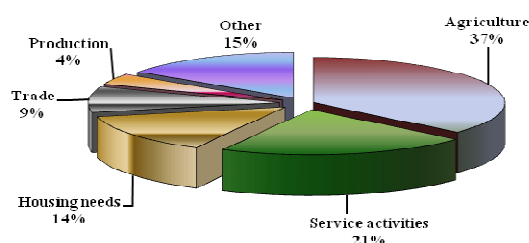
Out of the total number of microloans, KM 7.5 million or 2% were granted to legal entities and KM 380.4 million or 98% were granted to natural persons. In the maturity structure of microloans, short-term loans with receivables due account for KM 73.2 million or 19% and long-term loans for KM 314.7 million or 81%. Receivables due total KM 8.2 million or 2% 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 3.6 million or 48% for service activities and KM 2.1 million or 29% for trade. Out of the total microloan amount, KM 1 million or 13% were granted for production, while KM 0.2 million or 2% were granted for agriculture and KM 0.6 million or 8% for other purposes.

Graph 11. Sector Structure of Microloans to Natural Persons



As for loans to **natural persons**, KM 138.6 million or 37% was placed for agriculture, followed by KM 80.7 million or 21% for service activities, KM 53.4 million or 14% for housing needs, KM 34.9 million or 9% for trade, KM 14.6 million or 4% for production and KM 58.2 million or 15% for other purposes.

- KM 000 -

Microloans for:	31.12.2013	30.09.2014	Share	Index
Agriculture	142 133	138 770	36%	98
Service activities	93 750	84 312	22%	90
Other	45 481	58 775	15%	129
Housing needs	49 288	53 368	14%	108
Trade	45 028	37 101	9%	82
Production	20 588	15 598	4%	76
TOTAL	396 268	387 924	100%	98

Based on the analysis of the industry, it can be concluded that microlending is largely directed toward lending of agriculture (36%) 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 2% and 24%, save for housing loans and loans for other purposes, which are up by 8%, i.e. 29% compared to the end of the previous year. 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 up by 3%.

- KM 000 -

DESCRIPTION	31.12.2013	30.09.2014	Share	Index
Long-term microloans	325 426	314 732	81%	97
Short-term microloans with receivables due	70 842	73 192	19%	103
TOTAL	396 268	387 924	100%	98

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 30.09.2014, 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 29.5 million, while the loan portfolio, which was past due as of 30.04.2014 and was additionally at risk as a result of the natural disasters, amounted to KM 1 million. The moratorium as a result of the natural disasters was declared for 107 loan accounts in the total amount of KM 224 000. The loan portfolio that was renegotiated – rescheduled as a result of the natural disasters amounted to KM 2.9 million.

Loans for agriculture (40%) and loans for housing needs (25%) 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 30.09.2014 can be seen in Table 9.

- KM 000 -

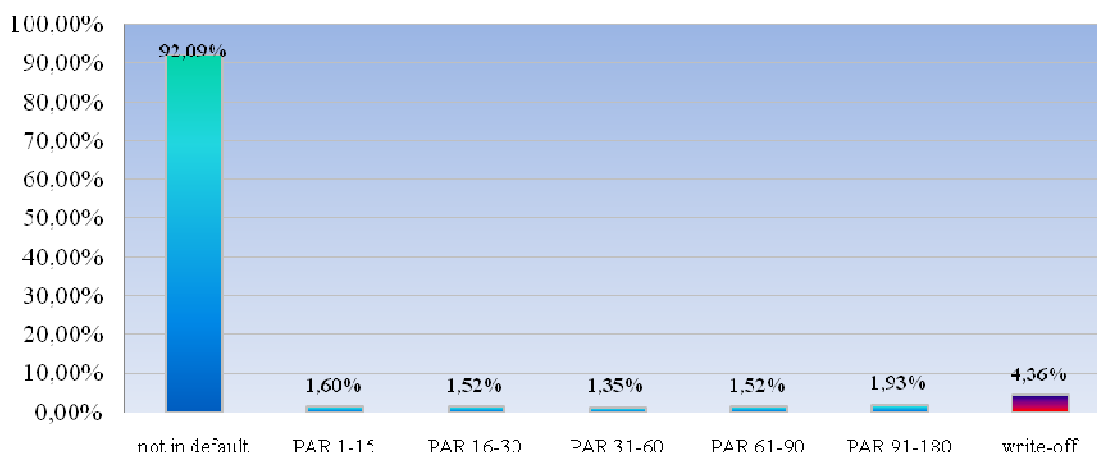
No.	Days past due	Provisioning rates	Loan amount	Share (%)	Interest due		Amount of other assets items	Provisions			Total provisions
					Provisioning rate	Interest amount		By loans	By interest due	By other assets items	
1.	0	0%	357 227	92.09	0%	1033	0	0	0	0	0
2.	1 – 15	2%	6 188	1.60	2%	60	0	124	1	0	124
3.	16 – 30	15%	5 887	1.52	100%	85	0	883	85	0	968
4.	31 – 60	50%	5 232	1.35	100%	130	0	2 616	130	0	2 746
5.	61 – 90	80%	5 899	1.52	100%	261	0	4 719	261	0	4 980
6.	91 – 180	100%	7 491	1.93	100%	806	0	7 575	810	0	8 385
TOTAL			387 924	100.00		2 375	0	15 918	1 286	0	17 204
7.	More than 180	Write-off	8 406		100%	3 927					

* Columns 9 and 10, days past due category (91-180) include additional provisions of one MCF for loans that have been restructured several times, replacement loans, reprogrammed loans and contractual obligations.

The amount of defaulted loans for more than one day is KM 30.7 million. The default loan rate over one day as of 30.09.2014 was 7.91% and shows a deterioration compared to the end of the previous year by 4.95 percentage points. The biggest defaulted loan amount is with those of 91 to 180 days (KM 7.5 million or 1.93% of total loans). The total amount of interest due by current loans which are defaulted for more than one day is KM 1.3 million. The total amount of calculated reserves on all bases is KM 17.2 million and is up by KM 11.2 million or 184% compared to 31.12. 2013. During the analysis of MCO reports, it was found that one of the three largest MCOs has a 73% of share in the total reserve amount.

In the first nine months of 2014, the write-off amounted to KM 12.8 million of principal and KM 5.3 million of interest.

Graph 12. Portfolio Quality of MCOs

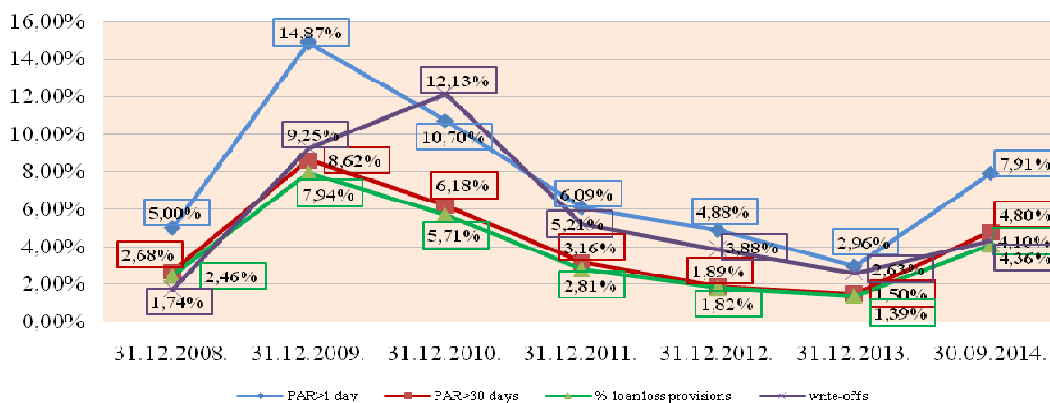


2.3.1. Key Indicators of Loan Portfolio Quality

Compared to the end of the previous year, as of 30.09.2014, the microcredit portfolio recorded a drop of 2% (KM 8.3 million) and shows a deterioration of active loan portfolio quality indicators. 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 deterioration in the quality of the active portfolio was rendered by the increase of the loan loss provisions rate from 1.39%, to which it amounted as of 31.12.2013, to even 4.10%. The risk portfolio for more than 30 days past due also increased from 1.50% to 4.80%. The total sector result based on the risk portfolio is within the standards prescribed by the Agency, while out of 13 MCOs, 3 MCFs do not meet the standard of the Agency in terms of the risk portfolio, which must be below 5%. The risk portfolio for more than one day past due also recorded a significant drop, increasing from 2.96%, to which it amounted as of the end of the previous year, to 7.91%.

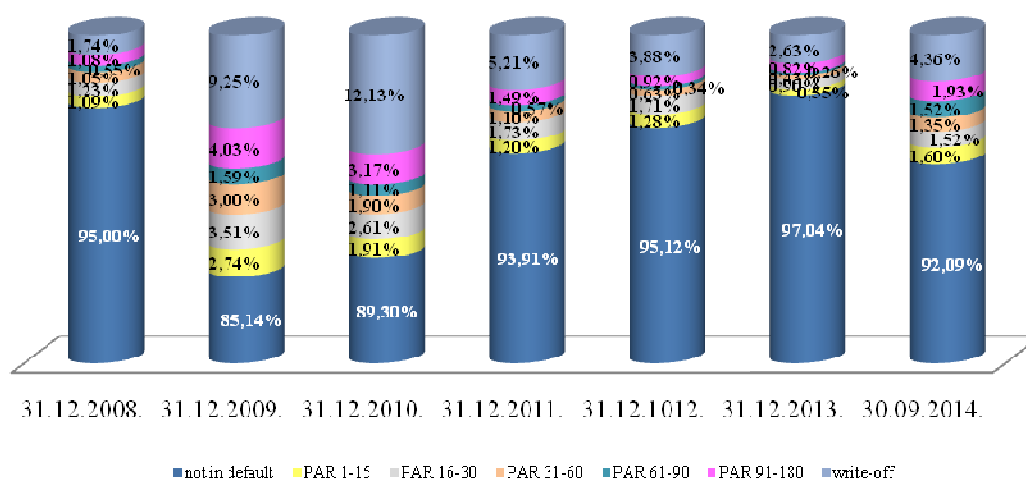
Graph 13. Active Portfolio Quality Indicators of MCOs



In terms of the indicators of loan portfolio quality and other business results of MCFs, the Agency has reservations regarding the accuracy of the data of one of the three largest MCFs, which has a market share of 14% and which did not, given the temporary measure of the

competent court, comply with the Agency's orders in terms of the significant amount of ordered additional reserves within the stipulated period of time. The reports of this MCF are therefore not harmonised with the Agency's regulations.

Graph 14. Gross Portfolio Classification of MCOs by Year



During the first nine months of 2014, MCOs wrote off 9 931 loan accounts (9 891 write-offs relate to natural persons and 40 to legal entities) in the total amount of KM 18.1 million, of which KM 12.8 million relate to the written-off principal. Even 78% of written-off loan accounts and 73% of written-off principal out of the total number of written-off loan accounts and the total number of written-off principal in the first nine months of 2014 relate to one of the three largest MCFs in the Federation of B&H. During the examination of this MCF, the Agency found numerous irregularities in its business operations, especially regarding write-offs.

As of 30.09.2014, the percentage of write-offs at sector level amounted to 4.36%, and this indicator is up by 1.73 percentage points compared to the end of the previous year and is significantly outside the framework of the standard prescribed by the Agency (up to 3%). Individually, 3 MCFs do not meet this standard.

Microcredit organisations continued with their efforts to collect receivables by write-offs and managed to collect KM 7.7 million of written-off principal and KM 0.8 million of written-off interest in the first nine months of 2014, while the permanent write-off in the same reporting period amounted to KM 105 thousand of principal and KM 17 thousand of interest. Regarding the efficiency of the collection of write-offs in the first nine months of 2014, one MCF had 32% of write-off collection compared to the total amount of receivables by write-offs, one MCF had 11%, six MCFs and one MCC ranged from 5-10%, while four MCFs had a collection efficiency percentage below 5%.

As of 30.09.2014, total receivables by write-offs, which are in the off-balance records, amount to as KM 175.1 million, which is 3% higher compared to the end of the previous year. One of the three largest MCFs has KM 46 million of total receivables by write-offs, which makes up 26% of total receivables by write-offs at sector level.

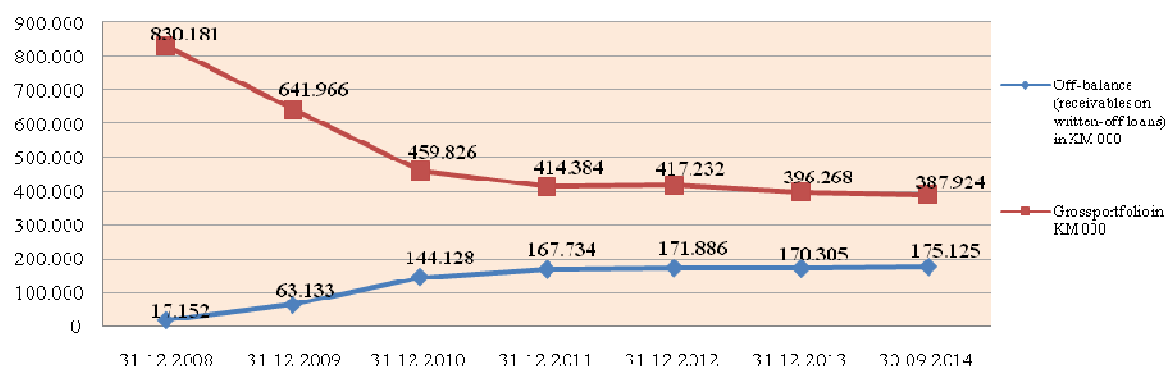
- KM 000 -

Table 10. Receivables by Written off Principal and Interest						
DESCRIPTION	NATURAL PERSONS		LEGAL ENTITIES		TOTAL	
	Written-off principal	Written-off interest	Written-off principal	Written-off interest	Written-off principal	Written-off interest
1	2	3	4	5	6	7
Initial balance as of 01.01.2014.	139.598	21.943	2.726	295	142.324	22.238
Changes in 2014:						
New write-off in the current year	12 716	5 309	119	10	12 835	5.319
<i>Write-off in the period 01.01.-31.03.</i>	2 437	907	35	4	2 472	911
<i>Write-off in the period 01.04.-30.06.</i>	1 893	476	63	5	1 956	481
<i>Write-off in the period 01.07.-31.12.</i>	8 386	3 926	21	1	8 407	3.927
<i>Write-off in the period 01.10.-31.12.</i>	0	0	0	0	0	0
Collected in the current year	7 659	806	98	12	7 757	818
<i>Collection of write-offs in the period 01.01.-31.03.</i>	2 582	294	37	4	2 619	298
<i>Collection of write-offs in the period 01.04.-30.06.</i>	2 513	264	36	4	2 549	268
<i>Collection of write-offs in the period 01.07.-31.12.</i>	2 564	248	25	4	2 589	252
<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	105	17	0	0	105	17
<i>Permanent write-off in the period 01.01.-31.03.</i>	73	8	0	0	73	8
<i>Permanent write-off in the period 01.04.-30.06.</i>	32	8	0	0	32	8
<i>Permanent write-off in the period 01.07.-31.12.</i>	0	1	0	0	0	1
<i>Permanent write-off in the period 01.10.-31.12.</i>	0	0	0	0	0	0
Balance as of 30.06.2014.	144 549	26 428	2 747	293	147 296	26 721

* Note: The data in Table 10 differs from total receivables by write-offs shown in the off-balance records in the amount of KM 1.1 million, which includes court expenses, penalty and process interest and a portion of off-court settlements and suspended interest in the case of two MCFs.

Compared to 2008, the gross portfolio of MCOs is lower by 53%, while receivables by write-offs are almost 10 times higher and make up 45% of the total loan portfolio as of 30.09.2014. There are significant deviations in the quality of the portfolio between different MCOs, which are evident from the data that four MCFs have over 70% of total write-offs compared to the total gross portfolio (total receivables by write-offs, which are in off-balance records, are higher than total gross loans by 7% 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. The on-site control at one MCF revealed that it has over 10 000 unsued loan accounts totaling over KM 15 million. Given that this MCF did not perform cash transactions regarding payment and collection of loans via bank accounts that would confirm the aforementioned transactions, avoiding court disputes for these cases left room for the unlawful handling of write-offs and other misuses detrimental to the MCF's property.

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 30.09.2014 in the Federation of B&H, the total number of loan accounts in the active loan portfolio of MCOs was 165 259, 1.26% of which were being repaid by guarantors, which is up by 0.15 percentage points compared to the percentage of loans being paid off by guarantors out of the total number of loans as of 31.12.2013 (2013: 1.11%). According to quarterly reports, the total gross loan portfolio in the MCO sector as of 30.09.2014 amounted to KM 387 924 thousand KM, with the share of the outstanding loan debt being paid off by guarantors amounting to 1.34%, up by 0.30 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 2013 (2013: 1.04%).

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 01.07. to 30.09.2014, a total of 63 complaints was filed against MCFs, while one MCC did not report having received any complaints. In the case of 5 MCFs, there is no evidence of complaints.

Co-debtors/guarantors have filed 18 complaints, debtors 34 complaints, while other interested parties filed 11 complaints. The MCOs resolved 12 complaints positively, 42 complaints negatively, while 9 complaints are in the process of being handled.

2.4. Weighted Nominal and Effective Interest Rates on Microloans

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

No.	DESCRIPTION	Total amount of microloan payment in Q3 2014 (in KM 000)	Weighted nominal interest rate (average)	Weighted effective interest rate (average)
1.	Short-term microloans for:	15 901	22.32%	30.35%
1.1.	Service activities	2 522	23.78%	31.70%
1.2.	Trade	1 068	21.31%	28.56%
1.3.	Agriculture	2 273	23.02%	30.60%
1.4.	Production	300	20.71%	27.41%
1.5.	Housing needs	1 421	21.45%	27.07%
1.6.	Non-purpose – basic needs	750	16.86%	32.36%
1.7.	Other	7 567	22.06%	29.98%
2.	Long-term microloans for:	66 218	20.45%	24.22%
2.1.	Service activities	12 557	20.95%	25.04%
2.2.	Trade	4 411	20.19%	23.91%
2.3.	Agriculture	19 118	19.73%	23.27%
2.4.	Production	1 211	19.56%	23.73%
2.5.	Housing needs	13 682	18.39%	21.04%
2.6.	Non-purpose – basic needs	894	23.66%	32.30%
2.7.	Other	14 344	22.75%	27.23%
TOTAL		82 120	20.81%	25.41%

In accordance with monthly statements on weighted nominal and effective interest rates by loan, in the third quarter of 2014, MCOs placed microloans in the total amount of KM 82.1 million, which is lower by KM 3.1 million or 3.6% compared to the microloan amount placed in the same period of the previous year. This is mostly due to reduced placement of microloans of one of the three largest MCFs in the Federation of B&H. As of 30.09.2014, MCOs had 165 259 active loan accounts, which is lower by 16 486 loan accounts or 9%

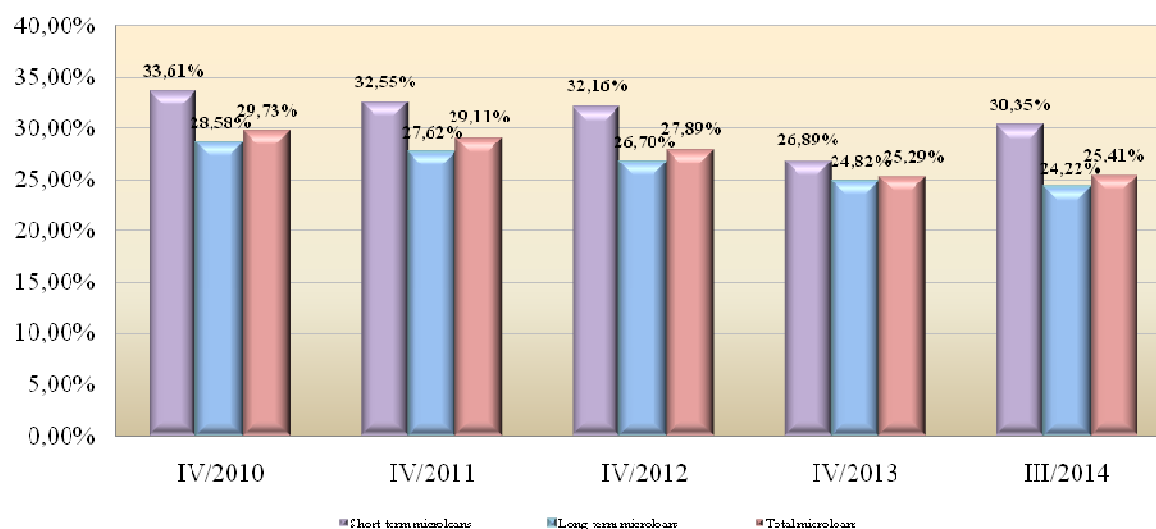
compared to the end of the previous year. As of 30.09.2014, the average amount of microloans at sector level was KM 2 347, which was the average of MCFs (31.12.2013 – KM 2 180), while the average amount of microloans in the MCC was KM 5 540.

The average weighted nominal interest rate on short-term loans ranges from 16.86% for non-purpose loans up to 23.78% for service activities, and the effective interest rate ranges from 27.07% for housing loans up to 32.36% for non-purpose loans. The average weighted nominal interest rate on long-term loans ranges from 18.39% for housing loans up to 23.66% for non-purpose loans, and the effective interest rate ranges from 21.04% for housing loans up to 32.30% 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 housing needs, while the most expensive loans are non-purpose loans, i.e. loans for basic needs.

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	III/2014
Short-term microloans	33.61%	32.55%	32.16%	26.89%	30.35%
Long-term microloans	28.58%	27.62%	26.70%	24.82%	24.22%
Total microloans	29.73%	29.11%	27.89%	25.29%	25.41%

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



Microcredit organisations increased, although only slightly, effective interest rates on total microloans, so that, at the end of the third quarter of 2014, average weighted effective interest rates in the microcredit sector on total loans amounted to 25.41%, and recorded an increase of 0.12 percentage points compared to the fourth quarter of 2013. Compared to the same period, average weighted effective interest rates on short-term loans amounted to 30.35% and recorded an increase of 3.46 percentage points. Average weighted effective interest rates on

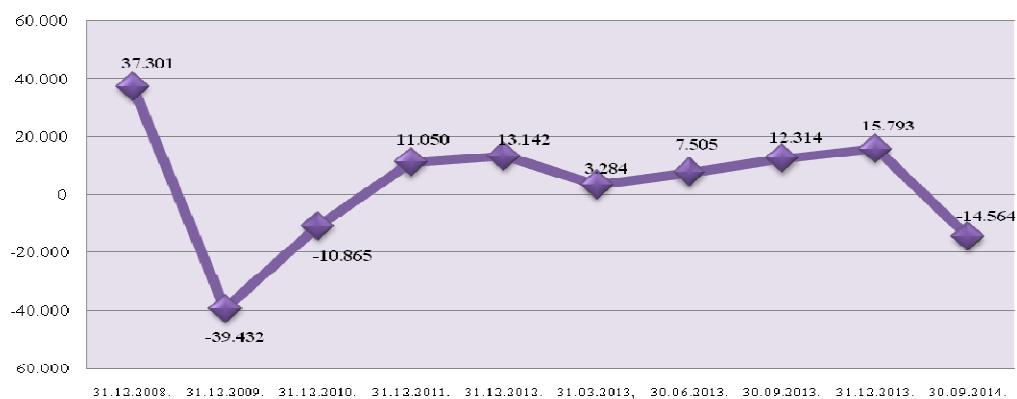
long-term loans amounted to 24.22% at the end of the third quarter of 2014 and dropped by 0.60 percentage points compared to the fourth quarter of 2013.

In order to reduce interest rates on microloans and to protect beneficiaries-clients of microcredit organisations as well as fulfill the microlending mission, in its examinations, the Agency places special emphasis on and controls all types of costs of MCOs' business operations that have a significant impact on forming interest rates, assesses their necessity and issues adequate orders. The Agency shall further focus on cost control of MCOs, whether they are justified and purposeful, in order to reduce interest rates on microloans of MCOs from the Federation of B&H.

2.5. Income Statement

In the period from 01.01. to 30.09.2014, one MCC recorded a net loss in the amount of KM 268 thousand (01.01. to 30.09.2013: net loss of KM 30 thousand). In that period, MCFs had less income over expenses in the total amount of KM 14 296 thousand, while they recorded more income over expenses in the total amount of KM 12 344 thousand in the same period of the previous year. In the period from 01.01. to 30.09.2014, out of a total of 12 MCFs, 4 MCFs had less income over expenses in the total amount of KM 26 370 thousand, while 8 MCFs recorded more income over expenses in the total amount of KM 12 074 thousand. Out of the 4 MCFs that recorded less income over expenses in the amount of KM 26 370 thousand in the period from 01.01. to 30.09.2014, one of the three largest MCFs recorded a shortfall in the amount of KM 26 316 thousand, i.e. 99.8% of the total generated shortfall of MCFs, while only 54 thousand of the total generated loss of income over expenses, i.e. 0.2%, refers to the other three MCFs. Without the data of this MCF, which is contrary to the sector trend as of 30.09.2014 and which has completely destabilised the microcredit market as well as impacted the deterioration of sector result and performance indicators, the microcredit sector records a positive result in the amount of KM 11 752 thousand, which is reflected positively in the performance indicators as well.

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



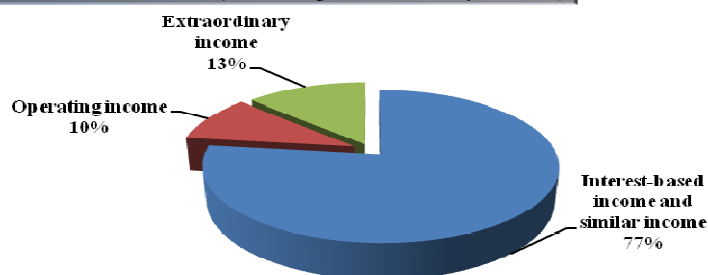
At the level of the microcredit sector in the Federation of B&H, a negative financial result in the amount of KM 14 564 thousand has been recorded, which is down by KM 26 878 thousand compared to the same period of the previous year, when the sector recorded a positive result.

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

No.	DESCRIPTION	For the period 01.01. - 30.09.2013				For the period 01.01. - 30.09.2014				Index
		MCFs	MCCs	Total	%	MCFs	MCCs	Total	%	
1	2	1	2	3=(1+2)	4	5	6	7=(5+6)	8	9=(7/3)
1.	INCOME									
1.1.	Interest-based income and similar income	61 921	237	62 158	84	52 515	151	52 666	89	85
1.2.	Operating income	11 673	38	11 711	16	6 605	16	6 621	11	57
2.	TOTAL INCOME (1.1.+1.2.)	73 594	275	73 869	100	59 120	167	59 287	100	80
3.	EXPENSES									
3.1.	Interest-based expenses and similar expenses	12 747	49	12 796	18	11 001	49	11 050	13	86
3.2.	Operating expenses	50 246	237	50 483	70	46 015	384	46 399	57	92
3.3.	Expenses for loan loss provisions and other losses	8 332	21	8 353	12	24 229	5	24 234	30	290
4.	TOTAL EXPENSES (3.1.+3.2.+3.3.)	71 325	307	71 632	100	81 245	438	81 683	100	114
5.	EXTRAORDINARY INCOME	11 225	3	11 228		8 974	8	8 982		80
6.	EXTRAORDINARY EXPENSES	1 150	1	1 151		1 145	5	1 150		100
7.	TOTAL INCOME - EXPENSES (2+5-4-6)	12 344	-30	12 314		-14 296	-268	-14 564		-118
8.	SURPLUS/DEFICIT OF INCOME OVER EXPENSES	12 344		12 344		-14 296		-14 296		-116
9.	PROFIT BEFORE TAXES		-30	-30			-268	-268		
10.	TAXES		0	0			0	0		
11.	NET PROFIT/LOSS		-30	-30			-268	-268		
12.	TOTAL FIN. RESULT			12 314				-14 564		

The total income of MCOs in the period from 01.01. to 30.09.2014 amounts to KM 59.3 million, which almost completely account for MCF income. The total income is lower by KM 14.6 million or 20% compared to the same period of the previous year. The biggest income portion is contributed by interest income, which amounts to KM 52.7 million or 89% of total income and is lower by KM 9.5 million or 15% compared to the same period of the previous year, while operating income amounts to KM 6.6 million or 11% of total income and is lower by KM 5 million or 43% compared to the same period of the previous year.

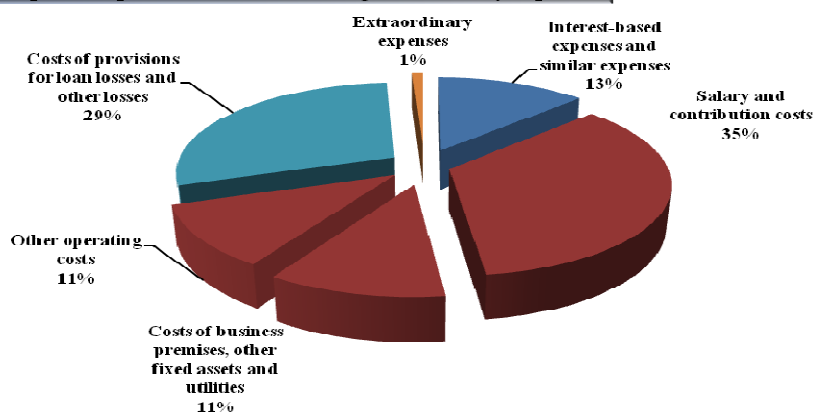
Graph 18. Income Structure (Including Extraordinary Income)



Extraordinary income of MCOs generated in the period from 01.01. to 30.09.2014 amounts to KM 9 million, which is lower by KM 2.2 million or 20% 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 nine months of 2014 amounts to KM 1.1 million and is at the same level compared to the same period of the previous year.

Total expenses amount to KM 81.7 million, 81.3 million or 99.5% of which account for the expenses of MCFs, and KM 0.4 million or 0.5% for the expenses of one MCC. Compared to the same period of the previous year, total expenses are higher by KM 10 million or 14%. In the expenses structure, KM 11.1 million or 13% of total expenses account for interest expenses on taken loans and other similar expenses, which are lower by KM 1.7 million or 14% compared to the same period of the previous year. Operating expenses amount to KM 46.4 million or 57% of total expenses and are lower by KM 4 million or 8% compared to the same period of the previous year. Operating expenses include salary and contributions' expenses in the amount of KM 28.7 million (01.01. to 30.06.2013: KM 29.4 million), business premises' expenses, other fixed assets and utility costs in the amount of KM 9.1 million (01.01. to 30.06.2013: KM 11.7 million) and other operating expenses in the amount of KM 8.6 million (01.01. to 30.06.2013: KM 9.4 million). Expenses for loan loss provisions and other losses amount to KM 24.2 million or 30% of total expenses and are higher by even KM 15.9 million or 190%. Even 82% of the total amount of loan loss provisions and other losses in the first nine months of 2014 is contributed by one of the three largest MCFs in the Federation of B&H.

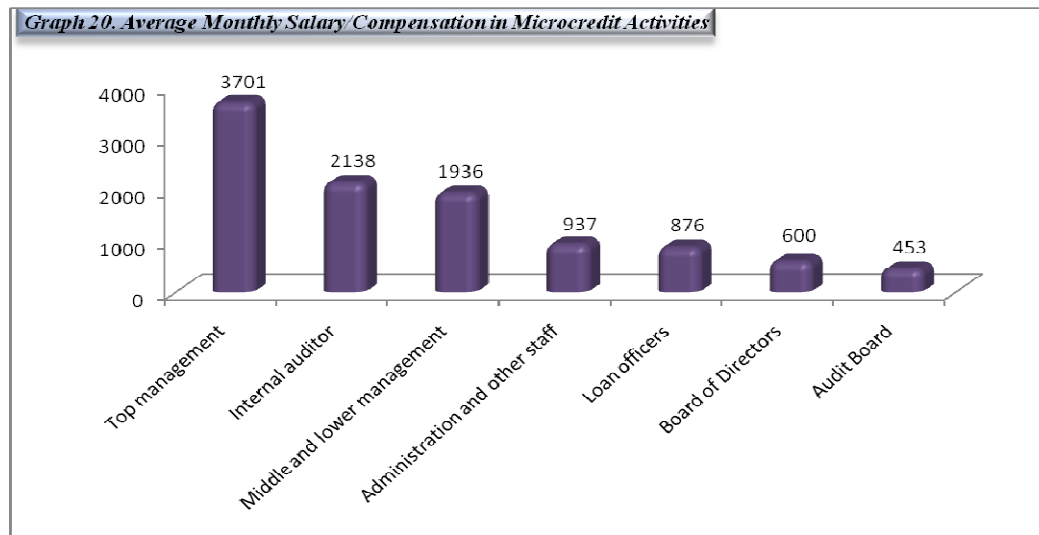
Graph 19. Expenses Structure (Including Extraordinary Expenses)



2.5.1. Standard Monthly Income in Microcredit Activities

Salary and contributions' expenses generated in the period 01.01. to 30.09.2014 are lower by 2% compared to the same period of the previous year. According to MCO reports, as of 30.09.2014, the average monthly net salary of MCO employees was KM 1 086 and the average monthly net amount of incentives, stimulations and bonuses was KM 46. This means that the average monthly net salary with bonuses was KM 1 132 in the microcredit sector. As of 30.09.2014, the average monthly net salary of a senior management member in the microcredit sector was KM 3 701, while average monthly net compensations paid to management board members in MCOs were KM 600 and to audit board members KM 453. As of the reporting date, the average monthly net salaries of internal auditors in MCOs were

KM 2 138, of middle and low management KM 1 936, of loan officers KM 876 and of administration and other staff KM 937.



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 more than 2 times higher compared to the sector average. The average monthly compensation paid to members of the management bodies is almost nine times higher than the sector average in the case of one MCF.

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. During the first nine months of 2014, out of 13 MCOs, 6 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 3 760 340 million. Only one MCF has a share of even 97% in the total amount of transactions with related entities.

Table 14 provides a breakdown of transactions with related entities in the period from 01.01. to 30.09.2014, which shows that the majority transactions performed by MCOs are based on loans received from banks related to MCOs (89.89%) and based on the payment of regular and penalty interest (4.91%). In addition to the aforementioned transactions, MCOs also reported the transactions with related entities based on legal services, leases of business premises, the delivery of goods/services and other.

-in KM-

No.	Description of transaction	Transaction amount in the period 01.01.-30.09.2014	Share (%)
1.	Short-term loans from banks	3 380 000	89.89%
2.	Regular and penalty interest, management fees	184 629	4.91%
3.	Transactions with the founder and founder-related entities	58 203	1.55%
4.	Legal services	38 844	1.03%
5.	Payment by invoices for delivered goods/services	31 985	0.85%
6.	Borrowings from legal entities and natural persons	31 071	0.83%
7.	Lease of business premises	11 277	0.30%
8.	Refunding of expenses	10 999	0.29%
9.	Loan annuities	8 192	0.22%
10.	Payment of joint expenses of a related person	5 140	0.13%
11.	Short-term deposits to banks	0	0.00%
12.	Receivables based on lease	0	0.00%
T O T A L		3 760 340	100.00%

The reported transactions of MCOs with related entities refer to transactions conducted with entities related to the MCOs' directors (96%), the MCOs' founders and their related persons (2%) and members of the audit board (2%). During the examinations in the period to come, the Agency will focus on the compliance with business policies for the MCOs' transactions with related entities, and it will evaluate the benefits the MCOs have when performing such transactions and order adequate measures to be taken in the interest of eliminating irregularities found in the MCOs' business operations with related entities.

III CONCLUSIONS AND RECOMMENDATIONS

By analysing MCO reports as of 30.09.2014, it can be concluded that the business operations of microcredit organisations in the Federation of B&H compared to the end of the previous year show a further drop in assets (by 2%) and loan portfolio (by 2%). Indicators of loan portfolio quality also show deterioration as well as the drop in the number of employees (by 5%), however, loan commitments as the main source of funding for financing the loan portfolio have increased (by 2%). The capital of MCFs recorded a drop of 8% compared to the end of the previous year due to a negative financial result.

For MCOs with a continuous loan portfolio drop, loss of their market segment and that have been denied the trust of creditors because of a negative business trend and inability to reach set standards, it is important to, for the purpose of retaining the substance of business operations, and especially donated funds, negotiate on mergers and acquisitions, which is an important step to preserve this sector. 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 if they do not receive creditors' support and some smaller MCOs should consider making decisions on mergers for that reason.

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

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

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

- 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.-64-3/14

Sarajevo, 04.12.2014

IV ANNEXES

Annex 1 Regulations of the Banking Agency for business operations of Microcredit Organisations

Annex 2 Main data on MCOs

Annex 3 Balance sheet of MCFs

Annex 4 Balance sheet of MCCs

Annex 5 Income statement of MCFs

Annex 6 Income statement of MCCs

Annex 7 Overview of donated funds of MCFs

Annex 1

REGULATIONS OF THE BANKING AGENCY FOR BUSINESS OPERATIONS OF MICROCREDIT ORGANISATIONS, VALID AS OF 30.09.2014

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	Direcor	Tel/Fax	E-mail and Web	30.09.2014			
						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	4 789	327	15	1
2.	MKF "EKI" Sarajevo	ul. Džemala Bijedića bb 71 000 SARAJEVO	Sadina Bina	033/ 754-380, 754-388 fax	sbina@mkoeki.com www.mkoeki.com	111 968	51 113	262	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	13 586	10 542	53	11
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	48 702	9 094	162	37
5.	MKF "MELAHA" Sarajevo	ul. Hamdije Kreševljakovića 59 71 000 SARAJEVO	Jakob Finci	033/ 205-737 tel/fax	viktor@melaha.ba	1 105	323	4	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	43 643	17 136	143	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	18 617	5 234	95	20
8.	MKF "MIKRO ALDI" Goražde	ul. Panorama bb 73 000 GORAŽDE	Ferida Softić	038/ 226-456, 221-004 fax	mka.aldi@bih.net.ba www.mikroaldi.org	4 871	3 837	26	5
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	130 784	51 973	298	56
10.	MKF "PRIZMA" Sarajevo	ul. Bistrik Medresa 43 71 000 SARAJEVO	Jure Žigo	033/ 573-320, 446-583 fax	hq@prizma.ba www.prizma.ba	56 078	-3 682	104	20
11.	"PRVA ISLAMSKA MKF" Sarajevo	ul. Jukićeva 75 71 000 SARAJEVO	Edina Hadžimurtezić	033/ 666-233, 666-224 fax	info@mfi.ba	1 749	1 557	8	0
12.	MKF "SANI" Zenica	ul. Mehmedalije Tarabara 10 72 000 ZENICA	Sulejman Haračić	032/ 405-606 tel/fax	mikrosanizenica@yahoo.com	417	286	4	0
13.	MKF "SUNRISE" Sarajevo	ul. Zagrebačka 50 71 000 SARAJEVO	Anis Aganović	033/ 727-350, 812-231 fax	sunrise@microsunrise.ba www.microsunrise.ba	29 668	17 464	158	40
TOTAL						465 977	165 204	1 332	282

Annex 3

BALANCE SHEET OF MCFs

in KM 000

No.	DESCRIPTION	31.12.2013	%	30.09.2014	%	Index
1	2	3	4	5	6	7=5/3
ASSETS						
1.	Cash (1a+1b)	24 123	5	34 190	7	142
1a)	Cash and non-interest-bearing deposit accounts	17 027	4	13 077	3	77
1b)	Interest-bearing deposit accounts	7 096	1	21 113	4	298
2.	Facilities to banks	4 054	1	3 563	1	88
3.	Loans	395 382		385 935		98
3a)	Loan loss provisions	5 507		15 905		289
3b)	Net loans (3-3a)	389 875	82	370 030	80	95
4.	Business premises and other fixed assets	42 596	9	39 989	9	94
5.	Long-term investments	761	0	761	0	100
6.	Other assets	14 018	3	13 940	3	99
7.	Minus: provisions for other assets items, except loans	549		1 285		234
8.	TOTAL ASSETS	474 878	100	461 188	100	97
LIABILITIES						
9.	Short-term loan commitments	81 258	17	88 775	19	109
10.	Long-term loan commitments	187 307	39	181 920	39	97
11.	Other liabilities	27 201	6	25 616	6	94
12.	TOTAL LIABILITIES	295 766	62	296 311	64	100
13.	Donated capital	49 640		58 021		117
14.	Core capital	8 291		3 821		46
15.	Surplus of income over expenses	175 440		184 672		105
15a)	For previous years	160 018		172 656		108
15b)	For current year	15 422		12 016		78
16.	Deficit of income over expenses	57 465		84 115		146
16a)	For previous years	57 439		57 745		101
16b)	For current year	26		26 370		101 423
17.	Other reserves	3 206		2 478		77
18.	TOTAL CAPITAL	179 112	38	164 877	36	92
19.	TOTAL LIABILITIES	474 878	100	461 188	100	97
OFF-BALANCE RECORDS						
	- written-off loans	170 250		175 067		103
	- agent business	348		293		84

Annex 4

BALANCE SHEET OF MCOs

in KM 000

No.	DESCRIPTION	31.12.2013	%	30.09.2014	%	Index
1	2	3	4	5	6	7=5/3
ASSETS						
1.	Cash (1a+1b)	88	8	2 731	57	3 103
1a)	Cash and non-interest bearing deposit accounts	88	8	2 731	57	3 103
1b)	Interest-bearing deposit accounts	0	0	0	0	n/a
2.	Facilities to banks	0	0	0	0	n/a
3.	Loans	886		1 989		224
3a)	Loan loss provisions	16		13		81
3b)	Net loans (3-3a)	870	84	1 976	41	227
4.	Business premises and other fixed assets	50	5	32	1	64
5.	Long-term investments	0	0	0	0	n/a
6.	Other assets	28	3	51	1	182
7.	Minus: provisions for other assets items, except loans	1		1		100
8.	TOTAL ASSETS	1 035	100	4 789	100	463
LIABILITIES						
9.	Short-term loan commitments	202	20	217	5	107
10.	Long-term loan commitments	146	14	4 086	85	2 799
11.	Other liabilities	92	9	159	3	173
12.	TOTAL LIABILITIES	440	43	4 462	93	1 014
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)	-106		-273		258
16a)	Of previous years	0		-5		n/a
16b)	Of current year	-106		-268		253
17.	Legal reserves	101		0		0
18.	Other reserves	0		0		n/a
19.	TOTAL CAPITAL	595	57	327	7	55
20.	TOTAL LIABILITIES	1 035	100	4 789	100	463
OFF-BALANCE RECORDS						
	- written-off loans	55		58		105
	- agent business	0		0		n/a

Annex 5

INCOME STATEMENT OF MCFs

in KM 000

Red. Broj	DESCRIPTION	For the period 01.01. - 30.09.2013	%	For the period 01.01. - 30.09.2014	%	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	8	0	74	0	925
1.2.	Interest on facilities to banks	170	0	131	0	77
1.3.	Loan interest	60 820	99	48 987	94	81
1.4.	Other financial income	923	1	3 323	6	360
1.5.	Total interest income and similar income (1.1. to 1.4.)	61 921	100	52 515	100	85
2.	Interest expenses and similar expenses					
2.1.	Interest on borrowed funds	12 249	96	10 546	96	86
2.2.	Other financial expenses	498	4	455	4	91
2.3.	Total interest expenses and similar expenses (2.1. to 2.2.)	12 747	100	11 001	100	86
3.	Net financial income (1.5. – 2.3.)	49 174		41 514		84
II	OPERATING INCOME AND EXPENSES					
4.	Operating income					
4.1.	Fees for services performed	10 870	93	5 486	83	50
4.2.	Other operating income	803	7	1 119	17	139
4.3.	Total operating income (4.1. to 4.2.)	11 673	100	6 605	100	57
5.	Operating expenses					
5.1.	Salary and contribution costs	29 228	58	28 443	62	97
5.2.	Costs of business premises, other fixed assets and utility costs	11 688	23	9 071	20	78
5.3.	Other operating expenses	9 330	19	8 501	18	91
5.4.	Total operating expenses (5.1. to 5.3.)	50 246	100	46 015	100	92
6.	Loan loss provisions and provisions for other losses	8 332		24 229		291
7.	Surplus/deficit of income over expenses from regular operations (3.+4.3.-5.4.-6.)	2 269		-22 125		-975
8.	Extraordinary income	11 225		8 974		80
9.	Extraordinary expenses	1 150		1 145		100
10.	Surplus/deficit of income over expenses (7.+8.-9.)	12 344		-14 296		-116

Annex 6

INCOME STATEMENT OF MCCs

in KM 000

No.	DESCRIPTION	For the period 01.01. - 30.09.2013	%	For the period 01.01. - 30.09.2014	%	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	230	97	147	97	64
1.4.	Other financial income	6	3	4	3	67
1.5.	Total interest income and similar income (1.1. to 1.4.)	236	100	151	100	64
2.	Interest expenses and similar expenses					
2.1.	Interest on borrowed funds	44	90	37	76	84
2.2.	Other financial expenses	5	10	12	24	240
2.3.	Total interest expenses and similar expenses (2.2. to 2.2.)	49	100	49	100	100
3.	Net financial income (1.5. – 2.3.)	187		102		55
II	OPERATING INCOME AND EXPENSES					
4.	Operating income					
4.1.	Fees for services performed	38	100	12	75	32
4.2.	Other operating income	0	0	4	25	n/a
4.3.	Total operating income (4.1. to 4.2.)	38	100	16	100	42
5.	Operating expenses					
5.1.	Salary and contributions costs	129	55	282	73	219
5.2.	Costs of business premises, other fixed assets and utility costs	65	27	41	11	63
5.3.	Other operating expenses	43	18	61	16	142
5.4.	Total operating expenses (5.1. to 5.3.)	237	100	384	100	162
6.	Loan loss provisions and provisions for other losses	21		5		24
7.	PROFIT/LOSS FROM REGULAR BUSINESS OPERATIONS (3.+4.3.-5.4.-6.)	-33		-271		821
8.	Extraordinary income	3		8		267
9.	Extraordinary expenses	0		5		n/a
10.	PROFIT/LOSS BEFORE TAXES	-30		-268		893
11.	TAXES	0		0		n/a
12.	NET PROFIT/LOSS	-30		-268		893

Annex 7

OVERVIEW OF DONATED FUNDS OF MCFs
as of 30.09.2014

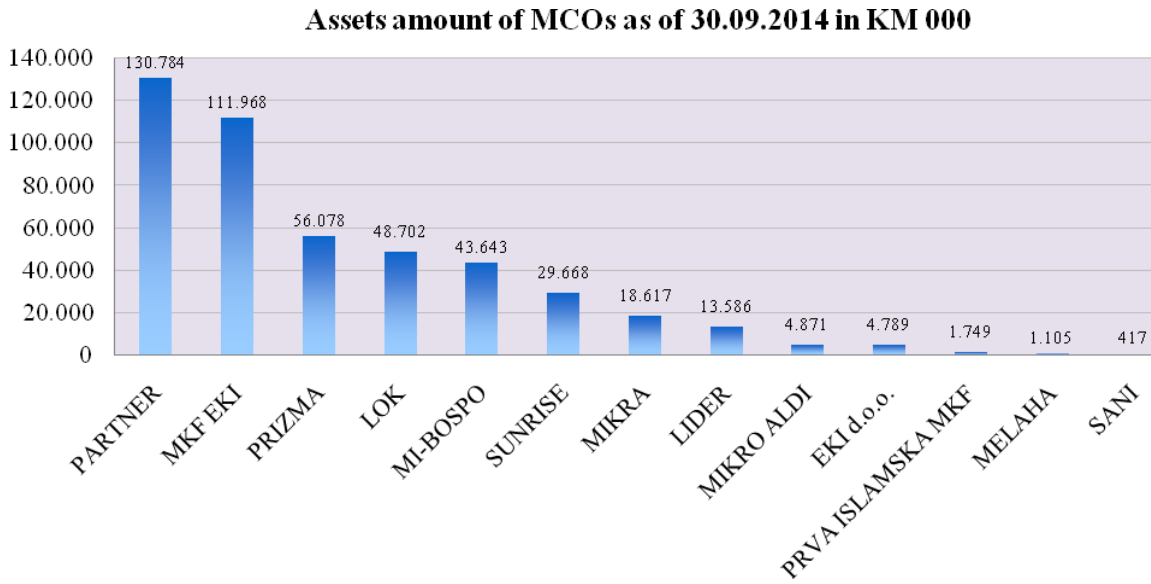
KM 00

No.	Donor	MKF EKI Sarajevo	MKF LIDER Sarajevo	LOK MKF Sarajevo	MKF MELAHA Sarajevo	MKF ML-BOSPO Tuzla	MKF MIKRA Sarajevo	MKF MIKRO ALDI Gorazde	PARTNER MKF Tuzla	MKF PRIZMA Sarajevo	PRVA ISLAMSK A MKF	MKF SUNRISE Sarajevo	TOTAL
Credit fund donations		6 326	5 891	4 639	0	3 354	4 070	804	7 167	7 490	3 497	1 942	45 180
1.	USAID	3 046		543					3 046	3 046			9 681
2.	CHF-(SIDA, MEDI, HILP)		5 891										5 891
3.	UNHCR			1 198		479		200	1 229	992		614	4 712
4.	LIP			1 479		947			675			1 214	4 315
5.	CRS						4 070						4 070
6.	Islamic Relief WW, Branch Office Sarajevo										3 497		3 497
7.	UNDP	1 932		153					59	672			2 816
8.	PRM/USA State Department			577						2 006			2 583
9.	UMCOR			637		377			317	774			2 105
10.	IRC					371			805				1 176
11.	SIDA Housing	1 080											1 080
12.	Women's World Banking					1 034							1 034
13.	Mercy Corps								697				697
14.	OXSfam							500					500
15.	ECE, Germany								339				339
16.	USDA Know-How Project	237											237
17.	Church World Service					146							146
18.	Other	31		52				104				114	301
Fixed assets donations		8	0	286	0	12	65	0	229	61	0	10	671
19.	Mercy Corps								229				229
20.	Nedžad Beglerović			102									102
21.	CRS						65						65
22.	ICMC									53			53
23.	Other	8		184		12				8		10	222
Operating expenses donations		974	874	2 810	500	1 344	0	0	1 817	3 088	54	709	12 170
24.	LIP			1 515					201			709	2 425
25.	PRM									2 047			2 047
26.	USAID					1 344			425				1 769
27.	UNHCR								176	840			1 016
28.	CHF		874										874
29.	Mercy Corps								771				771
30.	SIDA Housing	748											748
31.	PM			556									556
32.	BCT			519									519
33.	JKPHD La Benevolencija				500								500
34.	NBR			220									220
35.	CGAP								45	150			195
36.	EBRD	105							1				106
37.	IFC	104											104
38.	Other	17							198	51	54		320
TOTAL DONATED CAPITAL		7 308	6 765	7 735	500	4 710	4 135	804	9 213	10 639	3 551	2 661	58 021

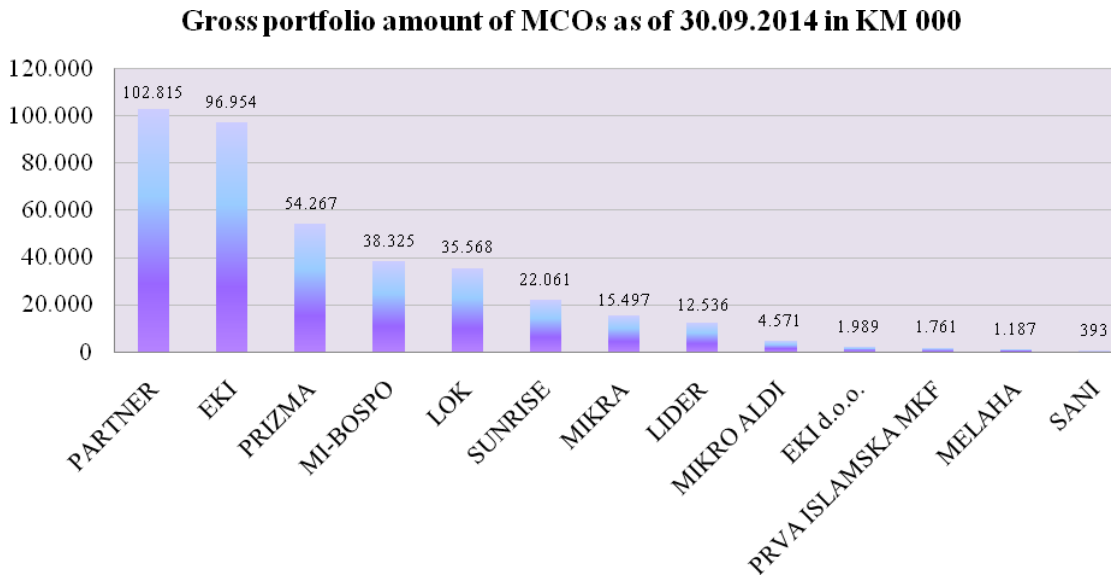
GRAPHS

Graph 1	Assets amount of MCOs as of 30.09.2014 in KM 000
Graph 2	Gross portfolio amount of MCOs as of 30.09.2014 in KM 000
Graph 3	Loan commitments amount of MCOs as of 30.09.2014 in KM 000
Graph 4	Capital amount of MCOs as of 30.09.2014 in KM 000
Graph 5	Donated capital amount (by reports) of MCOs as of 30.09.2014 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.- 30.09.2014 in KM 000
Graph 7	Number of employees of MCOs as of 30.09.2014
Graph 8	Number of organisational units of MCOs seated in the Federation of B&H as of 30.09.2014
Graph 9	Number of active loan accounts of MCOs with the balance as of 30.09.2014
Graph 10	Number of written-off loans of MCOs with the balance as of 30.09.2014
Graph 11	Loan amount in KM 000 written-off in the period 01.01.-30.09.2014
Graph 12	Collection amount by written-off loans in KM 000 in the period 01.01.- 30.09.2014
Graph 13	Total receivables amount by written-off loans of MCOs in KM 000 with balance as of 30.09.2014
Graph 14	Total receivables by written-off loans vs. gross portfolio of MCOs as of 30.09.2014
Graph 15	Risk portfolio over 30 days past due as of 30.09.2014
Graph 16	Fixed assets and capital vs. total assets as of 30.09.2014
Graph 17	Average monthly compensations to members of management/supervisory board of MCOs for the period 01.01.-30.09.2014
Graph 18	Average monthly salaries of senior management in MCOs for the period 01.01.- 30.09.2014
Graph 19	Average monthly salaries of loan officers of MCOs for the period 01.01.- 30.09.2014
Graph 20	Total microloans disbursed in Q3 2014 in 000 KM
Graph 21	Average weighted EIR on total loans as per MCO reports of in Q3 2014
Graph 22	Average weighted EIR on short-term loans as per MCO reports in Q3 2014
Graph 23	Average weighted EIR on long-term loans as per MCO reports in Q3 2014

Graph 1.

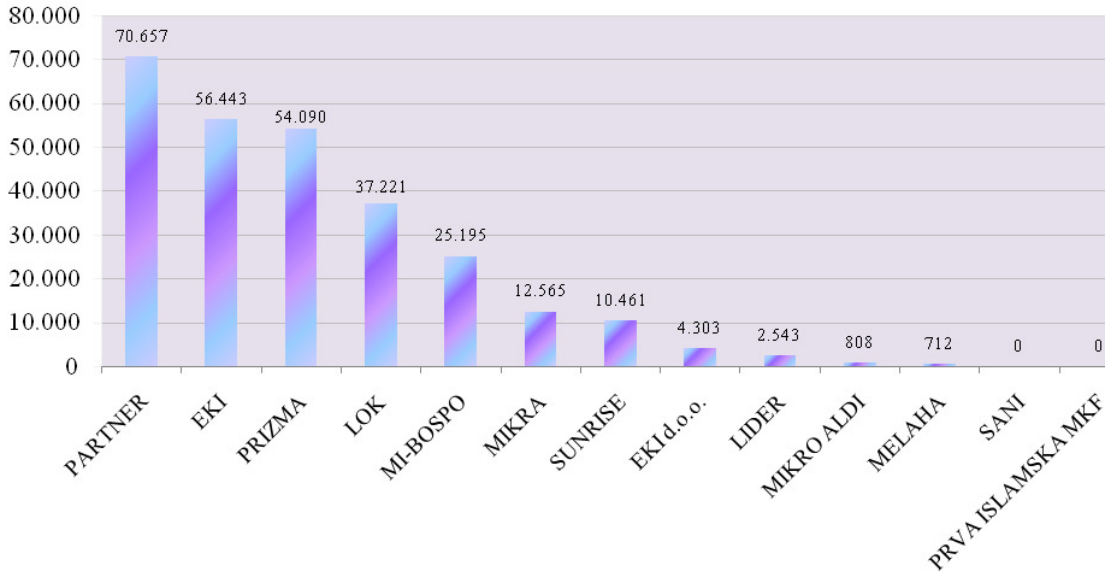


Graph 2



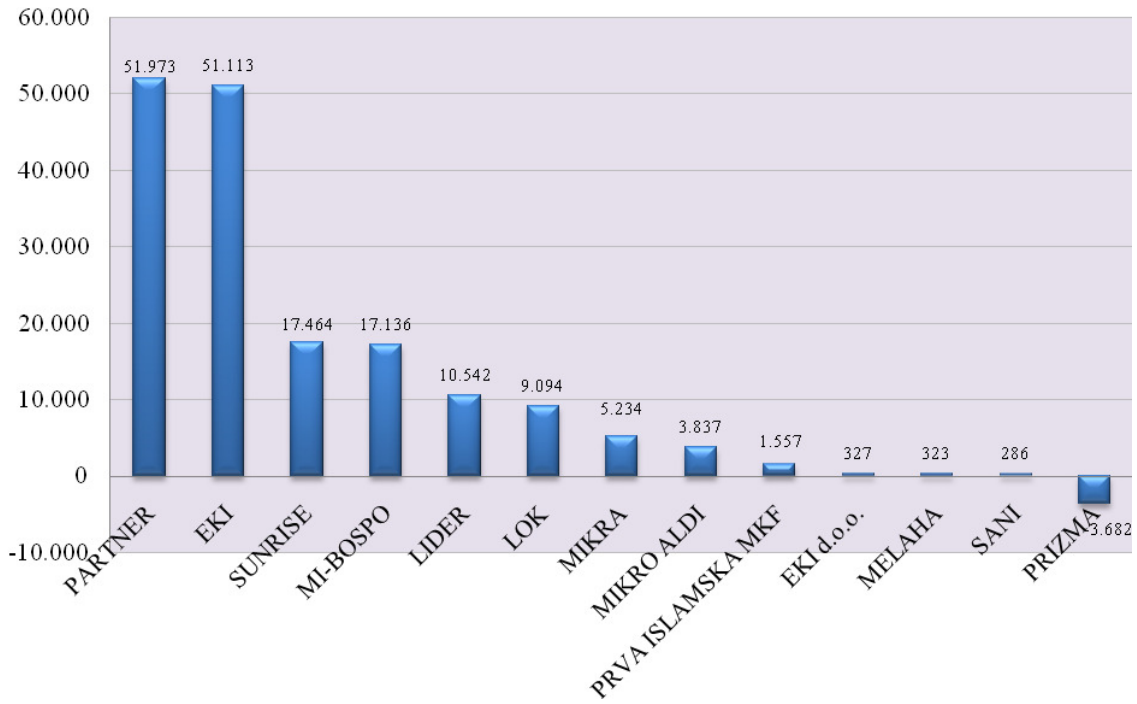
Graph 3

Loan commitments amount of MCOs as of 30.09.2014 in KM 000



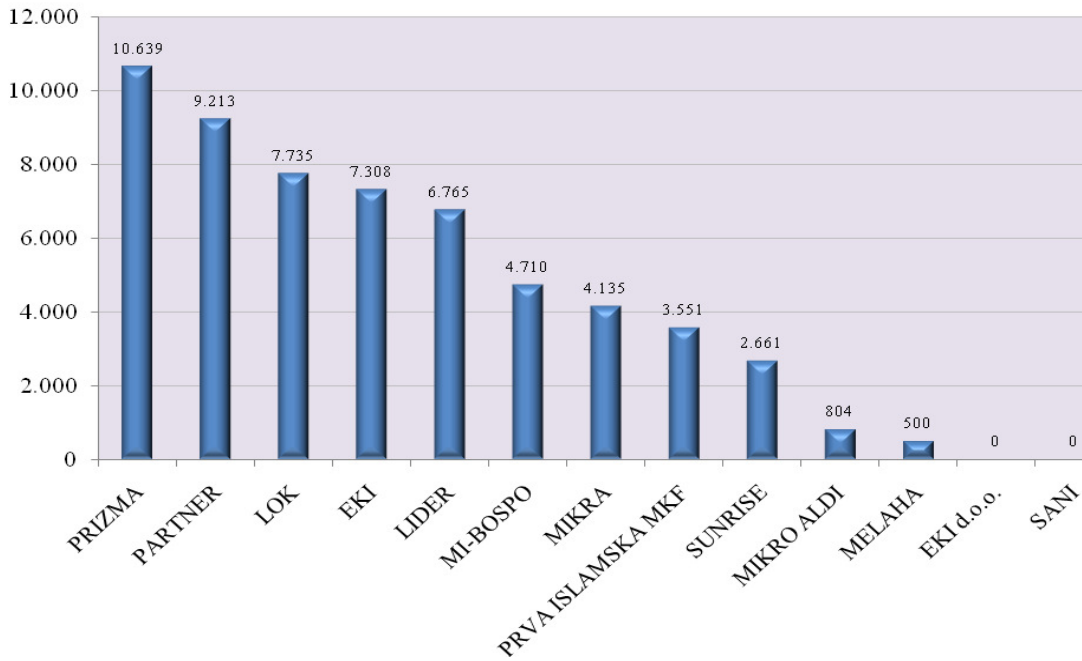
Graph 4

Capital amount of MCOs as of 30.09.2014 in KM 000



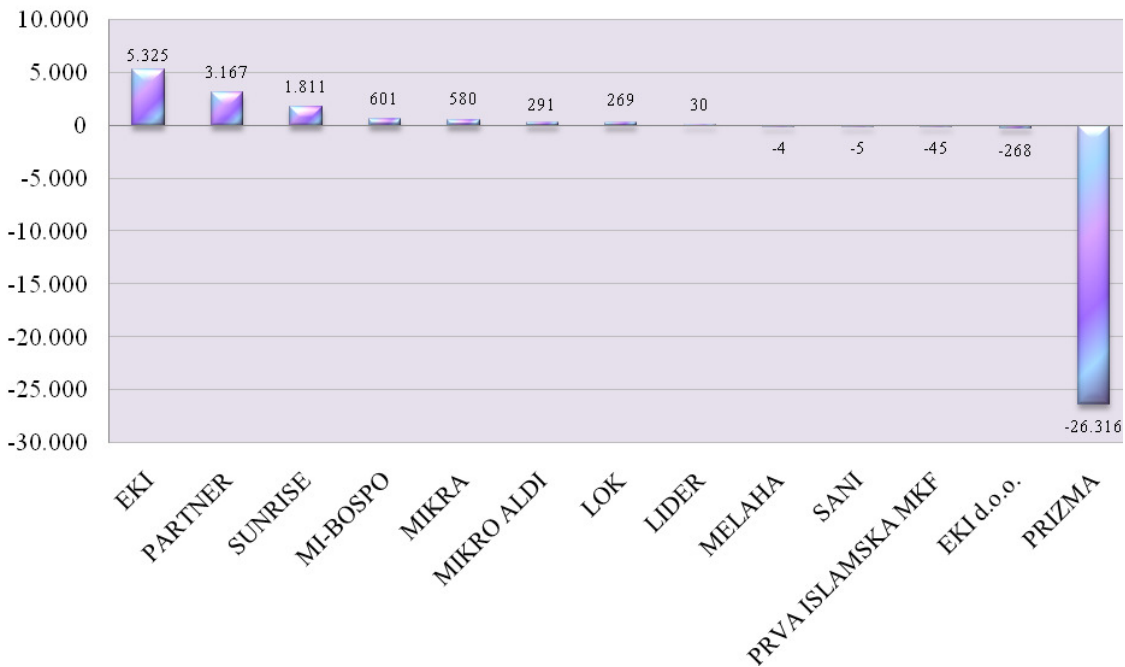
Graph 5

Donated capital amount (by reports) of MCOs as of 30.09.2014 in KM 000

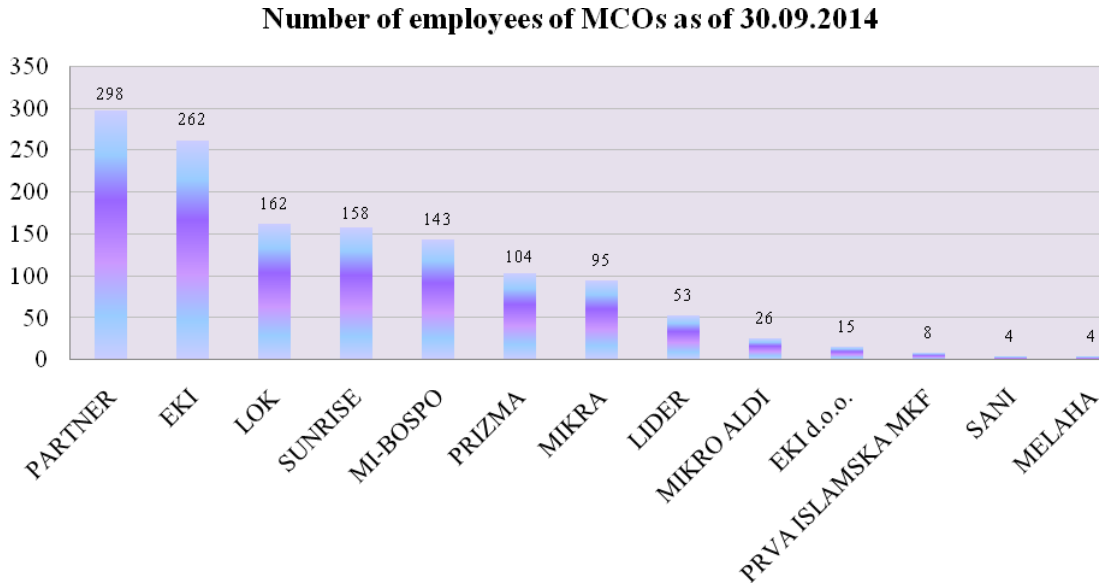


Graph 6

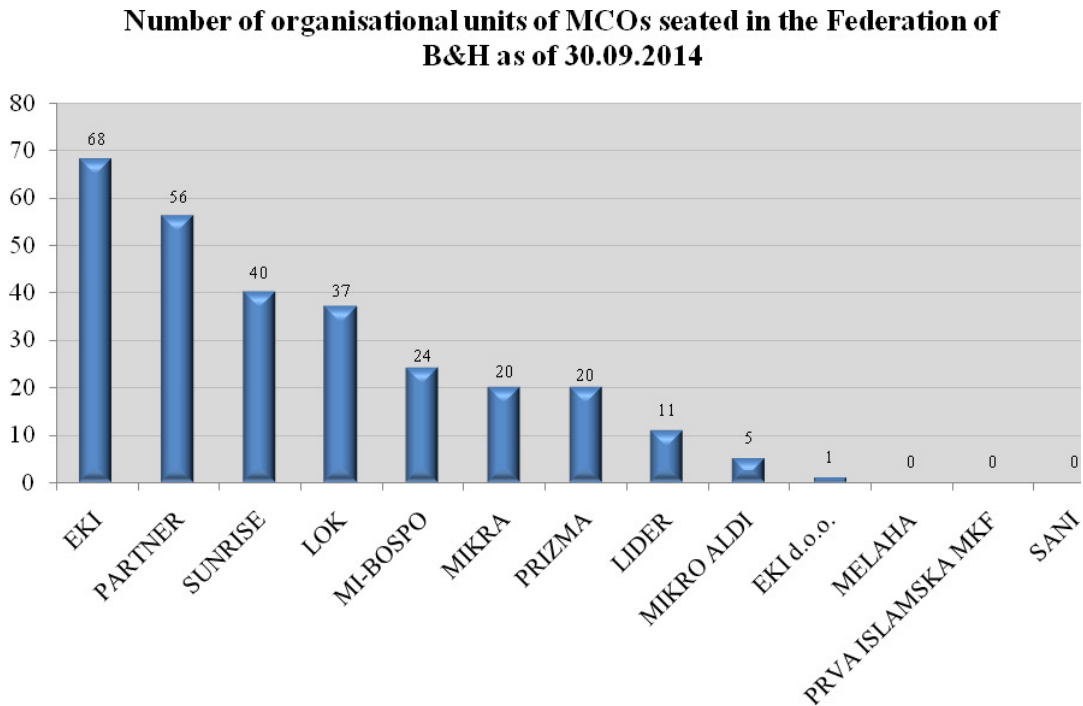
Surplus/deficit of income over expenses of MCFs, i.e. net profit/loss of MCCs for the period 01.01.- 30.09.2014 in KM 000



Graph 7

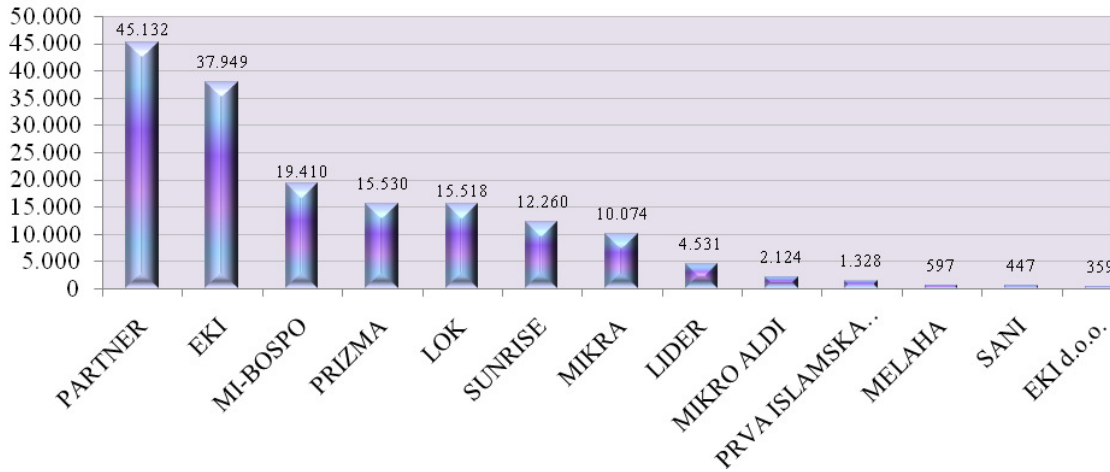


Graph 8



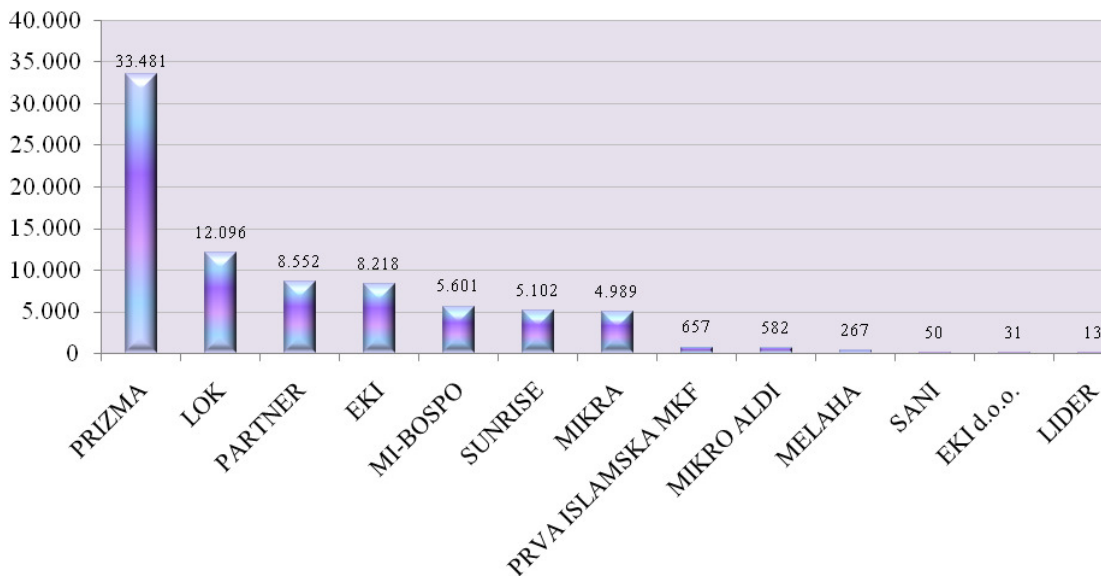
Graph 9

Number of active loan accounts of MCOs with the balance as of 30.09.2014

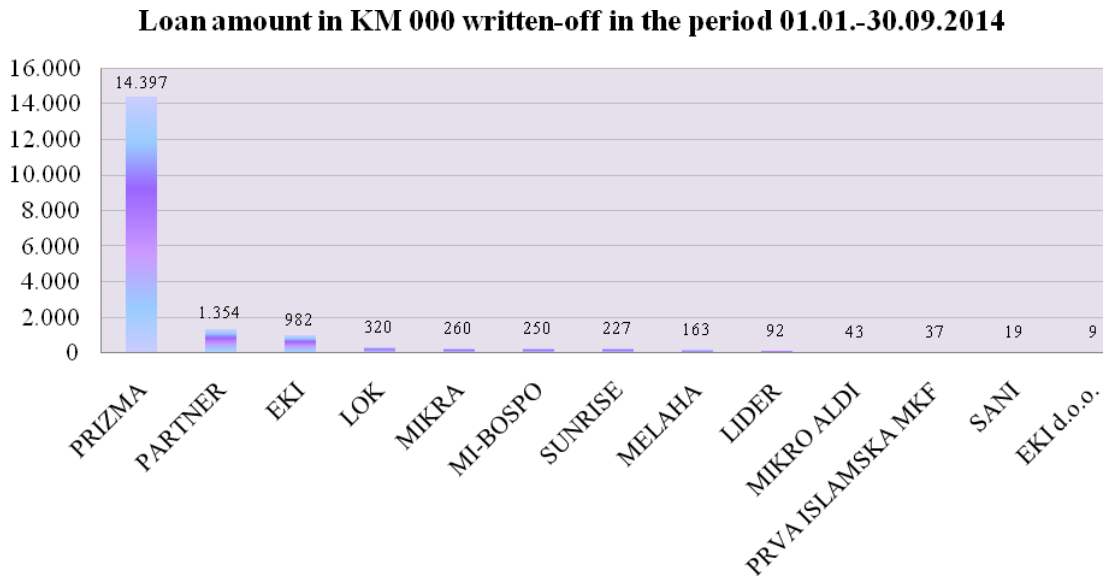


Graph 10

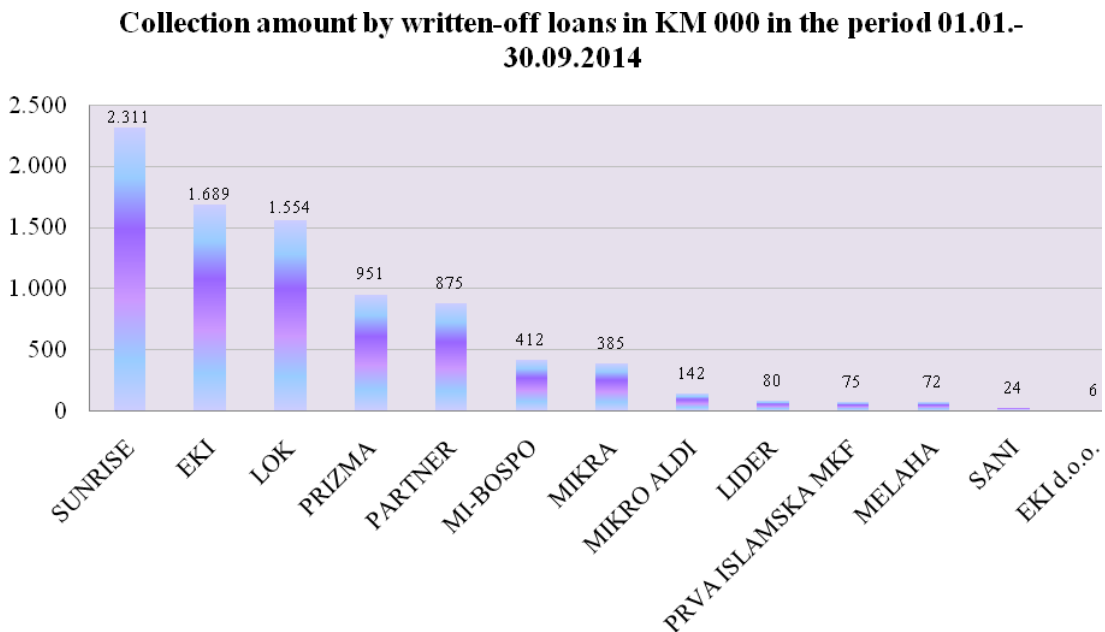
Number of written-off loans of MCOs with the balance as of 30.09.2014



Graph 11

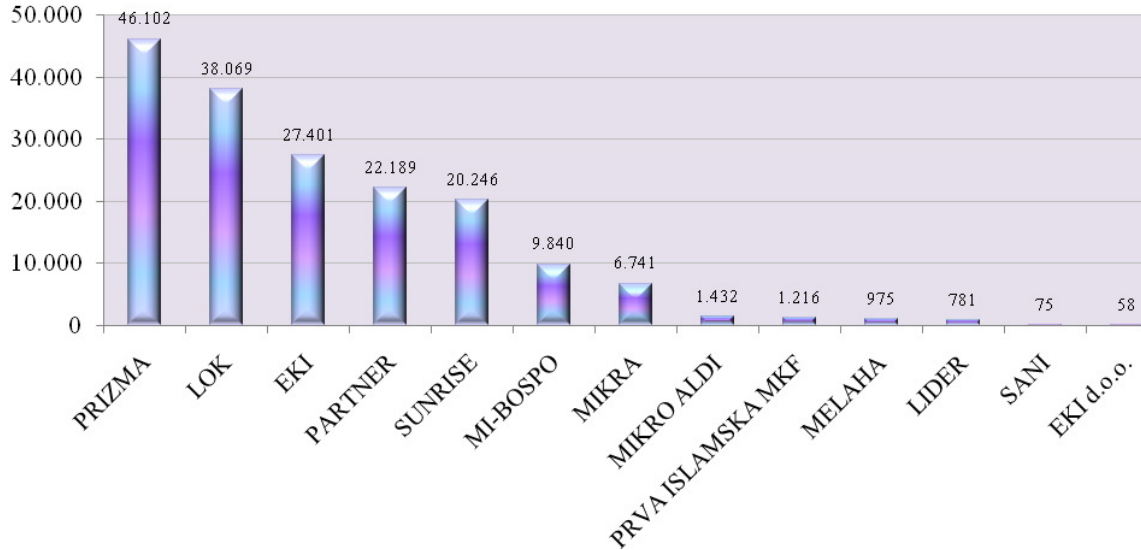


Graph 12



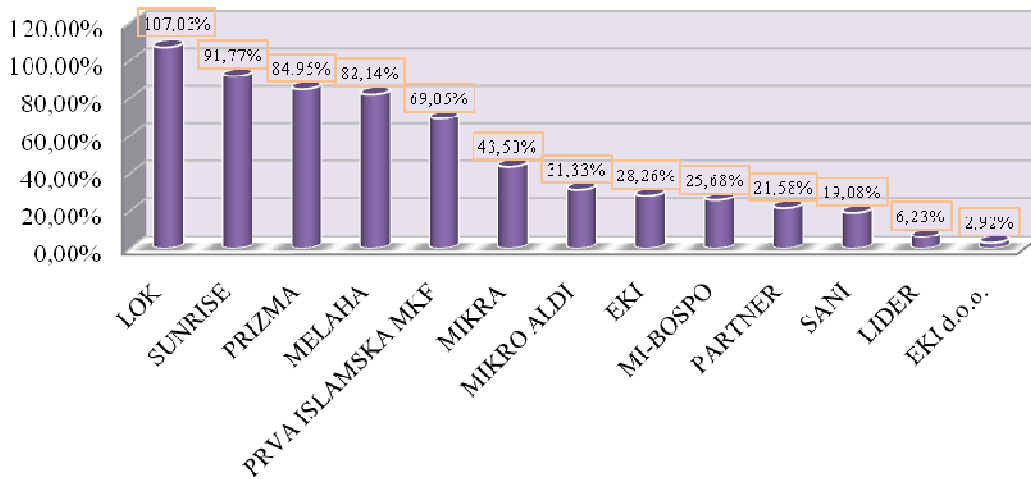
Graph 13

Total receivables amount by written-off loans of MCOs in KM 000 with balance as of 30.09.2014



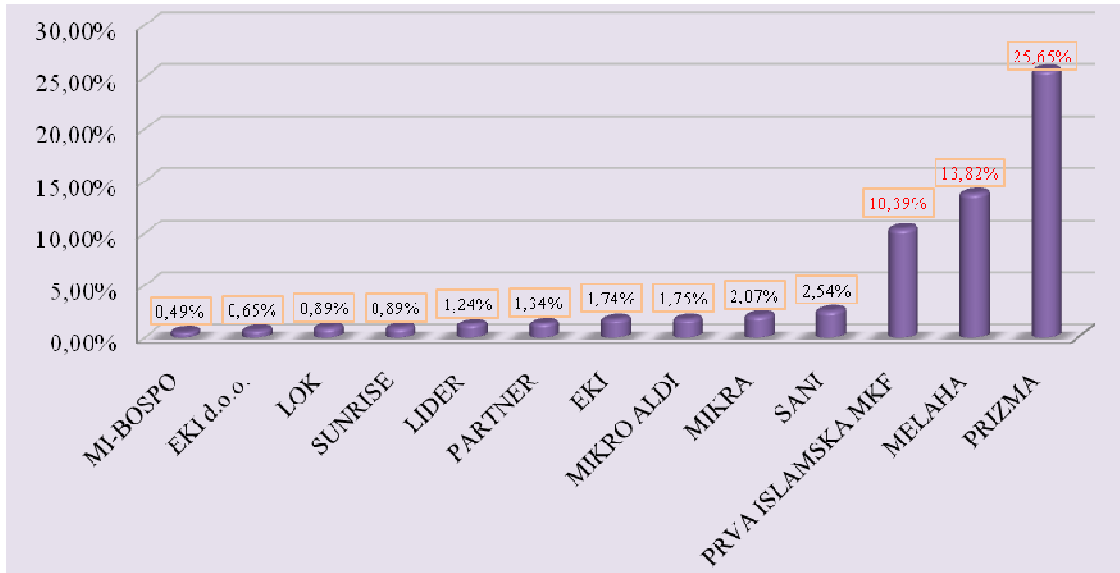
Graph 14

Total receivables by written-off loans vs. gross portfolio of MCOs as of 30.09.2014



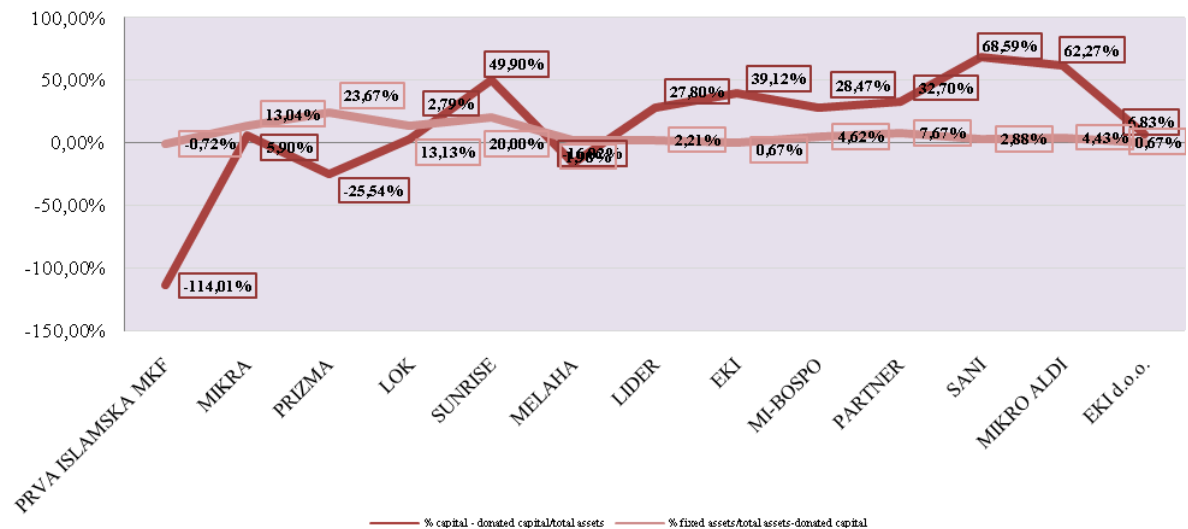
Graph 15

Risk portfolio over 30 days past due as of 30.09.2014



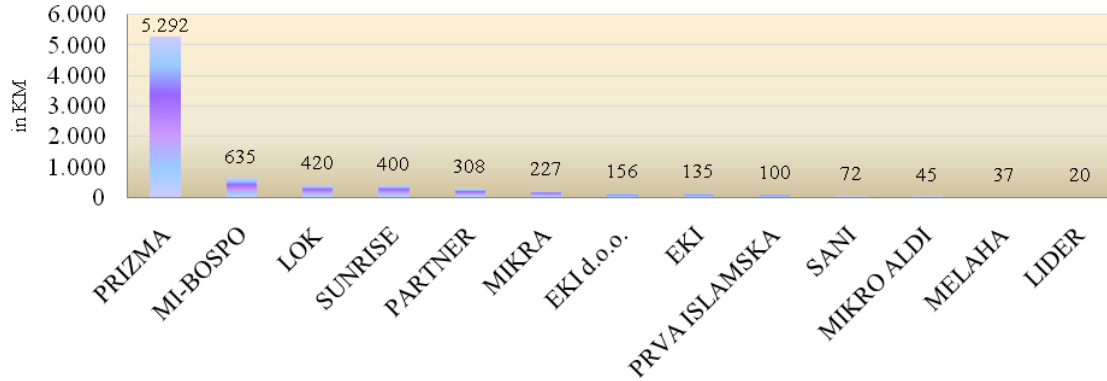
Graph 16

Fixed assets and capital vs. total assets as of 30.09.2014



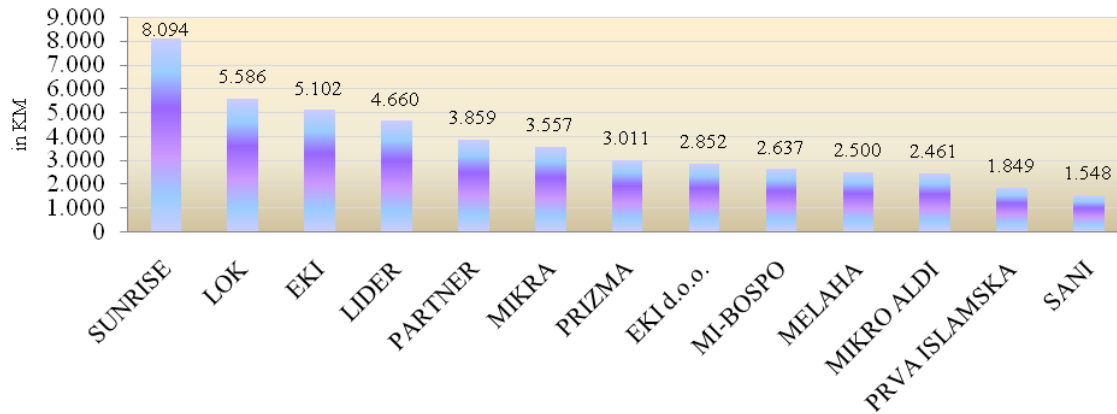
Graph 17

Average monthly compensations to members of management/supervisory board of MCOs for the period 01.01.-30.09.2014



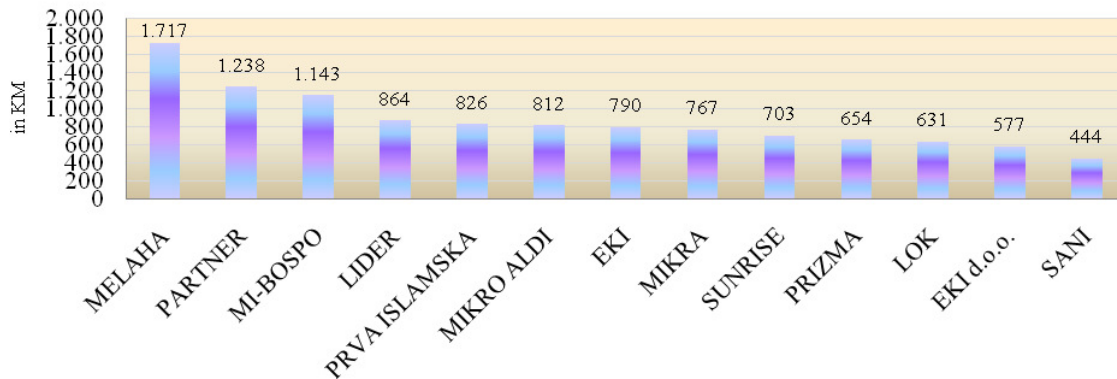
Graph 18

Average monthly salaries of senior management in MCOs for the period 01.01.-30.09.2014



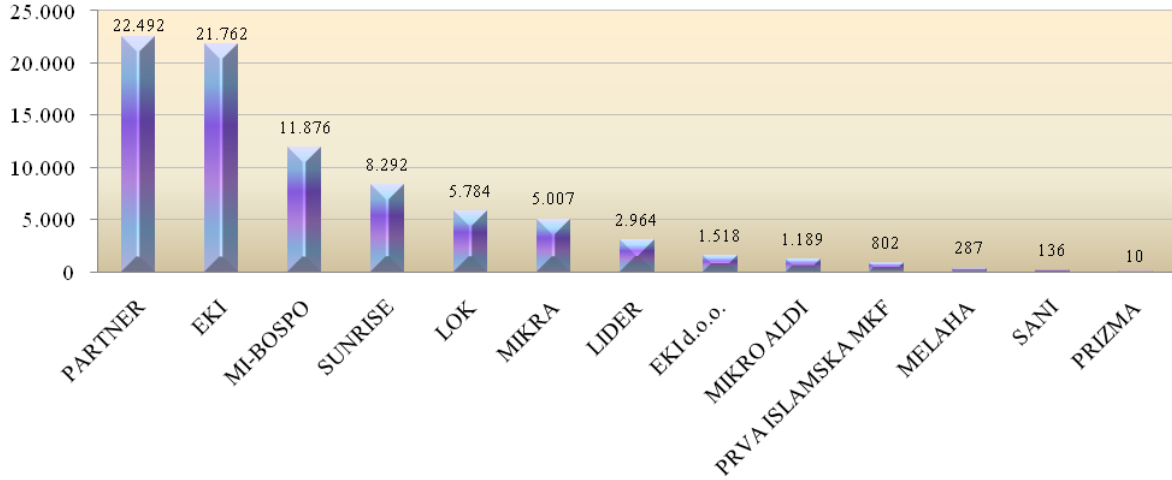
Graph 19

Average monthly salaries of loan officers of MCOs for the period 01.01.-30.09.2014



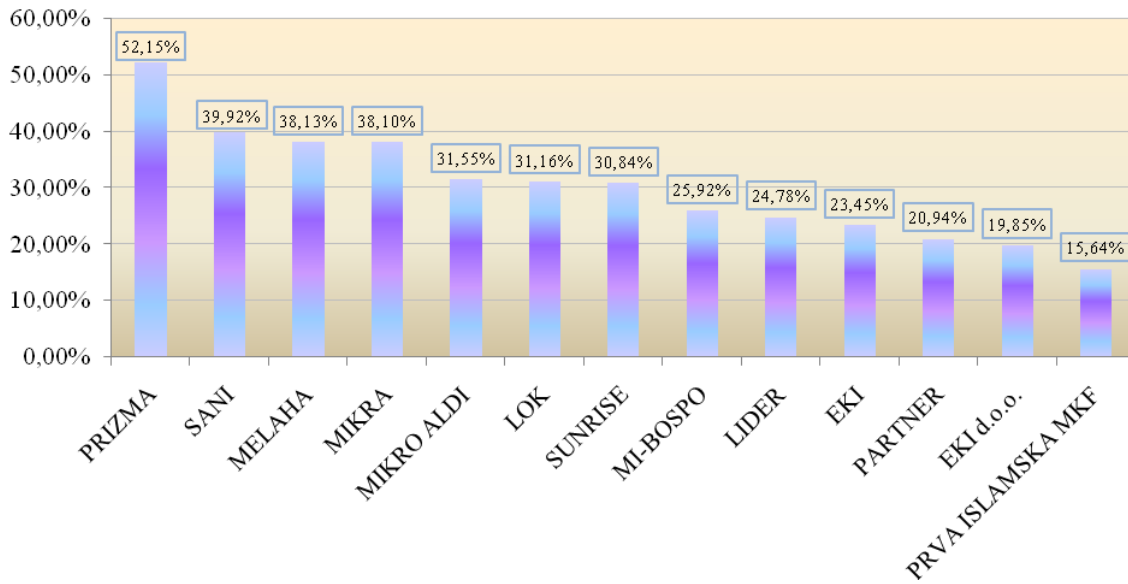
Graph 20

Total microloans disbursed in Q3 2014 in KM 000



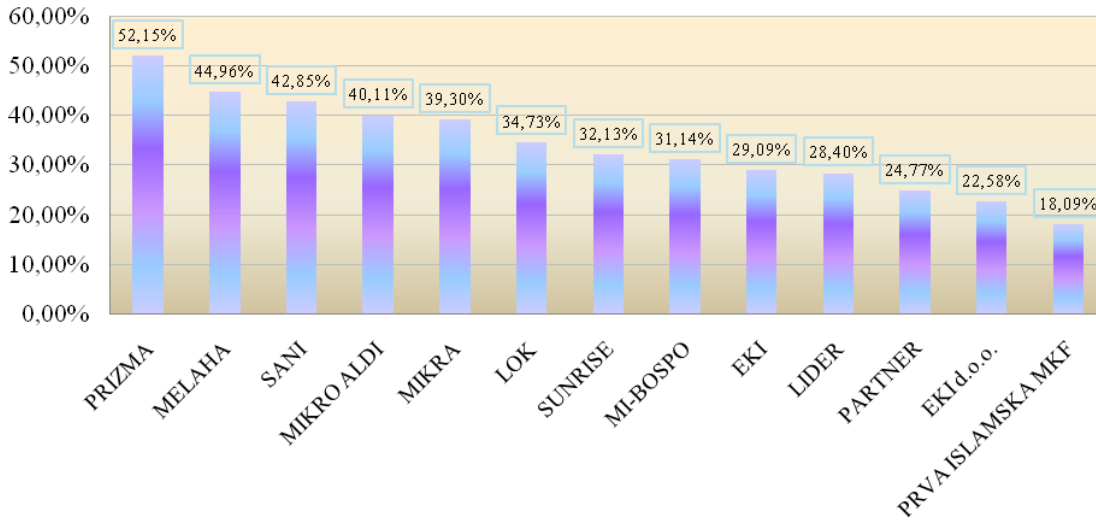
Graph 21

Average weighted EIR on total loans as per MCO reports of in Q3 2014



Graph 22

Average weighted EIR on short-term loans as per MCO reports in Q3 2014



Graph 23

Average weighted EIR on long-term loans as per MCO reports in Q3 2014

