



**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 31.03.2015**

Sarajevo, May 2015

The Banking Agency of the Federation of B&H (the Agency), as a regulatory institution conducting supervision of microcredit organizations, prepared the Information on the Microcredit System of the Federation of Bosnia and Herzegovina as of 31.03.2015 based on the analysis of monthly and quarterly reports on business operations, information and data submitted to the Agency by microcredit organisations (*off-site* supervision) and data obtained during on-site examinations (*on-site* supervision).

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I INTRODUCTION

The Law on Microcredit Organisations („Official Gazette of the Federation of B&H“, No. 59/06) (LoMCO) regulates the establishment, registration, activity, organisational form, business operations, management form, cessation and supervision of business operations of microcredit organisations (MCOs), microcredit foundations (MCFs) and microcredit companies (MCCs) in the Federation of B&H. The Agency's regulatory and supervisory competences regarding this Sector are stipulated by the Law on the Banking Agency of the Federation of Bosnia and Herzegovina („Official Gazette of the Federation of B&H“, No. 9/96, 27/98, 20/00, 45/00 58/02, 13/03, 19/03, 47/06 59/06, 48/08, 34/12 and 77/12) and the Agency's internal regulations, and all aforementioned operations are carried out within the Division for Supervision of Microcredit Organisations. The Agency conducts the supervision of MCOs directly (*on-site*) and indirectly, i.e. by analysing statements/reports submitted to the Agency by MCOs (*off-site*) in accordance with the Law on Microcredit Organisations and by-laws of the Agency listed in Annex 1 to this Information. The reporting basis are quarterly reports on the balance sheet, capital, loans, loan loss provisions, results of business operations, employees, costs of salaries and other benefits of MCO employees, write-offs, liquidity and other reports on individual business segments as well as a monthly interest rate report.

In the conducted examinations of microcredit organisations, it was determined that the majority operates in accordance with laws and by-laws as well as in accordance with the objectives due to which they were established. MCFs in the Federation of B&H, with the exception of one, have significantly improved their business practices and processes, as well as internal controls. Great efforts were made to improve the collection process of loans from off-balance records in the majority of MCOs, which influences the financial discipline of clients as well as the improvement of the business results of MCOs.

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

In the interest of the stability of the microcredit system, the Agency has taken a number of corrective actions toward the aforementioned MCF, however, at the proposal of the MCF at hand, the Agency's decisions were postponed by provisional court measures until the resolution of the administrative dispute, and the Agency's jurisdiction under the Law on Agency and the LoMCO were completely derogated in this case, as a result of which the Agency is prevented from acting in a manner that would effectively regulate the market and adequately protect the stability of the microcredit system in the Federation of B&H. At the request of the creditors, on 16.03.2015, the Municipal Court in Sarajevo initiated proceedings to determine the conditions for initiating bankruptcy proceedings against the Foundation and appointed an interim bankruptcy administrator.

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.

As of 31.03.2015, 13 MCOs, 12 of which are MCFs (non-profit organisations) and 1 of which is an MCC (profit organisation), had the Agency's licence for business operations in the Federation of B&H. They operated through 282 organisational units. As of 31.03.2015, the total headcount of the microcredit sector was 1 265, which is 43 employees or 3% fewer compared to 31.12.2014. This drop in the headcount was mostly influenced by the layoff of 46 employees at one MCO. Without the data of this MCO, the microcredit sector would have recorded a slight increase in the headcount during the reporting period.

As of 31.03.2015, the balance sheet total of MCOs amounted to KM 431.3 million, KM 422.2 million or 97.9% of which relate to MCFs and KM 9.1 million or 2.1% to the MCC. The balance sheet total at the end of the first quarter of 2015 was lower by KM 21 million or 5% compared to the balance as of 31.12.2014. In the first three months of 2015, one MCF reduced its assets by even KM 14.5 million, and thus recorded a drop of even 41% compared to the end of the previous year, which significantly influenced the drop in assets at sector level.

As of 31.03.2015, total MCO gross loans, as the most significant item of MCO assets, amounted to KM 371.2 million and make up 86% of total assets of MCOs, and are therefore lower by 3% compared to the balance as at the end of the previous year, while net loans amounted to KM 343.1 million and are lower by 3% compared to the balance as of 31.12.2014. Microlending is largely directed toward agriculture (34%) and service activities (22%) and is mostly related to long-term loans to natural persons. Average weighted effective interest rates on total loans in the microcredit sector amounted to 25.10%, and thus saw a significant compared to the end of the previous year. In order to reduce interest rates on microloans in the context of protecting consumers-clients of microcredit organisations, and fulfilling the mission of microlending, during examinations, the Agency particularly values and controls all types of operating costs of MCOs that have a significant impact on the setting of interest rates and assesses their necessity, pursuant to which it issues appropriate orders. The focus of the Agency's examinations in the period to come will be to control MCO costs, their justification and effectiveness, with the aim of reducing interest rates on microloans placed by MCOs in the Federation of B&H.

Compared to the end of the previous year, as of 31.03.2015, the microcredit portfolio saw a drop of 3%, caused by the decrease in the portfolio in one MCF, which reduced the aforementioned by KM 12.6 million or 27% and showed a deterioration of certain quality indicators of the active loan portfolio by increasing the loan loss provisions rate from 6.86%, which is what it amounted to as of 31.12.2014, to 7.57%. However, the risk portfolio exceeding 30 days past due recorded a slight improvement and decreased from 8.39%, which is what it amounted at the end of the previous year, to 8.16%. The total sector result with respect to the risk portfolio is significantly outside the framework of the prescribed standard.

Although 10 out of 13 MCOs operate within the prescribed limit, one MCF significantly violates the standard with 76.96%, which affects the total sector result in terms of the risk portfolio, which must be below 5%. The risk portfolio exceeding more than one day past due recorded a slight improvement and decreased from 11%, which is what it amounted to at the end of the previous year, to 9.96%. At sector level, the percentage of write-offs amounted to 13.70% as of 31.03.2015 (the prescribed limit is up to 3%) and this indicator was higher by 8.64 percentage points compared to the end of the previous year. Although 11 out of 13 MCOs operate within the prescribed limit, one MCF significantly violates the standard with 119.60%, which affects the total sector result in terms of write-off percentage, which must be below 3%. The extraordinarily poor result of the business operations of one MCF had the key impact on the poor 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 71.52% as of 31.03.2015 and recorded an increase of even 22.97 percentage points compared to 31.12.2014, when it amounted to 48.55%. Furthermore, the risk portfolio for more than 30 days past due amounted to 76.96% (the prescribed limit is up to 5%) and saw a significant deterioration of even 16.39 percentage points compared to the reporting period, when it amounted to 60.57%. In the same way, the write-off percentage was 119.60% as of 31.03.2015 (the prescribed limit is up to 3%) and also recorded an increase of 94.22 percentage points compared to 31.12.2014, when it amounted to 25.38%.

It can be concluded from the aforementioned that this MCF continuously and on multiple occasions violates the standards and prescribed limits and destabilises the microcredit sector of the Federation of B&H, which would, without the participation of the aforementioned in the MCO system, record a significant improvement in the prescribed standards for the loan portfolio and the active loan portfolio quality indicators of the microcredit sector would thus be as follows: risk portfolio exceeding 30 days past due 1.35% (the prescribed limit is up to 5%), write-off percentage 1.18% (the prescribed limit is up to 3%), and loan loss provisions rate 1.23%.

The main source of funding of MCOs are loan commitments, which amounted to KM 254.7 million or 59% of total MCO liabilities as of 31.03.2015 and are down by 4% compared to the balance as of 31.12.2014. Total MCO capital as of 31.03.2016 amounted to KM 149.7 million or 35% of total MCO liabilities, which is lower by KM 11.4 million or 7% compared to the end of the previous year, with the capital of MCFs amounting to KM 147.2 million or 98.3% and the capital of one MCC amounting to KM 2.5 million or 1.7%. The capital drop of the microcredit sector was primarily influenced by the capital drop in one MCF, which reduced the aforementioned by KM 14.4 million. Without the data of this MCF, the microcredit sector would record an increase in capital in the amount of KM 3 million compared to the end of the previous year.

In the period from 01.01. to 31.03.2015, out of a total of 12 MCFs, 8 MCFs had excess income over expenses in the total amount of KM 2 998 thousand, while 4 MCFs recorded less income over expenses in the total amount of KM 14 384 thousand. Out of the 4 MCFs that recorded less income over expenses in the amount of KM 14 384 thousand in the period from 01.01. to 31.03.2015, one MCF generated a loss in the amount of KM 14 358 thousand in this period, i.e. 99.8% of the total loss generated by MCFs, while the other three MCFs account for only KM 26 thousand of the recorded deficit of income over expenses, i.e. 0.2%. In the period from 01.01. to 31.03.2015, one MCC recorded a net profit in the amount of KM 10 thousand (01.01. to 31.03.2014: KM 46 thousand net loss).

At the level of the microcredit sector in the Federation of B&H, a negative financial result in the amount of KM 11 376 thousand was recorded, which is down by KM 8 282 thousand

compared to the same period of the previous year and which is a consequence of the negative result of one MCF in the amount of approximately KM 14 million.

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 respect to operational sustainability, out of 13 MCOs, 5 MCFs and 1 MCC can cover expenses with regular income.

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 regarding the accuracy of the reports submitted on 31.03.2015. 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. However, a temporary court measure postponed the Agency's Decision to revoke the licence until the completion of the administrative dispute. Even after the postponement of the Decision at the MCF's request, the aforementioned saw a significant deterioration in business operations and significantly threatens the microcredit system in the Federation of B&H with its results. At the request of the creditors, on 16.03.2015, the Municipal Court in Sarajevo initiated proceedings to determine the conditions for initiating bankruptcy proceedings against the Foundation and appointed an interim bankruptcy administrator.

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

1. MICROCREDIT SECTOR STRUCTURE

1.1. Number of Microcredit Organisations

As of 31.03.2015, 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 31.03.2015.

1.2. Organisational Units

As of 31.03.2015, 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 185 organisational units of microcredit organisations are seated in the Federation of B&H, 94 in Republika Srpska and 3 in Brčko District. The total number of organisational units of MCOs seated in the Federation of B&H has remained the same as at the end of the previous year. A total of 151 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.

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.

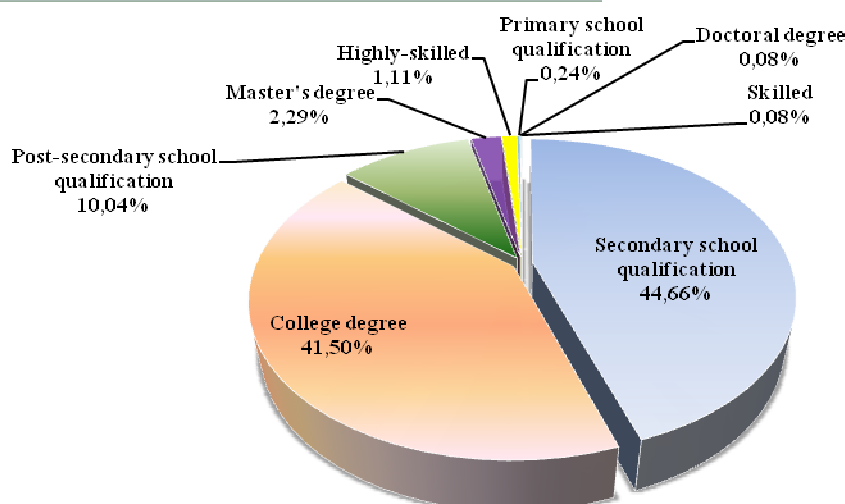
1.3. Human Resources

As of 31.03.2015, the total headcount of the microcredit sector was 1 265, which is lower by 43 employees or 3% compared to 31.12.2014. This drop in the number of employees at sector level was mostly influenced by the layoff of 46 employees or 53% in one MCO. MCFs employ 1 245 employees or 98.4% and the MCC 20 employees or 1.6%.

No.	Qualification	31.12.2014		Total	Share (%)	31.03.2015		Total	Share (%)	Index
		MCF	MCC			MCF	MCC			
1	2	3	4	5=(3+4)	6	7	8	9=(7+8)	10	11=9/5
1.	PSQ	3	0	3	0.23	3	0	3	0.24	100
2.	S	1	0	1	0.08	1	0	1	0.08	100
3.	HS	13	0	13	0.99	14	0	14	1.11	108
4.	SSQ	600	6	606	46.33	557	8	565	44.66	93
5.	PSSQ	128	2	130	9.94	125	2	127	10.04	98
6.	CD	518	9	527	40.29	516	9	525	41.50	100
7.	MR	26	1	27	2.06	28	1	29	2.29	107
8.	DR	1	0	1	0.08	1	0	1	0.08	100
TOTAL		1 290	18	1 308	100.00	1 245	20	1 265	100.00	97

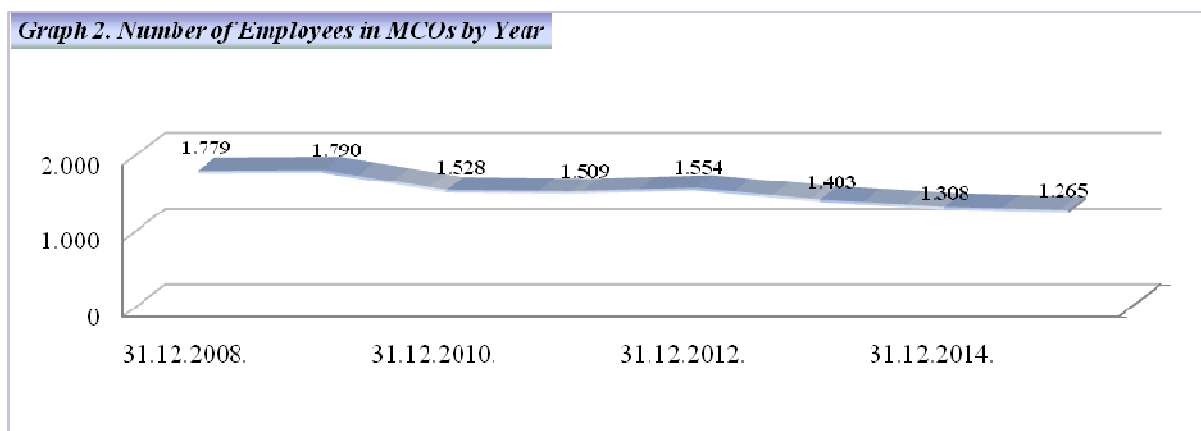
The employees structure is dominated by secondary school qualification with 44.66%, university degrees with 41.50% and two-year post-secondary qualification with 10.04%. The percentage of employees with secondary school qualification is dropping by 7%, with two-year post-secondary qualification by 2%, while the share percentage of employees with Master's degrees is increasing by 7%

Graph 1. Qualification Structure of Employees in MCOs



An overview of the number of MCO employees throughout the years reveals that the biggest number of employees was recorded at the end of 2009, when the total headcount of MCOs was 1 790. As of 31.03.2015, MCOs had 1 265 employees, down by 29% 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 82% and 50%, respectively.

Graph 2. Number of Employees in MCOs by Year



2. FINANCIAL INDICATORS OF MCO BUSINESS OPERATIONS

2.1. Balance Sheet

As of 31.03.2014, the balance sheet volume of MCOs amounts to KM 431.3 million, which is lower by KM 21 million or 5% compared to the balance as of 31.12.2014. The balance sheet volume increased with 4 MCFs and one MCC compared to the end of the previous year, while 6 MCFs recorded a drop and 2 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 5 MCFs compared to 31.12.2014. In the first three months of 2015, one MCF reduced its assets by even KM 14.5

million and recorded a drop of even 41% compared to the end of the previous year, which significantly affected the drop in assets at sector level.

Six MCFs with assets in the amount of KM 379.6 million or 88% have the largest share in total MCO balance.

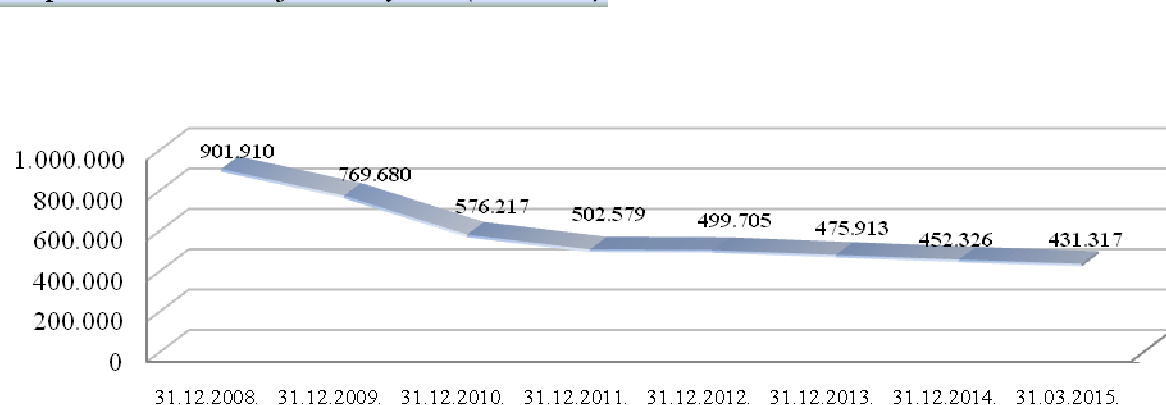
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Table 2. Balance Sheet MCOs

DESCRIPTION	31.12.2014			31.03.2015					Index
	Balance for MCFs	Balance for MCCs	TOTAL	Balance for MCFs	%	Balance for MCCs	%	TOTAL	
1	2	4	6=(2+4)	7	8	9	10	11=(7+9)	12
ASSETS									
1. Cash	36 912	2 001	38 913	28 846	7	954	11	29 800	77
2. Facilities to banks	3 523	0	3 523	3 533	1	0	0	3 533	100
3. Loans	376 275	5 031	381 306	363 198		8 045		371 243	97
4. Loan loss provisions	26 140	11	26 151	28 087		19		28 106	107
5. Net loans	350 135	5 020	355 155	335 111	79	8 026	88	343 137	97
6. Business premises and other fixed assets	39 373	29	39 402	39 126	9	26	0	39 152	99
7. Long-term investments	3 061	0	3 061	3 061	1	0	0	3 061	100
8. Other assets	13 820	71	13 891	14 122	3	94	1	14 216	102
9. Provisions for other assets items, except loans	1 618	1	1 619	1 581		1		1 582	98
TOTAL ASSETS	445 206	7 120	452 326	422 218	100	9 099	100	431 317	95
LIABILITIES									
10. Loan commitments	260 474	4 303	264 777	248 431	59	6 259	69	254 690	96
11. Other liabilities	26 134	309	26 443	26 618	6	322	3	26 940	102
12. Capital	158 598	2 508	161 106	147 169	35	2 518	28	149 687	93
TOTAL LIABILITIES	445 206	7 120	452 326	422 218	100	9 099	100	431 317	95
Off-balance records	182 483	56	182 539	197 230		49		197 279	108

An overview of the balance sheet total of MCOs throughout the years reveals that the largest amount of the aforementioned was recorded at the end of 2008, when it amounted to KM 901.9 million. The balance sheet total of MCOs as of 31.03.2015 amounted to KM 431.3 million and it is lower by even 52% compared to the end of 2008. A comparison of these two periods in the case of individual MCOs shows that two MCFs recorded the largest drop in the balance sheet total, with even 74% and 71%, respectively.

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

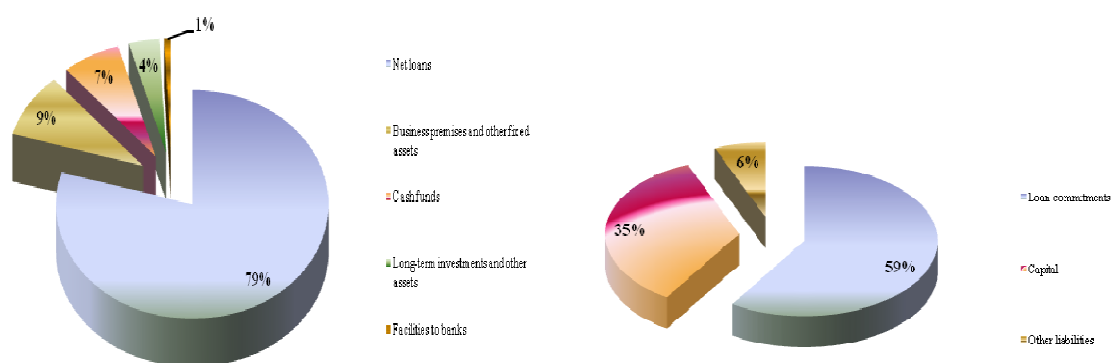


In the assets structure of MCOs, cash funds amount to KM 29.8 million or 7% with a rate of decrease of even 23% compared to 31.12.2014 and largely related to cash funds of MCFs. Facilities to banks amount to KM 3.5 million or 1%, and are the same compared to the end of the previous year.

Net loans, i.e. gross loans net of loan loss provisions amount to KM 343.1 million or 79% of total assets and are lower by KM 12 million or 3% compared to 31.12.2014. Net loan growth compared to the end of the previous year was recorded by 4 MCFs and 1 MCC, a drop was recorded by 6 MCFs, while 2 MCFs maintained approximately the same level of net loans compared to the end of the previous year. Compared to 31.12.2014, a net loan drop of up to 10% was recorded by 4 MCFs and a drop of up to 20% was recorded by 1 MCF. In the first three months of 2015, one MCF reduced net loans by even KM 14.2 million and recorded a net loan drop of even 60% 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 39.2 million or 9% of total assets and this balance sheet item is lower by KM 0.3 million or 1% compared to the end of the previous year. The fixed assets percentage compared to total assets (net of donated capital) is 10.73%, at sector level, which is above the allowed amount (up to 10%). Individually, four MCFs violate this standard. Only one MCF recorded long-term investments in the amount of KM 3.1 million, while other assets (net of provisions for other assets items except loans) amount to KM 12.6 million, which include calculated interest, advances, accrued and deferred items, etc. These two balance sheet items make up 4% of total assets of the microcredit sector. Other assets percentage at sector level compared to total assets is 3.30% and individually, this item is above 10% in the case of two MCFs.

Graph 4. Assets and Liabilities Structure of MCOs



Loan commitments in the MCO liabilities structure are the main source of funding, amounting to KM 254.7 million or 59% of total liabilities and being down by 4% compared to 31.12.2014.

- KM 000 -

Table 3. Maturity Structure of Taken Loans

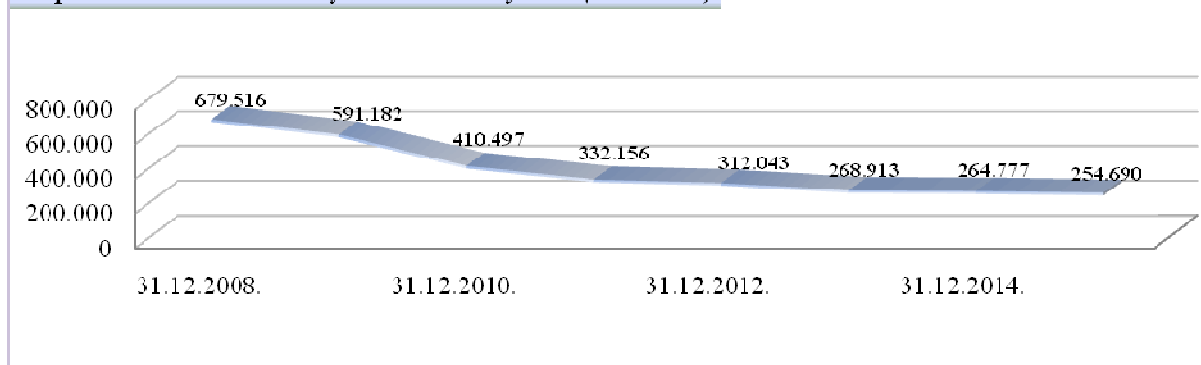
DESCRIPTION	31.12.2014				31.03.2015				Index
	MCFs	MCCs	TOTAL	%	MCFs	MCCs	TOTAL	%	
1	2	3	4=(2+3)	5	6	7	8=(6+7)	9	10=8/4
1. Liabilities on short-term loans	78 848	217	79 065	30	82 110	435	82 545	32	104
2. Liabilities on long-term loans	181 626	4 086	185 712	70	166 321	5 824	172 145	68	93
TOTAL	260 474	4 303	264 777	100	248 431	6 259	254 690	100	96

Out of total loan commitments, long-term loans (of which there is no record in the case of 2 MCFs) amount to KM 172.1 million or 68% and are lower by 7% compared to the end of the previous year. Out of total loan commitments, short-term loans (of which there is no record in the case of 4 MCFs) amount to KM 82.6 million or 32% and have a 4% growth rate compared to the end of the previous year. As of 31.03.2015, two MCFs did not have loan commitments.

Given that creditors, both local commercial banks and various international socially-oriented commercial funds, are generally very cautious and abstain from lending a large number of MCOs, many MCOs are deprived of funds with which they would finance its microcredit activity and generate sufficient income from regular operations to cover their expenses. Additionally, the mistrust of creditors that claimed over KM 50 million from one MCF, which has suffered substantial losses and is fully illiquid and insolvent due to the poor quality of its loan portfolio and poor management of the maturity of assets and liabilities, is one of the major risks for the development and growth of the sector. Since the beginning of the second quarter of 2014, the aforementioned MCF's accounts with commercial banks have been frozen for failing to meet obligations to creditors. On the day the Information was drafted, in the Transaction Account Register of the Central Bank of B&H, one MCF had tens of frozen accounts, which implies continuous illiquidity.

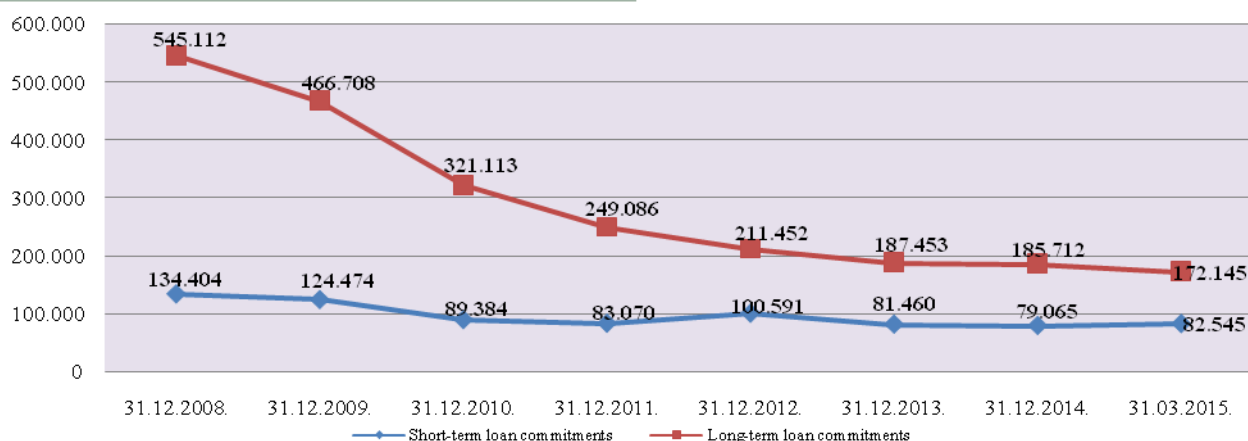
Looking at the total liabilities amount of MCOs by taken loans throughout the years of MCO operations, the biggest amount was recorded at the end of 2008 when they amounted to KM 679.5 million. Total liabilities of MCOs by taken loans as of 31.03.2015 amounted to KM 254.7 million, and are lower by even 63% compared to the end of 2008. A comparison of these two periods in the case of individual MCOs shows that two MCFs recorded the biggest drop in total liabilities by taken loans by even 86% and 79%, respectively.

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



In addition to the fact that loan commitments are lower by 63% compared to 2008 and lower by 4% compared to the end of the previous year, looking at the liabilities on taken loans by maturity, long-term loans have dropped by even 68% compared to 2008 and by 7% compared to the end of 2014, while short-term loans are lower by 39% compared to 2008, but have recorded an increase of 4% compared to the end of 2014.

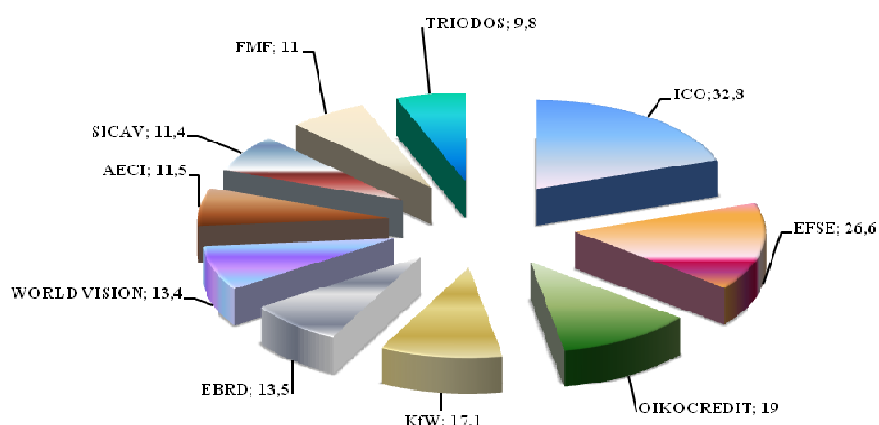
Graph 6. Short-term and Long-term Loan Commitments



The ten most significant creditors of MCOs with 65% of total loan commitments owed to them are:

- 1.) ICO – Instituto de Credito Oficial, Spain (KM 32.8 million);
- 2.) EFSE – European Fund for Southeast Europe, Luxembourg (KM 26.6 million);
- 3.) Oikokredit, Netherlands (KM 19 million);
- 4.) KfW – Kreditanstalt fur Wiederaufbau, Germany (KM 17.1 million);
- 5.) EBRD – European Bank for Reconstruction and Development, Great Britain (KM 13.5 million)
- 6.) World Vision International, USA (KM 13.4 million);
- 7.) AECI – Spanish Agency for International Development Cooperation (KM 11.5 million)
- 8.) Responsibility SICAV, Switzerland (KM 11.4 million);
- 9.) Federal Ministry of Finance, Federation of B&H (KM 11 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 26.9 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 9.57%, and individually, a total of 7 MCFs recorded more than 10% of other liabilities compared to total liabilities.

Off-balance records as of 31.03.2015 amount to KM 197.3 million, which includes write-offs (KM 197 million) and barter deals (KM 0.3 million in the case of two MCFs), and are up by 8% compared to the balance as of 31.12.2014, which is the result of a significant increase in off-balance records with one MCF in the amount of KM 16.1 million or 30%.

2.2. Capital

The total capital of MCOs as of 31.03.2015 amounts to KM 149.7 million or 35% of total liabilities, which is lower by KM 11.4 million or 7% compared to the end of 2014. The capital of MCFs amounts to KM 147.2 million or 98,3%, and the capital of one MCC to KM 2.5 million or 1.7%. The capital drop of the microcredit sector was primarily influenced by the capital drop in one MCF, which reduced its capital by KM 14.4 million. Without the data of this MCF, the microcredit sector would record an increase in capital in the amount of KM 3 million compared to the end of the previous year.

The total capital of the microcredit sector (net of donated capital) amounts to 19.34% of total assets, with 5 MCFs having a percentage of capital amount (net of donated capital) compared to total assets that is lower than allowed, i.e. less than 10% of total assets.

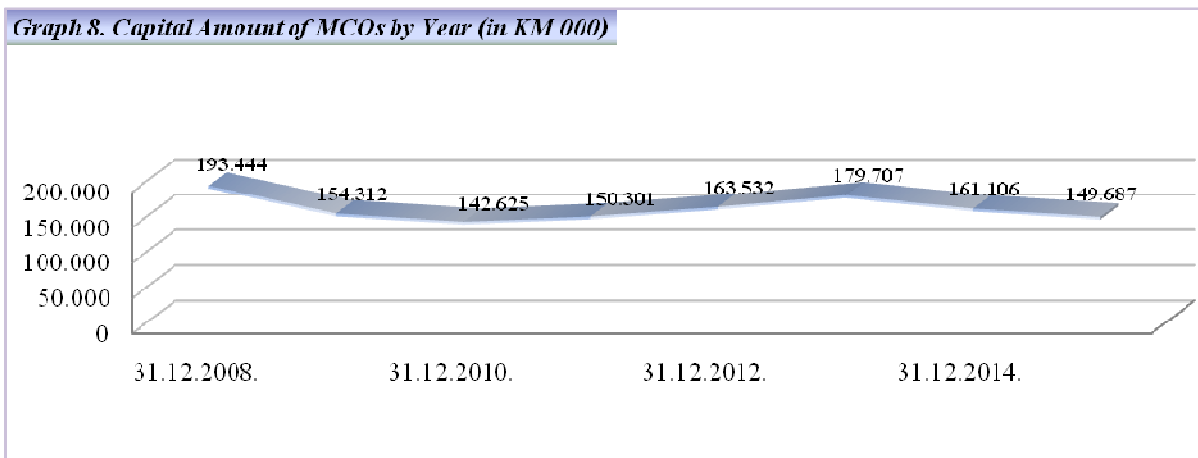
- KM 000 -

Table 4. Capital Structure of MCOs

DESCRIPTION	31.12.2014					31.03.2015					Index
	Balance for MCFs	%	Balance for MCCs	%	TOTAL	Balance for MCFs	%	Balance for MCCs	%	TOTAL	
1	2	3	4	5	6=2+4	7	8	9	10	11=7+9	12=11/6
Donated capital	67 521	43	0	0	67 521	66 267	45	0	0	66 267	98
Core capital	3 820	2	600	24	4 420	3 820	3	600	24	4 420	100
Surplus/deficit of income over expenses	84 795	53	0	0	84 795	74 636	51	0	0	74 636	88
Issue premiums	0	0	0	0	0	0	0	0	0	0	0
Unallocated profit	0	0	-392	-16	-392	0	0	10	0	10	-3

Legal reserves	0	0	2 300	92	2 300	0	0	1 908	76	1 908	83
Other reserves	2 462	2	0	0	2 462	2 446	1	0	0	2 446	99
TOTAL CAPITAL	158 598	100	2 508	100	161 106	147 169	100	2 518	100	149 687	93

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 31.03.2015 amounted to KM 149.7 million, and is lower by 23% compared to the end of 2008. A comparison of these two periods in the case of individual MCOs shows that one MCF recorded the biggest capital drop by KM 57 million.



In the capital structure of MCFs, the excess of income over expenses is the most important, and it amounts to KM 74.6 million and makes up 51% of total MCF capital, which is lower by KM 10.2 million or 12% compared to the end of the previous year. A deficit of income over expenses for the period from 01.01. to 31.03.2015 was recorded by 4 MCFs, while 8 MCFs recorded an excess of income over expenses and one MCC recorded a net profit. As of 31.03.2015, an excess of income over expenses, i.e. a profit from regular operations was recorded by 5 MCFs and 1 MCC, while 7 MCFs recorded a deficit of income over expenses from regular operations. Out of those 7 MCFs, 3 of them recorded a positive result at the end of the first quarter of 2015 due to extraordinary income, which was significantly higher than the generated deficit of income over expenses from regular operations in the case of some MCFs. Extraordinary income is a direct result of the increased collection of receivables for written-off loans.

A significant source of MCF capital is donated capital, which amounts to KM 66.3 million or 45% of total MCF capital. The amount of donated capital, as reported by MCOs, is lower by KM 1.3 million compared to the end of the previous year, i.e. by 2%.

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 31.03.2015 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 profit to KM 10 thousand.

2.3. Loan Portfolio

The main activity of MCOs is microlending, to which the amount of KM 371.2 million or 86% of total assets of the microcredit sector is related. The level of total sector loans depends on loans of MCFs, which account for KM 363.2 million or 97.8% of total loans, while the MCC accounts for KM 8 million or 2.2% of total loans. Net loans, which make up total loans net of loan loss provisions are presented in Table 5.

- KM 000 -

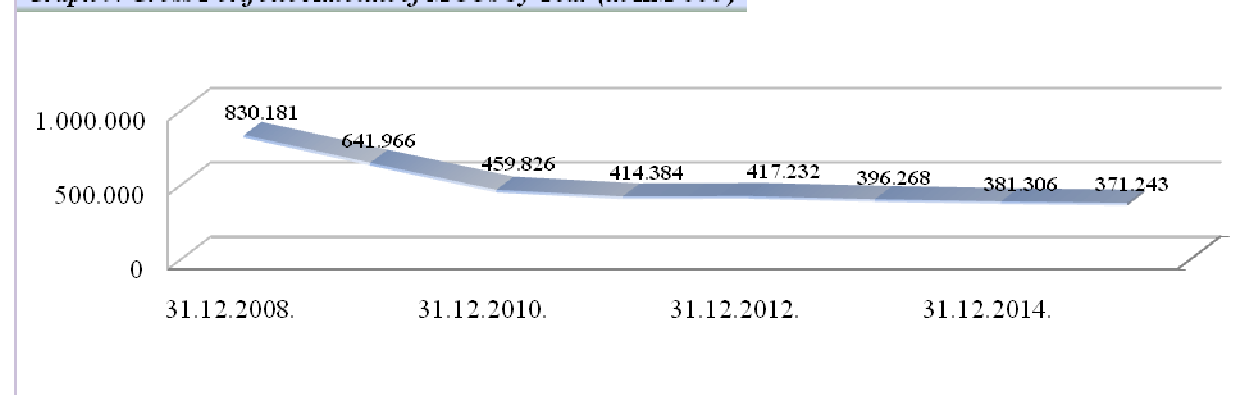
Table 5. Net Loans

No.	DESCRIPTION	31.12.2014			31.03.2015			Index
		MCFs	MCCs	Total	MCFs	MCCs	Total	
1	2	3	4	5=(3+4)	6	7	8=(6+7)	9=8/5
1.	Loans	376 275	5 031	381 306	363 198	8 045	371 243	97
2.	Loan loss provisions	26 140	11	26 151	28 087	19	28 106	107
3.	Net loans (1.-2.)	350 135	5 020	355 155	335 111	8 026	343 137	97

Net loans amount to KM 343.1 million and are lower by 3% compared to 31.12.2014, while gross loans are also lower by 3% compared to the end of the previous year.

Loan loss provisions amount to KM 28.1 million and are up by 7% compared to 31.12.2014. The loan loss provisions to total loan portfolio ratio amounts to 7.57% and recorded a drop of 0.71% compared to 31.12.2014. One MCF increased loan loss provisions by KM 1.6 million compared to 31.12.2014, which consequently affected the increase in loan loss provisions at sector level and the deterioration of portfolio quality indicators.

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



An overview of the gross portfolio of MCOs throughout the years of MCO operations shows that the largest amount was recorded at the end of 2008, when it amounted to KM 830.2 million. The total gross portfolio as of 31.03.2015 amounted to KM 371.2 million and dropped by 55% 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 79% and 74%, respectively.

- KM 000 -

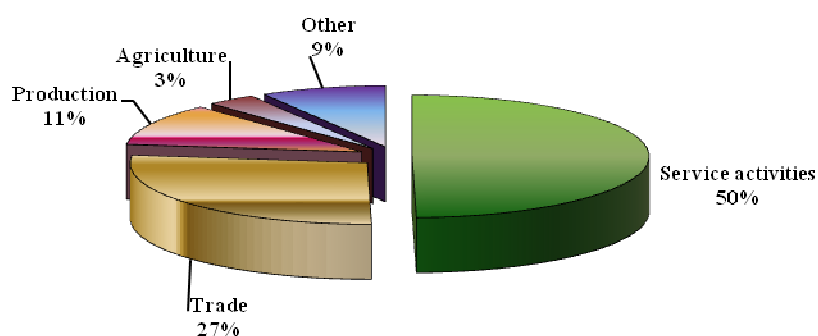
Table 6. Sector and Maturity Structure of Microloans as of 31.03.2015

No.	Microloans	Short-term loans	Long-term loans	Receivables due	TOTAL	%
1	2	3	4	5	6=(3+4+5)	7
1.	Legal entities					
a.)	Service activities	300	3 169	19	3 488	50%

b.)	Trade	251	1 645	17	1 913	27%
c.)	Agriculture	11	224	0	235	3%
d.)	Production	148	629	4	781	11%
e.)	Other	159	423	4	586	9%
TOTAL 1:		869	6.090	44	7.003	100%
2.	Natural persons					
a.)	Service activities	7 326	64 479	5 655	77 460	21%
b.)	Trade	3 293	22 706	5 661	31 660	9%
c.)	Agriculture	8 920	111 134	6 945	126 999	35%
d.)	Production	1 033	7 817	2 638	11 488	3%
e.)	Housing needs	2 491	54 304	165	56 960	16%
f.)	Other	13 939	43 633	2 101	59 673	16%
TOTAL 2:		37 002	304 073	23 165	364 240	100%
TOTAL (1+2):		37 871	310 163	23 209	371 243	

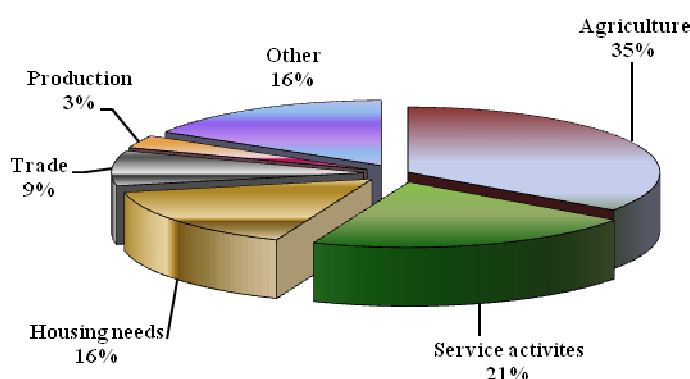
Out of the total number of microloans, KM 7 million or 2% were granted to legal entities and KM 364.2 million or 98% were granted to natural persons. In the maturity structure of microloans, short-term loans with receivables due account for KM 61 million or 16% and long-term loans for KM 310.2 million or 84%. Receivables due total KM 23.2 million or 6% 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 3.5 million or 50% for service activities and KM 1.9 million or 27% for trade. Out of the total microloan amount to legal entities, KM 0.8 million or 11% were granted for production, while KM 0.2 million or 3% were granted for agriculture and KM 0.6 million or 9% for other purposes.

Graph 11. Sector Structure of Microloans to Natural Persons



As for loans to **natural persons**, KM 127 million or 35% was placed for agriculture, followed by KM 77.4 million or 21% for service activities, KM 56.9 million or 16% for housing needs, KM 31.7 million or 9% for trade, KM 11.5 million or 3% for production and KM 59.7 million or 16% for other purposes.

- KM 000 -

Microloans for:	31.12.2014	31.03.2015	Share	Index
Agriculture	128 758	127 234	34%	99
Service activities	81 896	80 948	22%	99
Other	62 892	60 259	16%	96
Housing needs	57 874	56 960	16%	98
Trade	36 119	33 573	9%	93
Production	13 767	12 269	3%	89
TOTAL	381 306	371 243	100%	97

Based on the analysis of the industry, it can be concluded that microlending is largely directed toward lending of agriculture (34%) 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 1% and 11%. In terms of microloan maturity, long-term microloans are down by 2% compared to the end of the previous year, while short-term microloans (including receivables due) are down by 6%.

- KM 000 -

DESCRIPTION	31.12.2014	31.03.2015	Share	Index
Long-term microloans	315 991	310 163	84%	98
Short-term microloans with receivables due	65 315	61 080	16%	94
TOTAL	381 306	371 243	100%	97

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 31.03.2015, the

active loan portfolio, which was not past due as of 30.04.2014 and which was at risk as a result of the natural disasters, amounted to KM 12.6 million. The loan portfolio that was past due as of 30.04.2014 and was additionally at risk as a result of the natural disasters, amounted to KM 0.1 million. As a result of the natural disasters, a moratorium was declared for 32 loan accounts in the total amount of KM 78 thousand. The loan portfolio that was renegotiated – rescheduled as a result of the natural disasters amounted to KM 3 million as of 31.03.2015. Loans for agriculture (42%) and loans for housing needs (27%) 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 31.03.2015 can be seen in Table 9.

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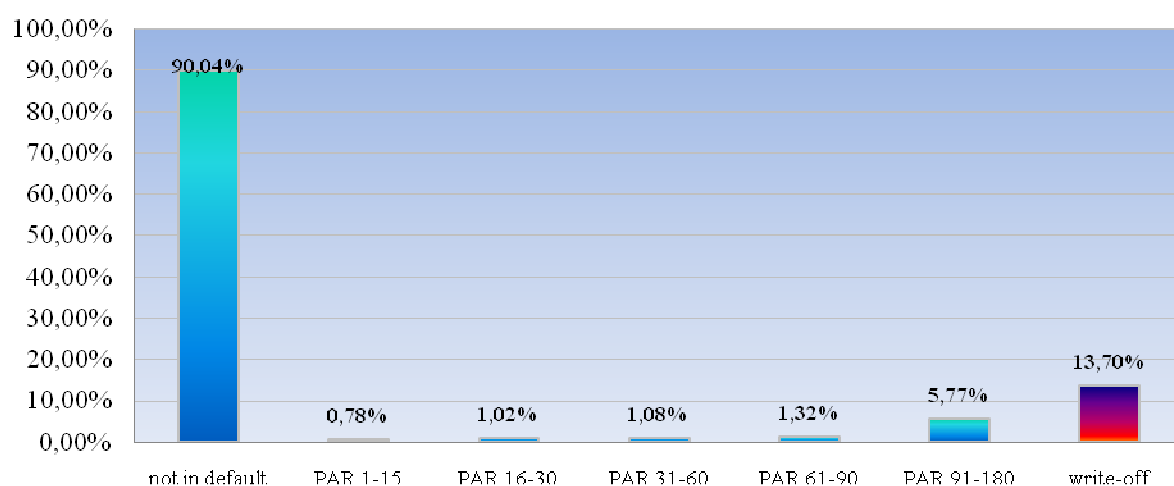
No.	Days past due	Provisioning rates	Loan amount	Share (%)	Interest due		Amount of other assets items	Provisions			Total provisions
					Provisioning rate	Interest amount		By loans	By interest due	By other assets items	
1	2	3	4	5	6	7	8	9=(4x3)/100	10=(7x6)/100	11=(8x3)/100	12=(9+10+11)
1.	0	0%	334 279	90.04	0%	0	248	0	0	0	0
2.	1 – 15	2%	2 882	0.78	2%	42	0	58	1	0	59
3.	16 – 30	15%	3 776	1.02	100%	64	0	566	64	0	630
4.	31 – 60	50%	3 991	1.08	100%	85	0	1 996	85	0	2 081
5.	61 – 90	80%	4 906	1.32	100%	147	0	3 925	147	0	4 072
6.	91 – 180	100%	21 409	5.77	100%	1 286	0	21 560	1 286	0	22 846
TOTAL			371 243	100		1 624	248	28 106	1 582	0	29 688
7.	More than 180	Write-off	12 884		100%	4 634					

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

The amount of defaulted loans for more than one day is KM 37 million or 9.96%, while 90.04% of loans are not defaulted. The total amount of interest due by current loans which are defaulted for more than one day is KM 1.6 million. The total amount of calculated reserves on all bases is KM 29.7 million and is up by KM 1.9 million or 7% compared to 31.12.2014. During the analysis of MCO reports, it was found that one MCO has a 85% of share in the total reserve amount.

In the first three months of 2015, the MCO write-off amounted to KM 12.9 million of principal and KM 4.6 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 31.03.2015, the microcredit portfolio recorded a drop of 3% (KM 10.1 million), as a result of a drop in the portfolio of one MCF, which reduced the aforementioned by KM 12.6 million or 27% and thus shows a deterioration of certain 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.

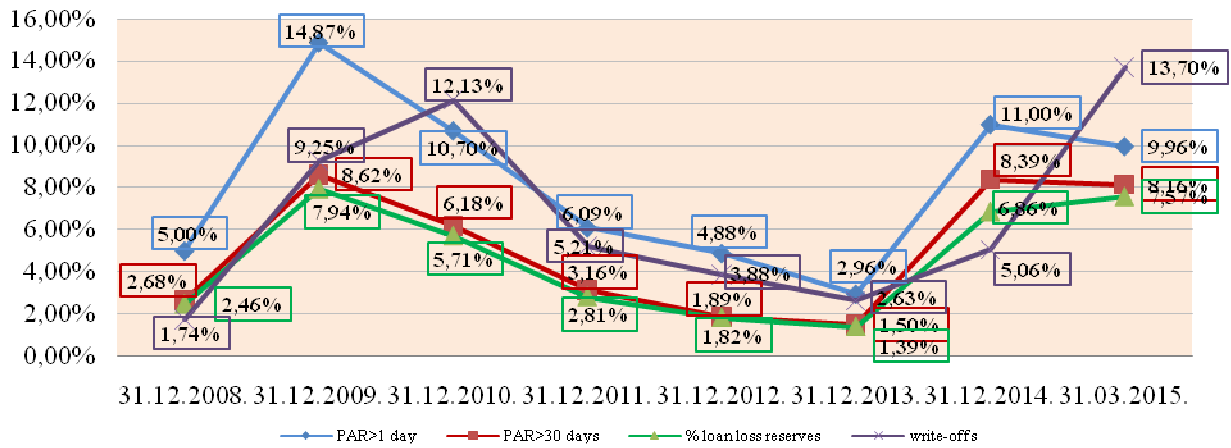
The deterioration in certain active portfolio quality indicators was rendered by the increase of the loan loss provisions rate from 6.86%, which is what it amounted as of 31.12.2014, to 7.57%. The risk portfolio for more than 30 days past due also improved slightly, decreasing from 8.39%, which is what it amounted at the end of the previous year, to 8.16%. The total sector result based on the risk portfolio is significantly outside the prescribed standards. Although 10 out of 13 MCOs operate within the prescribed limit, one MCF significantly violates the standard with 76.96%, which affects the overall sector result in terms of the risk portfolio, which must be below 5%. The risk portfolio for more than one day past due also recorded a slight improvement, decreasing from 11%, to which it amounted as of the end of the previous year, to 9.96%.

The extraordinarily poor result of the business operations of one MCF had the key impact on the poor 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 71.52% as of 31.03.2015 and recorded an increase of even 22.97 percentage points compared to 31.12.2014, when it amounted to 48.55%. Furthermore, the risk portfolio for more than 30 days past due amounted to 76.96% (the prescribed limit is up to 5%) and saw a significant deterioration of even 16.39 percentage points compared to the reporting period, when it amounted to 60.57%. In the same way, the write-off percentage was 119.60% as of 31.03.2015 (the prescribed limit is up to 3%) and also recorded an increase of 94.22 percentage points compared to 31.12.2014, when it amounted to 25.38%.

It can be concluded from the aforementioned that this MCF continuously and on multiple occasions violates the standards and prescribed limits and destabilises the microcredit sector of the Federation of B&H, which would, without the participation of the aforementioned in the MCO system, record a significant improvement in the prescribed standards for the loan

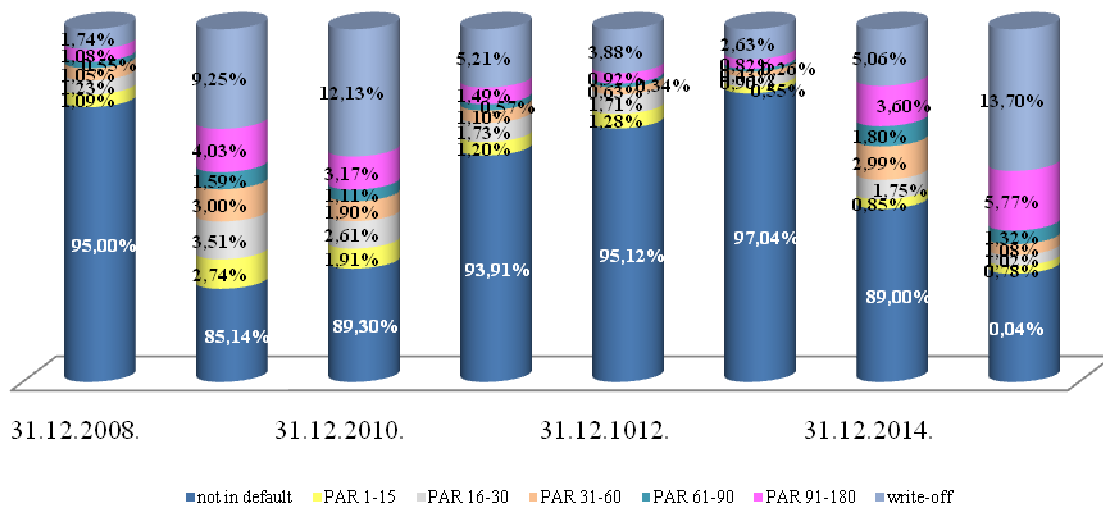
portfolio and the active loan portfolio quality indicators of the microcredit sector would thus be as follows: risk portfolio exceeding 30 days past due 1.35% (the prescribed limit is up to 5%), write-off percentage 1.18% (the prescribed limit is up to 3%), and loan loss provisions rate 1.23%.

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 MCF, which has a market share of 9% and which did not, given the temporary measure of the competent court, comply with the Agency's orders within the stipulated period of time.

Graph 14. Gross Portfolio Classification of MCOs by Year



In the first three months of 2015, MCOs wrote off 3 968 loan accounts (3 957 write-offs relate to natural persons and 11 to legal entities) in the total amount of KM 17.5 million, of which KM 12.9 million relate to the written-off principal. Even 82% of written-off loan accounts and 92% 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 three months of 2015 relate to one MCF. During the examination of this MCF, the Agency found numerous irregularities in its business operations, especially regarding write-offs.

Na nivou sektora, procenat otpisa sa 31.03.2015. godine iznosio je 13,70% (propisano ograničenje do 3%) i ovaj pokazatelj je, u odnosu na kraj prethodne godine, povećan za 8,64 procentna poena. Iako 11 od 13 MKO posluje unutar propisanog ograničenja, jedna MKF značajno krši standard sa 119,60%, čime utječe na ukupan rezultat sektora u pogledu procenta otpisa koji mora biti ispod 3%.

Microcredit organisations continued with their efforts to collect receivables by write-offs and managed to collect KM 2.6 million of written-off principal and KM 0.3 million of written-off interest in the first three months of 2015, while the permanent write-off in the same reporting period amounted to KM 8 thousand of principal and KM 28 thousand of interest. Regarding the efficiency of the collection of write-offs in the first quarter of 2015, one MCC had 14% of write-off collection compared to the total amount of receivables by write-offs, while the MCFs had a collection efficiency percentage below 5%.

As of 31.03.2015, total receivables by write-offs, which are in the off-balance records, amount to as KM 197 million, which is 8% higher compared to the end of the previous year. One MCF has KM 70.6 million of total receivables by write-offs, which makes up 36% of total receivables by write-offs at sector level.

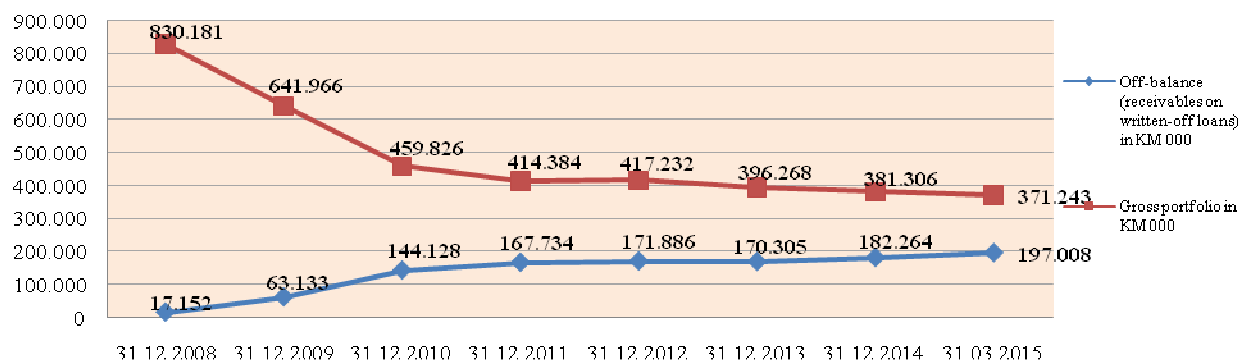
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DESCRIPTION	NATURAL PERSONS		LEGAL ENTITIES		TOTAL	
	Written-off principal	Written-off interest	Written-off principal	Written-off interest	Written-off principal	Written-off interest
1	2	3	4	5	6	7
Initial balance as of 01.01.2015.	148 461	29 562	2 751	296	151 212	29 858
Changes in 2015:						
New write-off in the current year	12 860	4 632	24	2	12 884	4 634
<i>Write-off in the period 01.01.-31.03.</i>	12 860	4 632	24	2	12 884	4 634
<i>Write-off in the period 01.04.-30.06.</i>	0	0	0	0	0	0
<i>Write-off in the period 01.07.-30.09.</i>	0	0	0	0	0	0
<i>Write-off in the period 01.10.-31.12.</i>	0	0	0	0	0	0
Collected in the current year	2 509	267	40	3	2 549	270
<i>Collection of write-offs in the period 01.01.-31.03.</i>	2 509	267	40	3	2 549	270
<i>Collection of write-offs in the period 01.04.-30.06.</i>	0	0	0	0	0	0
<i>Collection of write-offs in the period 01.07.-30.09.</i>	0	0	0	0	0	0
<i>Collection of write-offs in the period 01.10.-31.12.</i>	0	0	0	0	0	0
Permanent write-off in the current year	8	28	0	0	8	28
<i>Permanent write-off in the period 01.01.-31.03.</i>	8	28	0	0	8	28
<i>Permanent write-off in the period 01.04.-30.06.</i>	0	0	0	0	0	0
<i>Permanent write-off in the period 01.07.-30.09.</i>	0	0	0	0	0	0
<i>Permanent write-off in the period 01.10.-31.12.</i>	0	0	0	0	0	0
Balance as of 31.03.2015	158 804	33 899	2 735	295	161 539	34 194

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

Compared to 2008, the gross portfolio of MCOs is lower by 55%, while receivables by write-offs are more than 11 times higher and make up 53% of the total loan portfolio as of 31.03.2015. 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 111% and 32%, respectively, in the case of two MCFs), 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 31.03.2015 in the Federation of B&H, the total number of loan accounts in the active loan portfolio of MCOs was 153 423, 1.35% of which were being repaid by guarantors, which is down by 0.09 percentage points compared to the percentage of loans being paid off by guarantors out of the total number of loans as of 31.12.2014 (2014: 1.44%). According to quarterly reports, the total gross loan portfolio in the MCO sector as of 31.03.2015 amounted to KM 371 243 thousand KM, with the share of the outstanding loan debt being paid off by guarantors amounting to 1.44%, down by 0.15 percentage points compared to the share of outstanding loan debt being paid off by guarantors out of the total gross loan portfolio at the end of 2014 (2014: 1.59%).

According to MCO reports and pursuant to the Decision on Manner of Customer Complaint Management of Banks, MCOs and Leasing Companies („Official Gazette of the Federation of B&H“, No. 23/14 and 62/14), in the period from 01.01. to 31.03.2015, a total of 67 complaints was filed against MCOs. In the case of 3 MCFs and 1 MCC, there is no evidence of complaints.

Co-debtors/guarantors have filed 14 complaints, debtors 27 complaints, while other stakeholders filed 26 complaints. The MCOs resolved 5 complaints positively, 50 complaints negatively, while 12 complaints are in the process of being handled.

2.4. Weighted Nominal and Effective Interest Rates on Microloans

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

Table 11. Average Weighted Nominal and Effective Interest Rates on Microloans for Q1 2015 – by Product

No.	DESCRIPTION	Total amount of microloan payment in Q1 2015 (in KM 000)	Weighted nominal interest rate (average)	Weighted effective interest rate (average)
1.	Short-term microloans for:	18 277	18.68%	26.62%
1.1.	Service activities	4 103	16.77%	24.83%
1.2.	Trade	1 521	18.52%	26.42%
1.3.	Agriculture	5 464	14.12%	21.91%
1.4.	Production	418	19.38%	27.52%
1.5.	Housing needs	980	21.90%	27.90%
1.6.	Non-purpose – basic needs	582	24.80%	35.64%
1.7.	Other	5 209	23.68%	31.72%
2.	Long-term microloans for:	62 892	20.93%	24.66%
2.1.	Service activities	13 483	21.22%	25.16%
2.2.	Trade	5 220	20.14%	23.81%
2.3.	Agriculture	22 917	19.98%	23.41%
2.4.	Production	1 892	20.44%	24.72%
2.5.	Housing needs	9 674	20.37%	23.00%
2.6.	Non-purpose – basic needs	480	25.13%	32.15%
2.7.	Other	9 226	23.80%	28.86%
TOTAL		81 169	20.43%	25.10%

In accordance with monthly statements on weighted nominal and effective interest rates by loan, in the first quarter of 2015, MCOs placed microloans in the total amount of KM 81.2 million, which is lower by KM 2.7 million or 3% 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 MCF. As of 31.03.2015, MCOs had 153 423 active loan accounts, which is lower by 5 390 loan accounts or 3% compared to the end of the previous year. As of

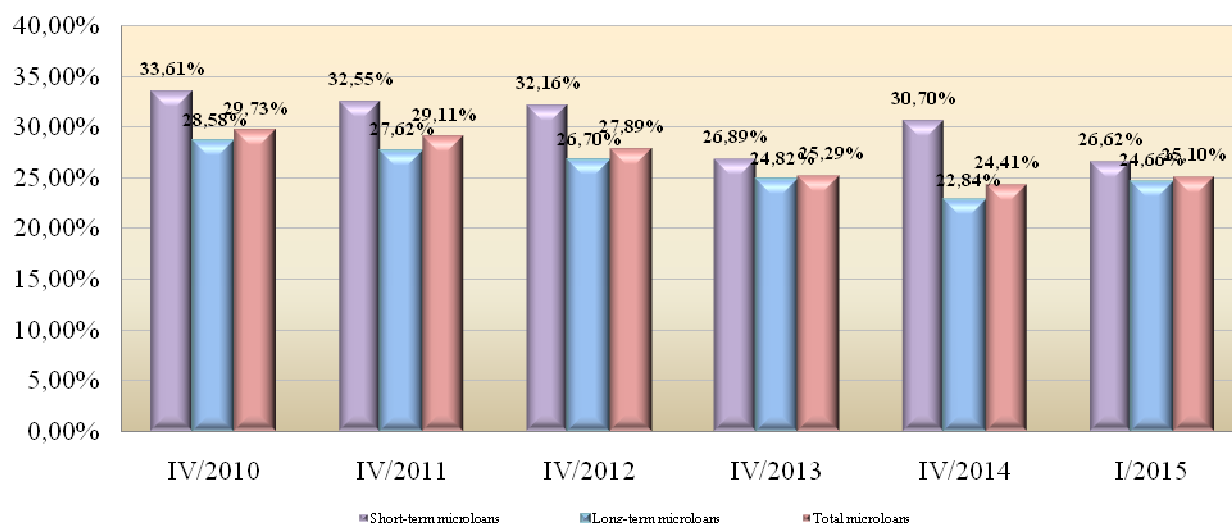
31.03.2015, the average amount of microloans at sector level was KM 2 420, the average amount of microloans in MCFs was KM 2 380, while the average amount of microloans in the MCC was KM 9 611.

The average weighted nominal interest rate on short-term loans ranges from 14.12% for agriculture up to 24.80% for non-purpose loans, and the effective interest rate ranges from 21.91% for agriculture up to 35.64% for non-purpose loans. The average weighted nominal interest rate on long-term loans ranges from 19.98% for agriculture up to 25.13% for non-purpose loans, and the effective interest rate ranges from 23.00% for housing loans up to 32.15% for non-purpose loans. By analysing the effective interest rates of MCOs by loan product, it can be concluded that the most favourable loans are placed for agriculture and housing needs, while the most expensive loans are non-purpose 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	IV/2014	I/2015
Short-term microloans	33.61%	32.55%	32.16%	26.89%	30.70%	26.62%
Long-term microloans	28.58%	27.62%	26.70%	24.82%	22.84%	24.66%
Total microloans	29.73%	29.11%	27.89%	25.29%	24.41%	25.10%

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



Microcredit organisations increased, although only slightly, effective interest rates on total microloans, so that, at the end of the first quarter of 2015, average weighted effective interest rates in the microcredit sector on total loans amounted to 25.10%, and recorded an increase of 0.69 percentage points compared to the fourth quarter of 2014. Compared to the same period, average weighted effective interest rates on short-term loans amounted to 26.62% and recorded a drop of 4.08 percentage points. Average weighted effective interest rates on long-term loans amounted to 24.66% at the end of the first quarter of 2015 and are up by 1.82 percentage points compared to the fourth quarter of the previous year.

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

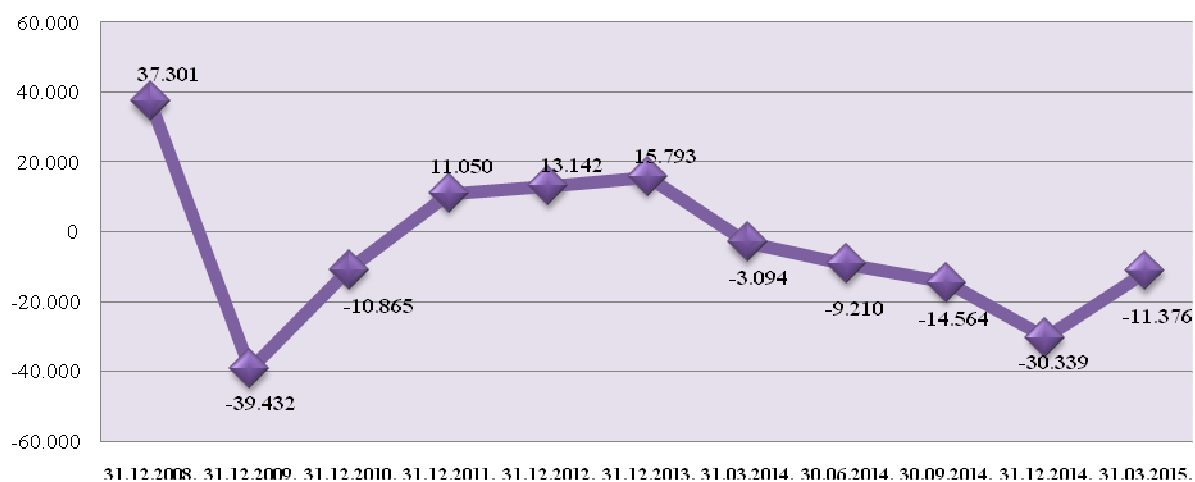
2.5. Income Statement

In the period from 01.01. to 31.03.2015, one MCC recorded a net profit in the amount of KM 10 thousand (01.01. to 31.12.2014: KM 46 thousand net loss). In that period, MCFs had less income over expenses in the total amount of KM 11 386 thousand, while they recorded less income over expenses in the total amount of KM 3 048 thousand in the same period of the previous year.

In the period from 01.01. to 31.03.2015, out of a total of 12 MCFs, 8 MCFs had more income over expenses in the total amount of KM 2 998 thousand, while 4 MCFs recorded less income over expenses in the total amount of KM 14 384 thousand. Out of the 4 MCFs that recorded less income over expenses in the amount of KM 14 384 thousand in the period from 01.01. to 31.03.2015, one MCF generated a loss in the amount of KM 14 358 thousand in this period, i.e. 99.8% of the total loss generated by MCFs, while the other three MCFs account for only KM 26 thousand of the recorded deficit of income over expenses, i.e. 0.2%.

Without the data of this MCF, which is contrary to the sector trend as of 31.03.2015 and which has completely destabilised the microcredit market as well as impacted the deterioration of sector results and performance indicators, the microcredit sector records a positive result in the amount of KM 2 982 thousand, which is reflected positively in the performance indicators as well.

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



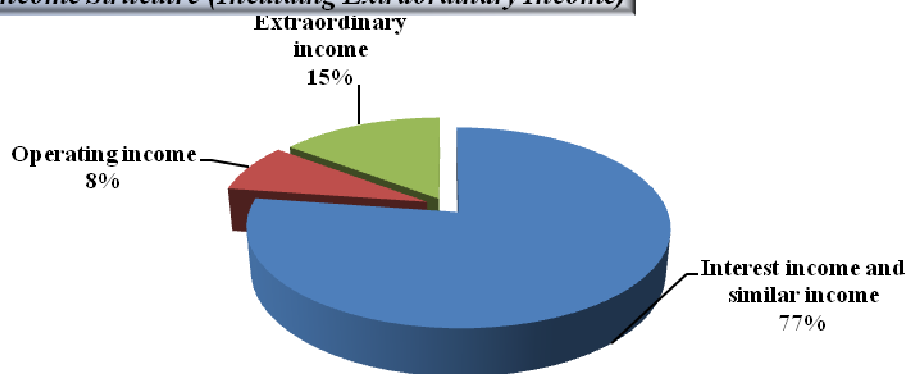
At the level of the microcredit sector in the Federation of B&H, a negative financial result in the amount of KM 11 376 thousand has been recorded, which is down by KM 8 282 thousand compared to the same period of the previous year.

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

Table 13. Income Statement MCOs										
No.	DESCRIPTION	For the period 01.01. - 31.03.2014				For the period 01.01. - 31.03.2015				Index
		MCFs	MCCs	Total	%	MCFs	MCCs	Total	%	
1	2	1	2	3=(1+2)	4	5	6	7=(5+6)	8	9=(7/3)
1.	INCOME									
1.1.	Interest-based income and similar income	16 962	51	17 013	87	16 177	263	16 440	91	97
1.2.	Operating income	2 526	6	2 532	13	1 679	20	1 699	9	67
2.	TOTAL INCOME (1.1.+1.2.)	19 488	57	19 545	100	17 856	283	18 139	100	93
3.	EXPENSES									
3.1.	Interest-based expenses and similar expenses	3 753	11	3 764	14	3 013	77	3 090	10	82
3.2.	Operating expenses	15 739	101	15 840	58	14 224	195	14 419	44	91
3.3.	Expenses for loan loss provisions and other losses	7 575	-7	7 568	28	14 901	8	14 909	46	197
4.	TOTAL EXPENSES (3.1.+3.2.+3.3.)	27 067	105	27 172	100	32 138	280	32 418	100	119
5.	EXTRAORDINARY INCOME	4 678	2	4 680		3 116	7	3 123		67
6.	EXTRAORDINARY EXPENSES	147	0	147		220	0	220		150
7.	TOTAL INCOME - EXPENSES (2+5-4-6)	-3 048	-46	-3 094		-11 386	10	-11 376		368
8.	SURPLUS/DEFICIT OF INCOME OVER EXPENSES	-3 048		-3 048		-11 386		-11 386		374
9.	PROFIT BEFORE TAXES		-46	-46			10	10		
10.	TAXES		0	0			0	0		
11.	NET PROFIT/LOSS		-46	-46			10	10		
12.	TOTAL FIN. RESULT			-3 094				-11 376		

The total income of MCOs in the period from 01.01. to 31.03.2014 amounts to KM 18.1 million, which almost completely account for MCF income. The total income is lower by KM 1.4 million or 7% compared to the same period of the previous year. The biggest income portion is contributed by interest income, which amounts to KM 16.4 million or 91% of total income and is lower by KM 0.6 million or 3% compared to the same period of the previous year, while operating income amounts to KM 1.7 million or 9% of total income and is lower by KM 0.8 million or 33% compared to the same period of the previous year.

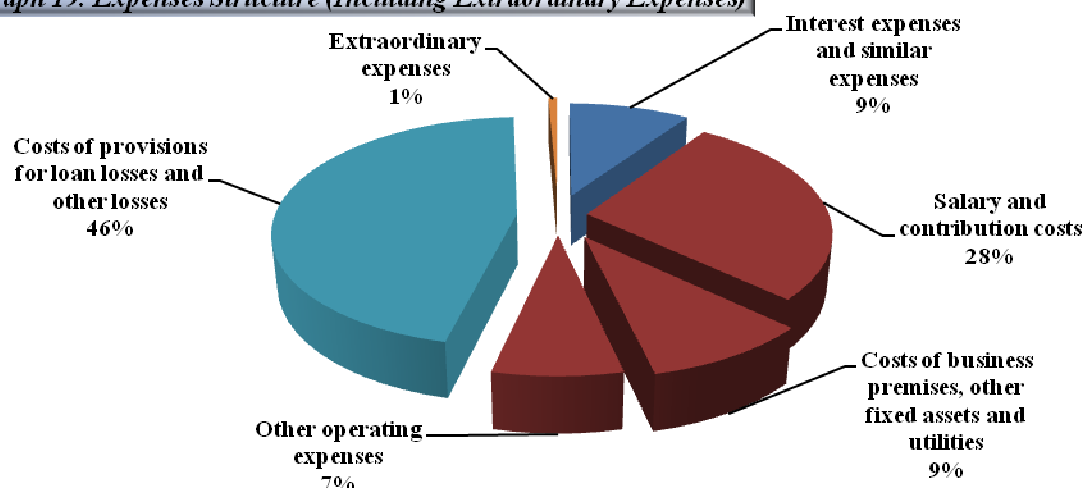
Graph 18. Income Structure (Including Extraordinary Income)



Extraordinary income of MCOs generated in the period from 01.01. to 31.03.2015 amounts to KM 3.1 million, which is down by KM 1.6 million or 33% 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 three months of 2015 amounts to KM 0.2 million and is up by KM 0.1 million or 50% compared to the same period of the previous year.

Total expenses amount to KM 32.4 million, 32.1 million or 99.1% of which account for the expenses of MCFs, and KM 0.3 million or 0.9% for the expenses of one MCC. Compared to the same period of the previous year, total expenses are higher by KM 5.2 million or 19%. In the expenses structure, KM 3.1 million or 10% of total expenses account for interest expenses on taken loans and other similar expenses, which are lower by KM 0.7 million or 18% compared to the same period of the previous year. Operating expenses amount to KM 14.4 million or 44% of total expenses and are lower by KM 1.4 million or 9% compared to the same period of the previous year. Operating expenses include salary and contributions' expenses in the amount of KM 9 million (01.01. to 31.03.2014: KM 9.5 million), business premises' expenses, other fixed assets and utility costs in the amount of KM 3.1 million (01.01. to 31.03.2014: KM 3.7 million) and other operating expenses in the amount of KM 2.3 million (01.01. to 31.03.2014: KM 2.6 million). Expenses for loan loss provisions and other losses amount to KM 14.9 million or 46% of total expenses and are higher by even KM 7.3 million or 97% compared to the same period of the previous year. Even 90% of the total amount of loan loss provisions and other losses in the first three months of 2015 is contributed by one MCF.

Graph 19. Expenses Structure (Including Extraordinary Expenses)

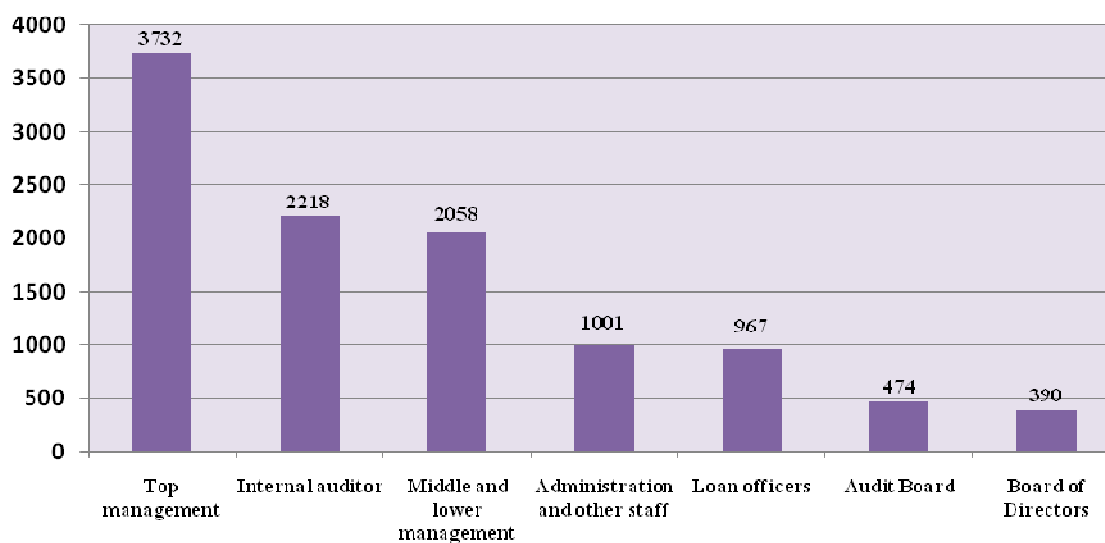


2.5.1. Standard Monthly Income in Microcredit Activities

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

Salary and contributions' expenses generated in the period 01.01. to 31.03.2015 are lower by 6% compared to the same period of the previous year. According to MCO reports, as of 31.03.2015, the average monthly net salary of MCO employees was KM 1 130 and the average monthly net amount of incentives, stimulations and bonuses was KM 35. This means that the average monthly net salary with bonuses was KM 1 165 in the microcredit sector. As of 31.03.2015, the average monthly net salary of a senior management member in the microcredit sector was KM 3 732 including bonuses, while average monthly net compensations paid to management board members in MCOs were KM 390 and to audit board members KM 474. As of the reporting date, the average monthly net salaries of internal auditors in MCOs were KM 2 218 including bonuses, of middle and low management KM 2 058, of loan officers KM 967 and of administration and other staff KM 1001.

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



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

In the case of one MCF, the average monthly net salary of the senior management is more than 2 times higher compared to the sector average. The average monthly compensation paid to members of the management board is five 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. In the first three months of 2015, out of 13 MCOs, 5 MCFs and 1 MCC submitted reports, in the prescribed form, to the Agency on transactions conducted with related entities in the total amount of KM 155 952 million. Only one MCF has a share of even 79% in the total amount of transactions with related entities.

-in KM-

No.	Description of transaction	Transaction amount in the period 01.01.-31.03.2015	Share (%)
1.	Transactions with the founder and founder-related entities	119 099	76.37%
2.	Payment by invoices for delivered goods/services	27 495	17.63%
3.	Refunding of expenses	4 379	2.81%
4.	Payment of joint expenses of a related person	4 379	2.81%
5.	Lease of business premises	600	0.38%
6.	Short-term loans from banks	0	0.00%
7.	Regular and penalty interest, management fees	0	0.00%
8.	Borrowings from legal entities and natural persons	0	0.00%
9.	Legal services	0	0.00%
10.	Loan annuities	0	0.00%
11.	Short-term deposits to banks	0	0.00%
12.	Receivables based on lease	0	0.00%
TOTAL		155 952	100.00%

Table 14 provides a breakdown of transactions with related entities in the period from 01.01. to 31.03.2015, which shows that the majority transactions performed by MCOs are based on payments made to the MCOs' founders and their related entities (76.37%) and based on payments by invoices for delivered goods/services (17.63%). In addition to the aforementioned transactions, MCOs also reported the transactions with related entities based on the lease of business premises, the payment of joint expenses and other.

The reported transactions of MCOs with related entities refer to transactions conducted with entities related to the MCOs' founders and their related entities (82%), members of the audit board (16%) and members of the supervisory 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 31.03.2015, it can be concluded that the business operations of microcredit organisations in the Federation of B&H compared to the end of the previous year show a further drop in assets (by 5%) and loan portfolio (by 3%). Certain indicators of loan portfolio quality also show deterioration as well as the drop in the number of employees (by 3%), as well as loan commitments (by 4%). The capital of MCFs recorded a drop of 7% compared to the end of the previous year due to the negative financial result of one MCF.

Negative trends and the deterioration of indicators of the microcredit system in the FB&H are the result of very poor business operations of just one MCF, which destabilises the microcredit system of the Federation of B&H with its actions that are contrary to the legal regulations and restrictions.

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

In the period to come, the imperative of MCOs is complying with the principles of operating with the care of a good businessman and focusing on full transparency, the optimisation of operating costs and their full justification, proper credit risk management, which should finally result in falling interest rates on microloans and achieving the objectives stated in the Law on Microcredit Organisations.

Within its responsibilities under the Law, the Agency takes all available supervision measures and initiates necessary procedures before the competent authorities for the purpose of sanctioning MCOs 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.-71-3/15

Sarajevo, 28.05.2015

IV ANNEXES

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

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 THE BUSINESS OPERATIONS OF MCOs AS OF 31.03.2015

Decisions of the Banking Agency related to MCO operations	Official Gazette of the Federation of B&H
1. Decision on Conditions and Process of Issuance of Operating License for Microcredit Foundation Resulting from Changed Organisational Form of a Microcredit Organisation	27/07
2. Decision on Conditions and Process of Issuance and Revocation of Operating License and Other Approvals to/from Microcredit Organisations	27/07 and 46/11
3. Decision on Supervision of Microcredit Organisations	27/07
4. Decision on Form and Contents of Reports Microcredit Organisations Submit to the Banking Agency of the Federation of B&H and on Reporting Deadlines	27/07, 110/12 and 15/13
5. Decision on Level and Manner of Forming and Maintaining Reserves for Loan Losses of Microcredit Organisations	27/07
6. Decision on Other General Conditions for Operations of Microcredit Organisations	27/07
7. Decision on Uniform Manner of Calculation and Disclosure of Effective Interest Rate on Loans and Deposits (Consolidated text)	48/12
8. Decision on Conditions and Process of Issuance of Operating License and Approval for Acquiring Ownership Share by Investing and Transferring Assets of the Microcredit Foundation	27/07
9. Decision on Fees Microcredit Organisations Pay to the Banking Agency of the Federation of B&H	46/11
10. Decision on Minimum Standards for Activities of Microcredit Organisation to Prevent Money Laundering and Financing Terrorist Activities	48/12
11. Decision on Conditions and Manner of Customer Complaint Management by Banks, Microcredit Organisations and Leasing Companies	23/14, 26/14 and 62/14
12. Decision on Minimum Standards for Documenting Lending Activities of Microcredit Organisations and Assessing Creditworthiness	23/14
13. Decision on Conditions and Manner for Handling Guarantors' Requests for Release from the Guarantor's Obligation	23/14 and 62/14
14. Decision on Minimum Requirements in Terms of Content, Comprehensibility and Availability of General and Special Business Conditions of Providers of Financial Services	62/14

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

Annex 2.

MAIN DATA ON MCOs

No	Name of microcredit organisation	Address and seat	Director	Tel/Fax	E-mail and Web	31.03.2015			
						Assets amount in KM 000	Capital amount in KM 000	No. of employees	No. of org. units
1.	MKD "EKI" d.o.o. Sarajevo	ul. Džemala Bijedića bb 71 000 SARAJEVO	Sead Mucić	033/ 754-380, 754-388 fax	sead.mucic@eki.ba www.eki.ba	9 099	2 518	20	1
2.	MKF "EKI" Sarajevo	ul. Džemala Bijedića bb 71 000 SARAJEVO	Sadina Bina	033/ 754-380, 754-388 fax	sadina.bina@eki.ba www.eki.ba	111 681	53 993	256	68
3.	MKF "LIDER" Sarajevo	ul. Turhanija 2 71 000 SARAJEVO	Džavid Sejfović	033/ 250-580, 250-581 fax	dzavids@lider.ba www.lider.ba	14 654	10 631	57	12
4.	"LOK MKF" Sarajevo	ul. Skenderija 13 71 000 SARAJEVO	Elma Čradaklija - Bašić	033/ 564-200, 564-201 fax	central.office@lok.ba www.lok.ba	41 936	9 293	152	33
5.	MKF "MELAHA" Sarajevo	ul. Hamdije Kreševljakovića 59 71 000 SARAJEVO	Jakob Finci	033/ 205-737 tel/fax	info@melaha.ba www.melaha.ba	1 182	388	5	0
6.	MKF "MI-BOSPO" Tuzla	ul. Bosne srebrene bb 75 000 TUZLA	Nejira Nalić	035/ 270-283, 252-448 fax	mi-bospo@mi-bospo.org www.mi-bospo.org	45 536	17 754	145	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	19 406	5 609	98	21
8.	MKF "MIKRO ALDI" Goražde	ul. Panorama bb 73 000 GORAŽDE	Ferida Softić	038/ 226-456, 221-004 fax	info@mikroaldi.org www.mikroaldi.org	5 215	4 015	27	7
9.	"PARTNER MKF" Tuzla	ul. 15. maja bb 75 000 TUZLA	Senad Sinanović	035/ 300-250, 300-269 fax	partner@partner.ba www.partner.ba	127 270	61 922	299	58
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	21 262	-36 846	40	18
11.	"PRVA ISLAMSKA MKF" Sarajevo	ul. Jukićeva 75 71 000 SARAJEVO	Edina Hadžimurtezić	033/ 666-233, 666-224 fax	info@mfi.ba	1 826	1 648	8	0
12.	MKF "SANI" Zenica	ul. Mehmedalije Tarabara 10 72 000 ZENICA	Sulejman Haračić	032/ 405-606 tel/fax	mikrosanizenica@yahoo.com	374	282	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	31 876	18 480	154	40
TOTAL						431 317	149 687	1 265	282

Annex 3.

BALANCE SHEET OF MCFs

in KM 000

No.	DESCRIPTION	31.12.2014	%	31.03.2015	%	Index
1	2	3	4	5	6	7=5/3
ASSETS						
1.	Cash (1a+1b)	36 912	8	28 846	7	78
1a)	Cash and non-interest bearing deposit accounts	18 253	4	17 126	4	94
1b)	Interest-bearing deposit accounts	18 659	4	11 720	3	63
2.	Facilities to banks	3 523	1	3 533	1	100
3.	Loans	376 275		363 198		97
3a)	Loan loss reserves	26 140		28 087		107
3b)	Net loans (3-3a)	350 135	79	335 111	79	96
4.	Business premises and other fixed assets	39 373	9	39 126	9	99
5.	Long-term investments	3 061	0	3 061	0	100
6.	Other assets	13 820	3	14 122	4	102
7.	Minus: provisions for other assets items, except loans	1 618		1 581		98
8.	TOTAL ASSETS	445 206	100	422 218	100	95
LIABILITIES						
9.	Short-term loan commitments	78 848	17	82 110	20	104
10.	Long-term loan commitments	181 626	41	166 321	39	92
11.	Other liabilities	26 134	6	26 618	6	102
12.	TOTAL LIABILITIES	286 608	64	275 049	65	96
13.	Donated capital	67 521		66 267		98
14.	Core capital	3 820		3 820		100
15.	Surplus of income over expenses	187 612		190 604		102
15a)	For previous years	172 658		187 611		109
15b)	For current year	14 954		2 993		20
16.	Deficit of income over expenses	102 817		115 968		113
16a)	For previous years	57 745		101 584		176
16b)	For current year	45 072		14 384		32
17.	Other reserves	2 462		2 446		99
18.	TOTAL CAPITAL	158 598	36	147 169	35	93
19.	TOTAL LIABILITIES	445 206	100	422 218	100	95
OFF-BALANCE RECORDS						
	- written-off loans	182 208		196 959		108
	- agent business	275		271		99

Annex 4.

BALANCE SHEET OF MCOs

in KM 000

No.	DESCRIPTION	31.12.2014	%	31.03.2015	%	Index
1	2	3	4	5	6	7=5/3
ASSETS						
1.	Cash (1a+1b)	2 001	28	954	11	48
1a)	Cash and non-interest bearing deposit accounts	2 001	28	954	11	48
1b)	Interest-bearing deposit accounts	0	0	0	0	n/a
2.	Facilities to banks	0	0	0	0	n/a
3.	Loans	5 031		8 045		160
3a)	Loan loss reserves	11		19		173
3b)	Net loans (3-3a)	5 020	71	8 026	88	160
4.	Business premises and other fixed assets	29	0	26	0	90
5.	Long-term investments	0	0	0	0	n/a
6.	Other assets	71	1	94	1	132
7.	Minus: provisions for other assets items, except loans	1		1		100
8.	TOTAL ASSETS	7 120	100	9 099	100	128
LIABILITIES						
9.	Short-term loan commitments	217	3	435	5	200
10.	Long-term loan commitments	4 086	58	5 824	64	143
11.	Other liabilities	309	4	322	3	104
12.	TOTAL LIABILITIES	4 612	65	6 581	72	143
13.	Donated capital	0		0		n/a
14.	Core capital	600		600		100
15.	Issue premiums	0		0		n/a
16.	Unallocated profit (16a+16b)	-392		10		-3
16a)	Of previous years	-5		0		0
16b)	Of current year	-387		10		-3
17.	Legal reserves	2 300		1 908		83
18.	Other reserves	0		0		n/a
19.	TOTAL CAPITAL	2 508	35	2 518	28	100
20.	TOTAL LIABILITIES	7 120	100	9 099	100	128
OFF-BALANCE RECORDS						
	- written-off loans	56		49		88
	- agent business	0		0		n/a

Annex 5.

INCOME STATEMENT OF MCFs

in KM 000

No.	DESCRIPTION	For the period 01.01. - 31.03.2014	%	For the period 01.01. - 31.03.2015	%	Index
1	2	3	4	5	6	7=(5/3)
I	FINANCIAL INCOME AND EXPENSES					
1.	Interest income and similar income					
1.1.	Interest by interest-bearing deposit accounts with deposit institutions	9	0	45	0	500
1.2.	Interest on facilities to banks	48	0	3	0	6
1.3.	Loan interest	16 524	98	15 895	98	96
1.4.	Other financial income	381	2	234	2	61
1.5.	Total interest income and similar income (1.1. to 1.4.)	16 962	100	16 177	100	95
2.	Interest expenses and similar expenses					
2.1.	Interest on borrowed funds	3 616	96	2 807	93	78
2.2.	Other financial expenses	137	4	206	7	150
2.3.	Total interest expenses and similar expenses (2.1. to 2.2.)	3 753	100	3 013	100	80
3.	Net financial income (1.5. - 2.3.)	13 209		13 164		100
II	OPERATING INCOME AND EXPENSES					
4.	Operating income					
4.1.	Fees for services performed	2 060	82	1 541	92	75
4.2.	Other operating income	466	18	138	8	30
4.3.	Total operating income (4.1. do 4.2.)	2 526	100	1 679	100	66
5.	Operating expenses					
5.1.	Salary and contributions costs	9 450	60	8 823	62	93
5.2.	Costs of business premises, other fixed assets and utility costs	3 679	23	3 059	22	83
5.3.	Other operating expenses	2 610	17	2 342	16	90
5.4.	Total operating expenses (5.1. to 5.3.)	15 739	100	14 224	100	90
6.	Loan loss provisions and provisions for other losses	7 575		14 901		197
7.	Surplus/deficit of income over expenses from regular operations (3.+4.3.-5.4.-6.)	-7 579		-14 282		188
8.	Extraordinary income	4 678		3 116		67
9.	Extraordinary expenses	147		220		150
10.	Surplus/deficit of income over expenses (7.+8.-9.)	-3 048		-11 386		374

Annex 6.

INCOME STATEMENT OF MCCs

in KM 000

No.	DESCRIPTION	For the period 01.01. - 31.03.2014	%	For the period 01.01. - 31.03.2015	%	Index
1	2	3	4	5	6	7=(5/3)
I	FINANCIAL INCOME AND EXPENSES					
1.	Interest income and similar income					
1.1.	Interest by interest-bearing deposit accounts with deposit institutions	0	0	0	0	n/a
1.2.	Interest on facilities to banks	0	0	0	0	n/a
1.3.	Loan interest	49	96	263	100	537
1.4.	Other financial income	2	4	0	0	0
1.5.	Total interest income and similar income (1.1. to 1.4.)	51	100	263	100	516
2.	Interest expenses and similar expenses					
2.1.	Interest on borrowed funds	4	36	71	92	1 775
2.2.	Other financial expenses	7	64	6	8	86
2.3.	Total interest expenses and similar expenses (2.1. to 2.2.)	11	100	77	100	700
3.	Net financial income (1.5. - 2.3.)	40		186		465
II	OPERATING INCOME AND EXPENSES					
4.	Operating income					
4.1.	Fees for services performed	6	100	19	95	317
4.2.	Other operating income	0	0	1	5	n/a
4.3.	Total operating income (4.1. to 4.2.)	6	100	20	100	333
5.	Operating expenses					
5.1.	Salary and contributions costs	76	75	159	82	209
5.2.	Costs of business premises, other fixed assets and utility costs	18	18	12	6	67
5.3.	Other operating expenses	7	7	24	12	343
5.4.	Total operating expenses (5.1. to 5.3.)	101	100	195	100	193
6.	Loan loss provisions and provisions for other losses	-7		8		-114
7.	PROFIT/LOSS FROM REGULAR BUSINESS OPERATIONS (3.+4.3.-5.4.-6.)	-48		3		-6
8.	Extraordinary income	2		7		350
9.	Extraordinary expenses	0		0		n/a
10.	PROFIT/LOSS BEFORE TAXES	-46		10		-22
11.	TAXES	0		0		n/a
12.	NET PROFIT/LOSS	-46		10		-22

Annex 7.

OVERVIEW OF DONATED FUNDS OF MCFs
as of 31.03.2015

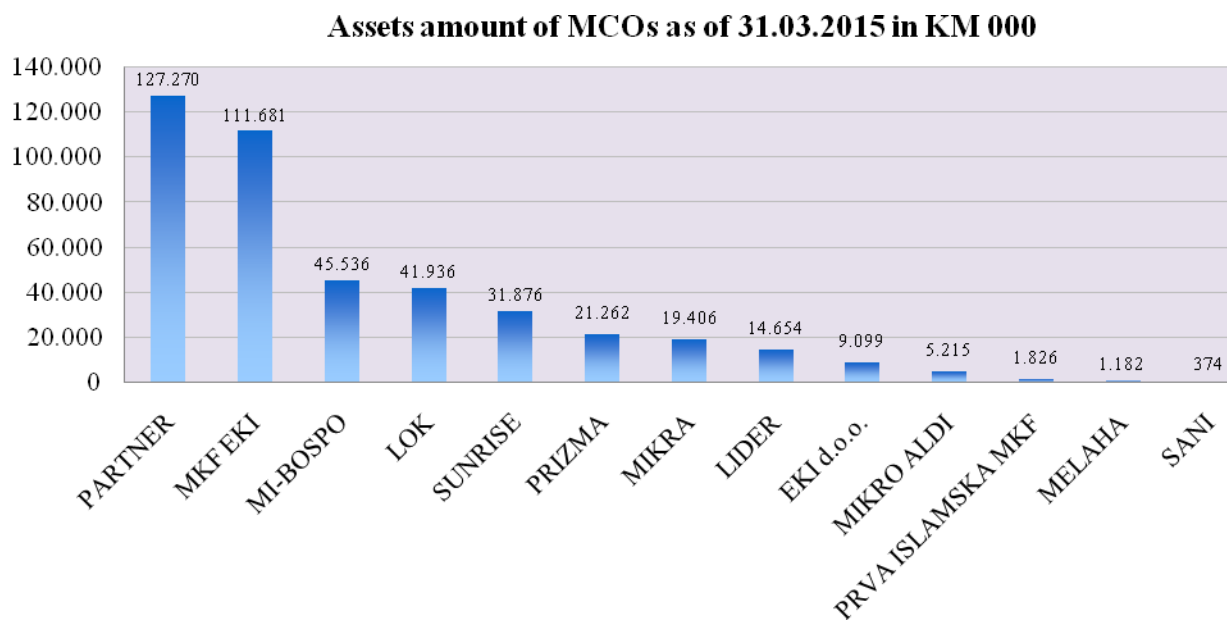
KM 000

No.	Donor	MKF EKI Sarajevo	MKF LIDER Sarajevo	LOK MKF Sarajevo	MKF MELAHA Sarajevo	MKF MI-BOSPO Tuzla	MKF MIKRA Sarajevo	MKF MIKRO ALDI Goražde	PARTNER MKF Tuzla	MKF PRIZMA Sarajevo	PRVA ISLAMSK A MKF	MKF SUNRISE Sarajevo	TOTAL
Credit fund donations		6 326	5 891	4 639	0	3 354	4 070	804	16 561	7 490	2 244	1 942	53 321
1.	Mercy Corps								10 091				10 091
2.	USAID	3 046		543					3 046	3 046			9 681
3.	CHF-(SIDA, MEDI, HILP)		5 891										5 891
4.	UNHCR			1 198		479		200	1 229	992		614	4 712
5.	LIP			1 479		947			675			1 214	4 315
6.	CRS						4 070						4 070
7.	UNDP	1 932		153					59	672			2 816
8.	PRM/USA State Department			577						2 006			2 583
9.	Islamic Relief WW, Predstavništvo Sarajevo										2 244		2 244
10.	UMCOR			637		377			317	774			2 105
11.	IRC					371			805				1 176
12.	SIDA Housing	1 080											1 080
13.	Women's World Banking					1 034							1 034
14.	OXSfam							500					500
15.	ECE, Njemačka								339				339
16.	USDA Know-How Project	237											237
17.	Church World Service					146							146
18.	Ostalo	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.	Ostalo	8		184		12				8		10	222
Operating expenses donations		1 004	874	2 810	500	1 344	0	0	1 892	3 088	54	709	12 275
24.	LIP			1.515					201			709	2.425
25.	PRM									2 047			2.047
26.	USAID					1 344			462				1.806
27.	UNHCR								176	840			1.016
28.	CHF		874										874
29.	Mercy Corps								809				809
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.	Ostalo	47							198	51	54		350
TOTAL DONATED CAPITAL		7 338	6 765	7 735	500	4 710	4 135	804	18 682	10 639	2 298	2 661	66 267

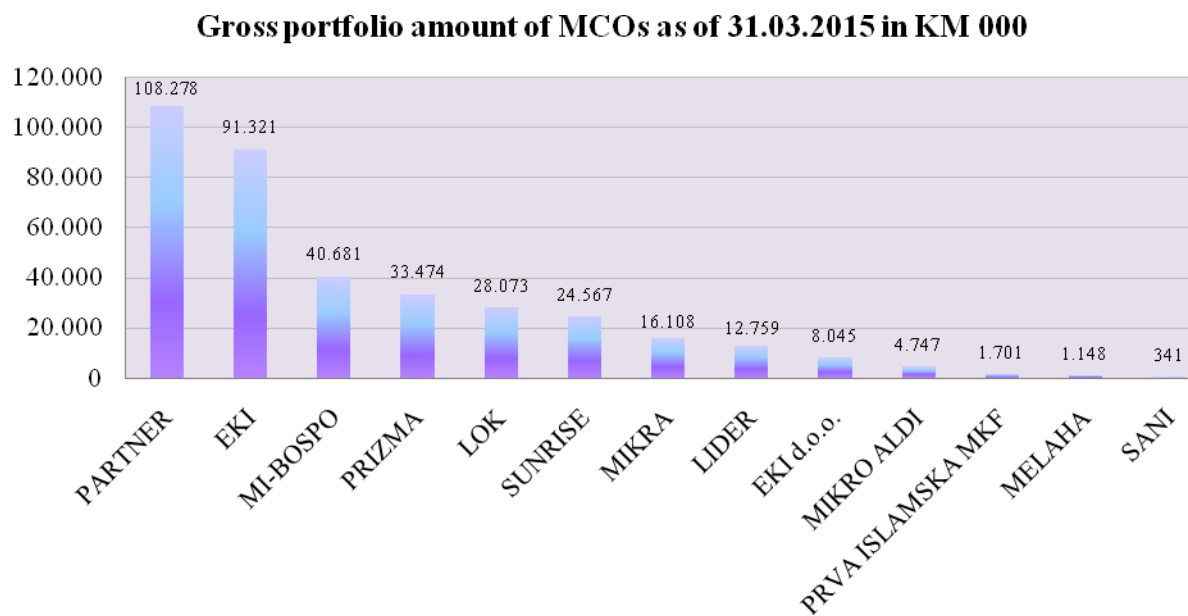
GRAPHS

- Graph 1 Assets amount of MCOs as of 31.03.2015 in KM 000
- Graph 2 Gross portfolio amount of MCOs as of 31.03.2015 in KM 000
- Graph 3 Loan commitments amount of MCOs as of 31.03.2015 in KM 000
- Graph 4 Capital amount of MCOs as of 31.03.2015 in KM 000
- Graph 5 Donated capital amount (by reports) of MCOs as of 31.03.2015 in KM 000
- Graph 6 Surplus/deficit of income over expenses of MCFs, i.e. net profit/loss of MCCs for the period 01.01.-31.03.2015 in KM 000
- Graph 7 Operational sustainability of MCOs in the period 01.01.-31.03.2015
- Graph 8 Number of employees of MCOs as of 31.03.2015
- Graph 9 Number of organisational units of MCOs seated in the Federation of B&H as of 31.03.2015
- Graph 10 Number of active loan accounts of MCOs with the balance as of 31.03.2015
- Graph 11 Number of written-off loans in the off-balance records as of 31.03.2015
- Graph 12 Loan amount in KM 000 written-off in the period 01.01.-31.03.2015
- Graph 13 Collection amount by written-off loans in KM 000 in the period 01.01.-31.03.2015
- Graph 14 Total receivables amount by written-off loans of MCOs in KM 000 with balance as of 31.03.2015
- Graph 15 Total receivables by written-off loans vs. total gross portfolio of MCOs as of 31.03.2015
- Graph 16 Risk portfolio over 30 days past due as of 31.03.2015
- Graph 17 Fixed assets and capital vs. total assets as of 31.03.2015
- Graph 18 Average monthly compensations to members of management/supervisory board of MCOs for the period 01.01.-31.03.2015
- Graph 19 Average monthly income of senior management in MCOs for the period 01.01.-31.03.2015
- Graph 20 Average monthly income of loan officers of MCOs for the period 01.01.-31.03.2015
- Graph 21 Total microloans disbursed in Q1 2015 in KM 000
- Graph 22 Average weighted EIR on total loans as per MCO reports of in Q1 2015
- Graph 23 Average weighted EIR on short-term loans as per MCO reports in Q1 2015
- Graph 24 Average weighted EIR on long-term loans as per MCO reports in Q1 2015

Graph 1.

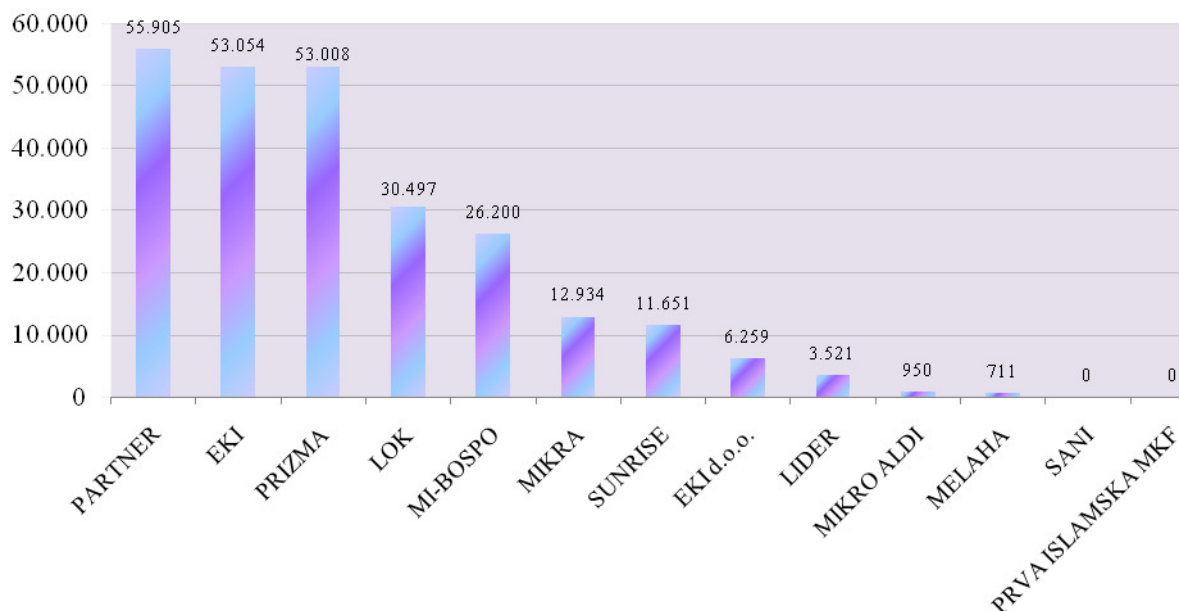


Graph 2.



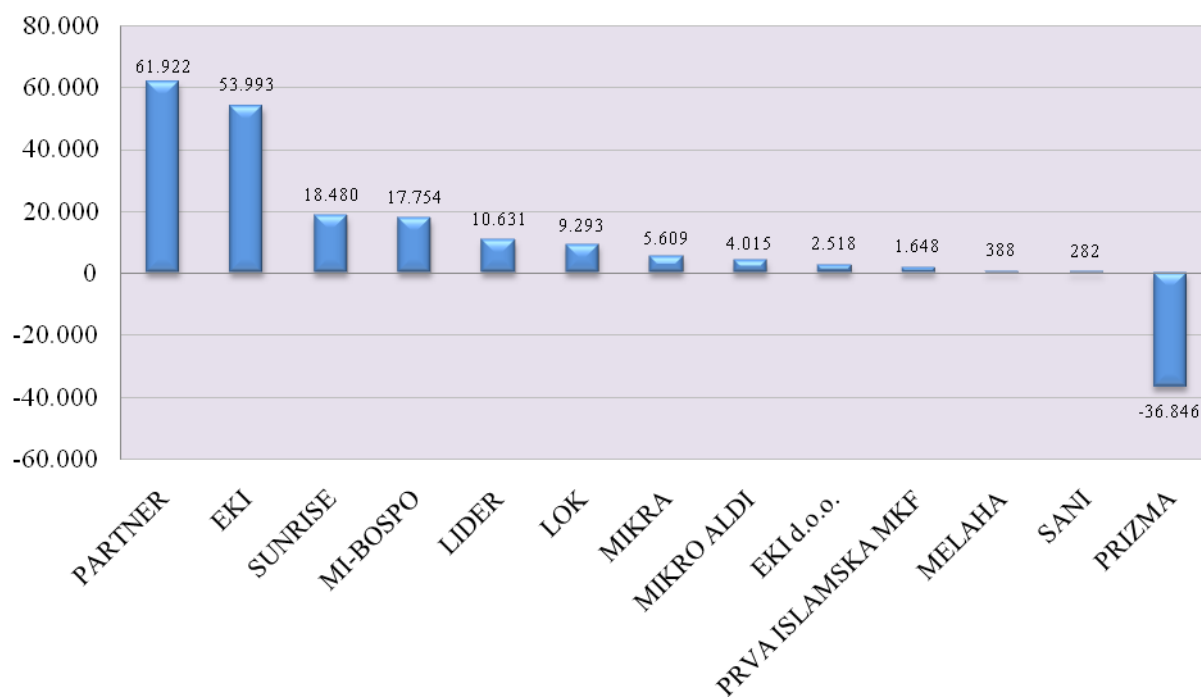
Graph 3.

Loan commitments amount of MCOs as of 31.03.2015 in KM 000

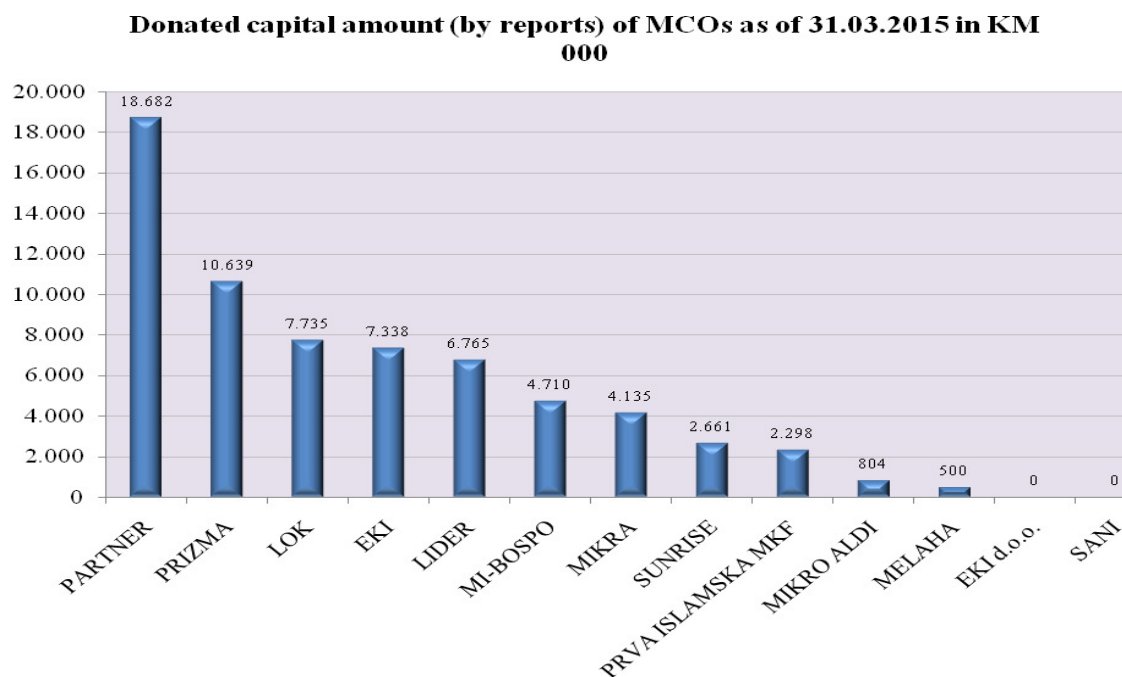


Graph 4.

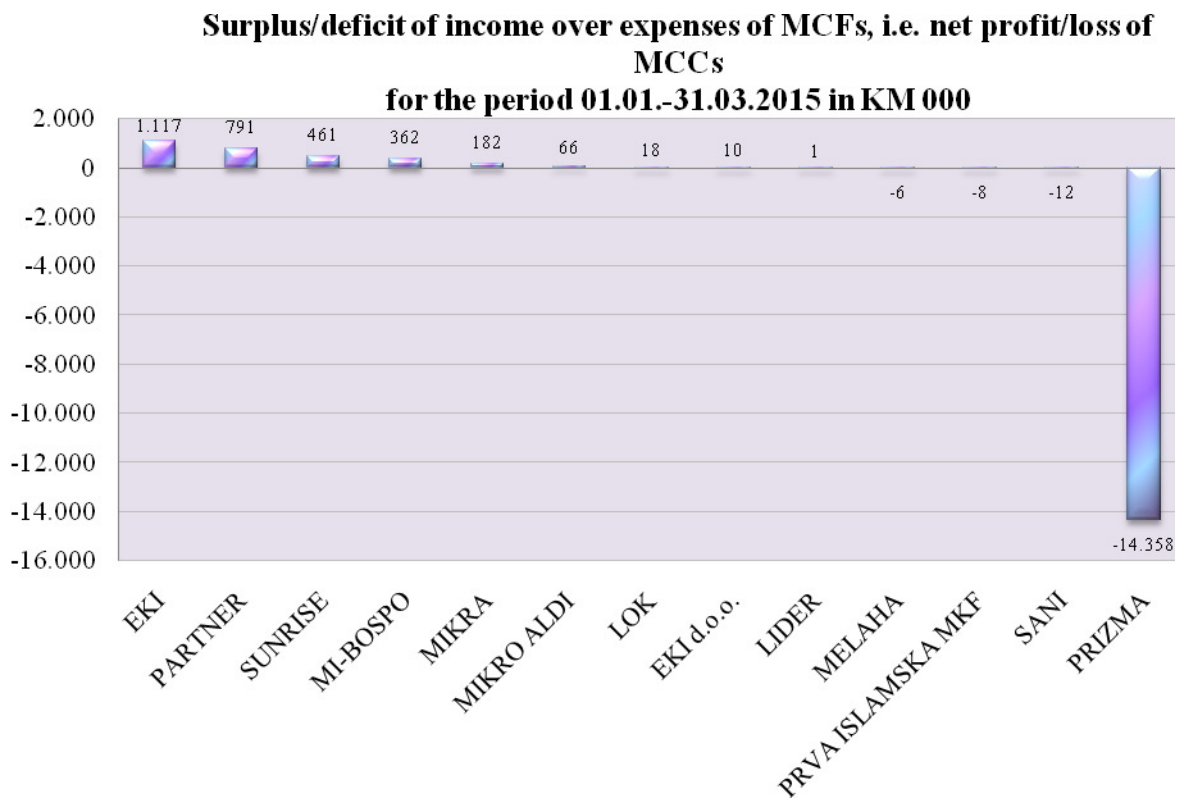
Capital amount of MCOs as of 31.03.2015 in KM 000



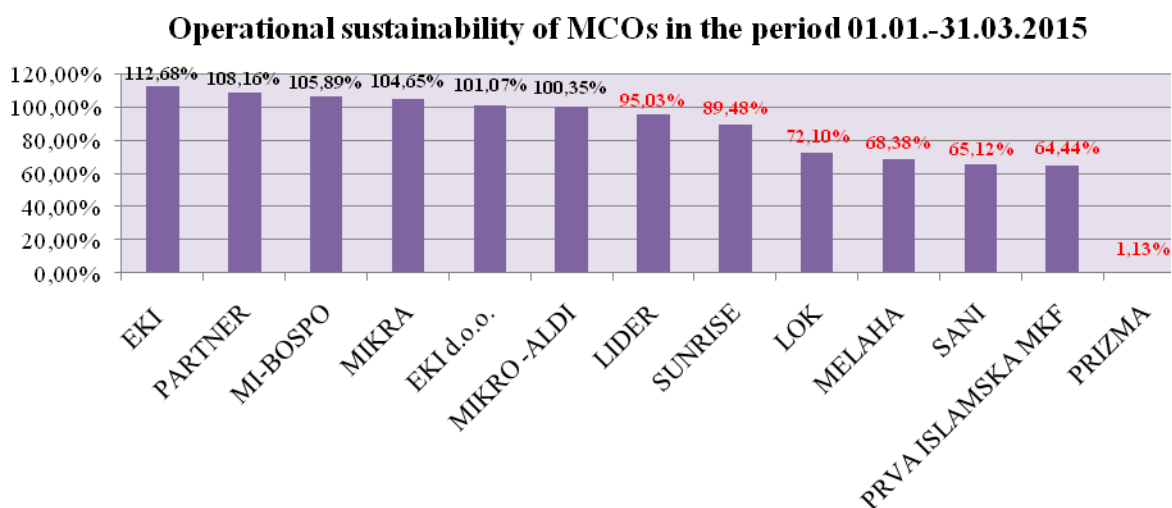
Graph 5.



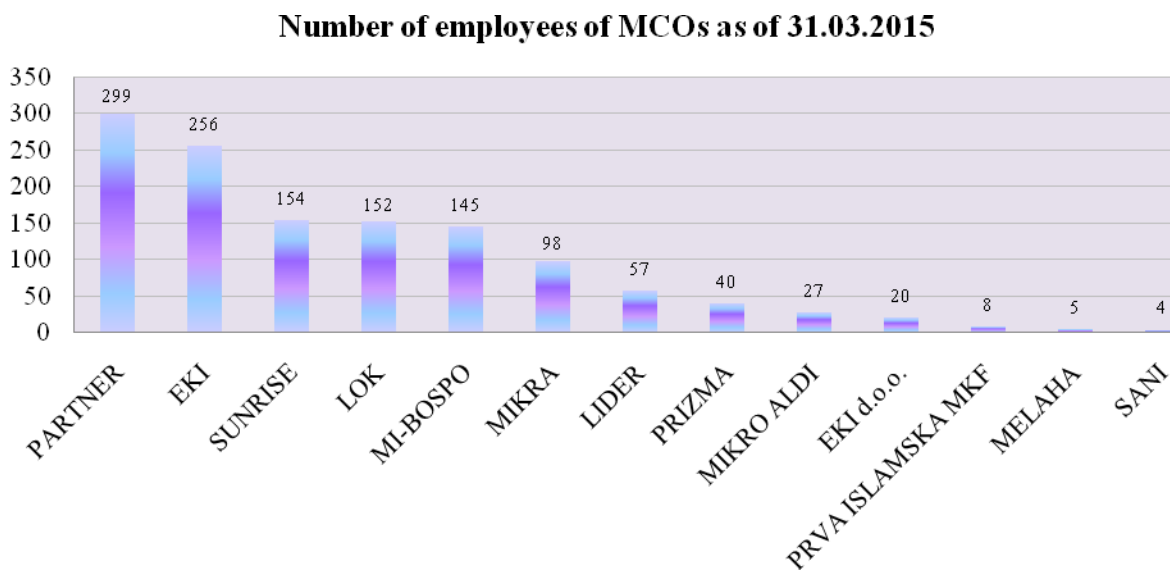
Graph 6.



Graph 7.

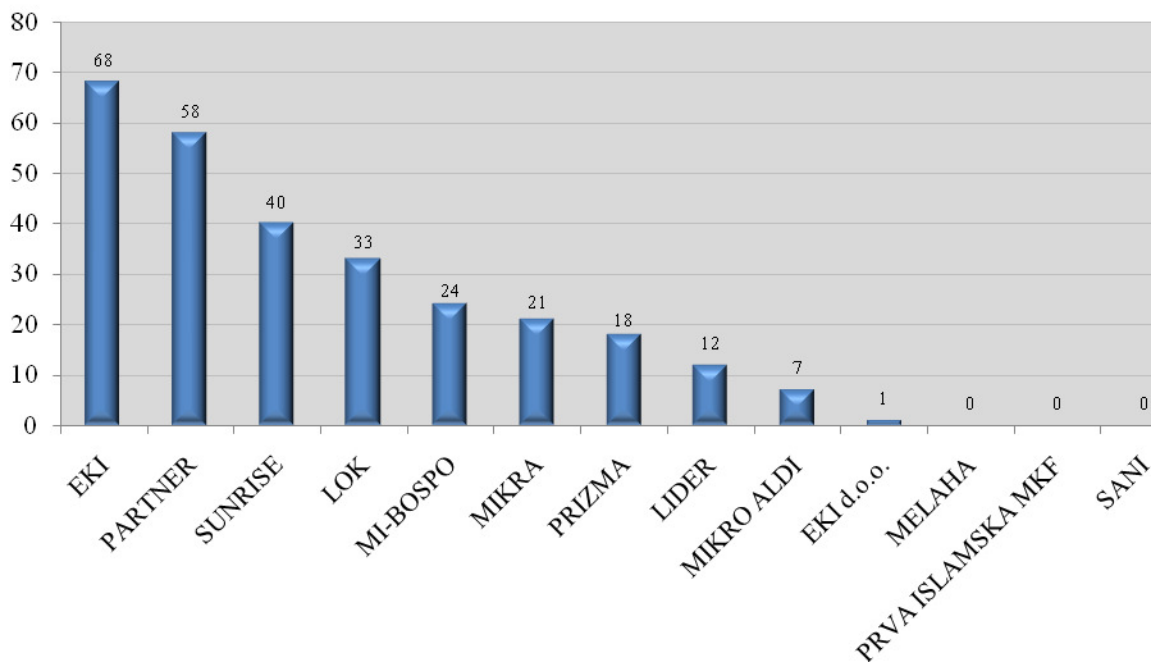


Graph 8.



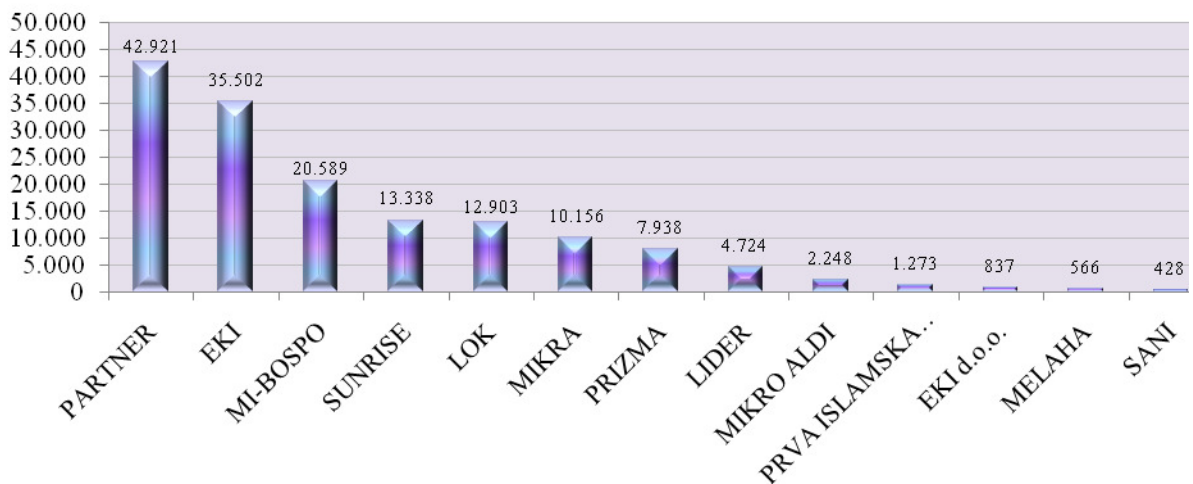
Graph 9.

Number of organisational units of MCOs seated in the Federation of B&H as of 31.03.2015

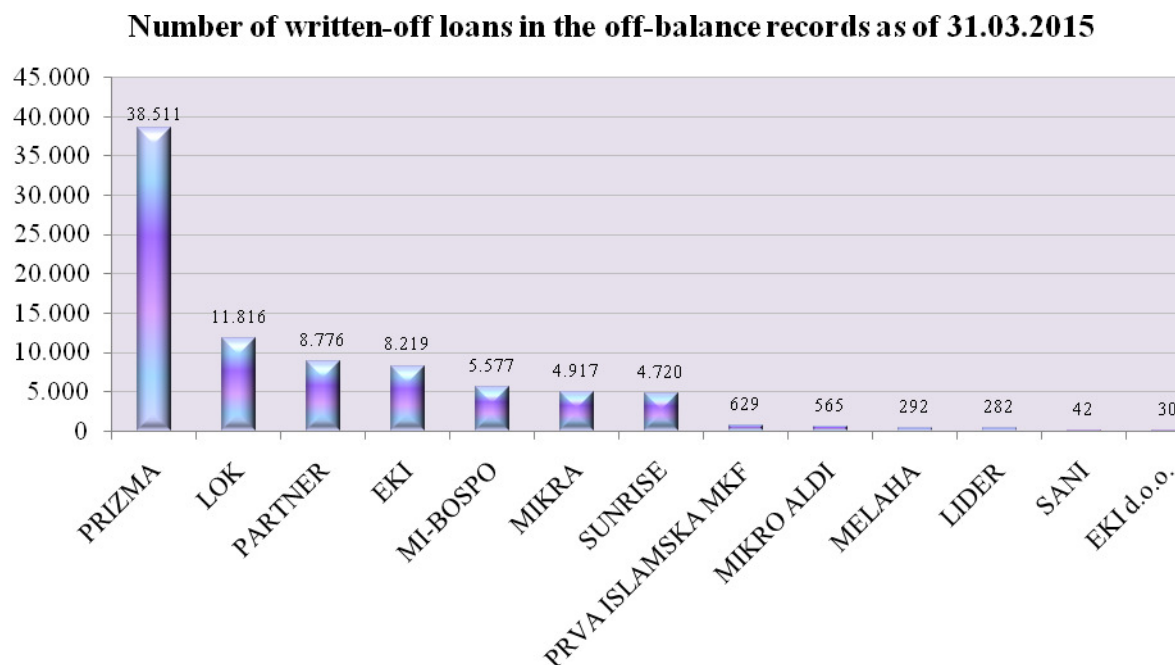


Graph 10.

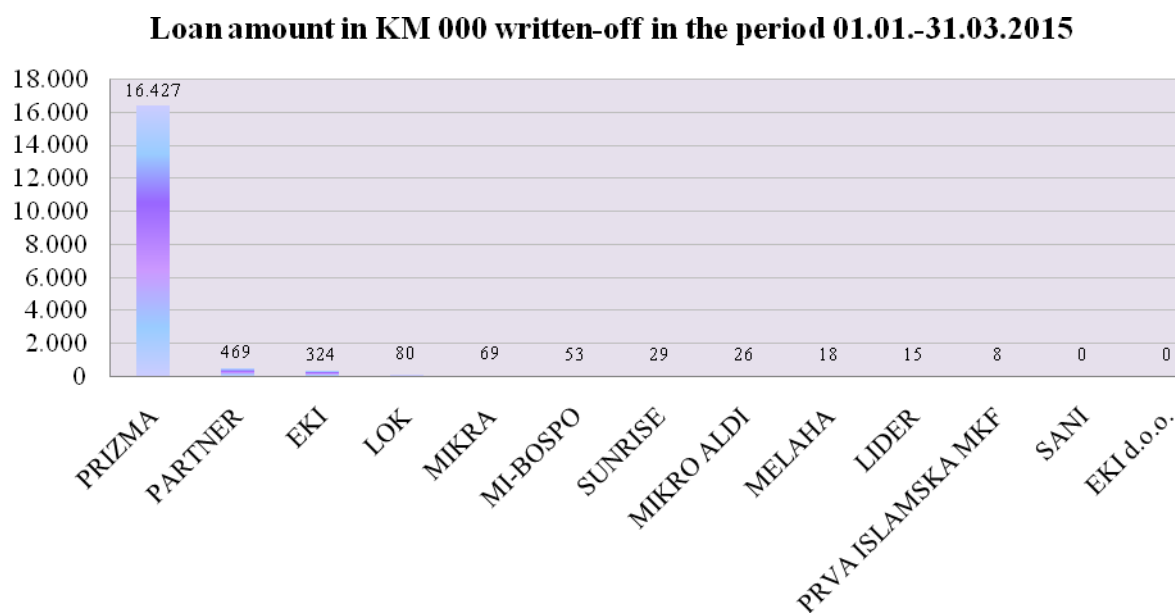
Number of active loan accounts of MCOs with the balance as of 31.03.2015



Graph 11.

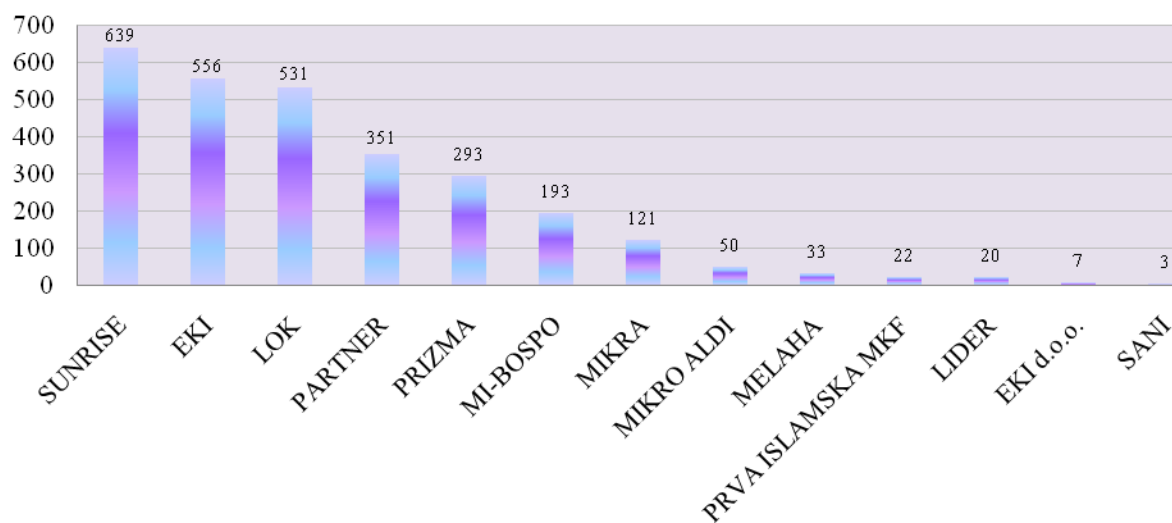


Graph 12.



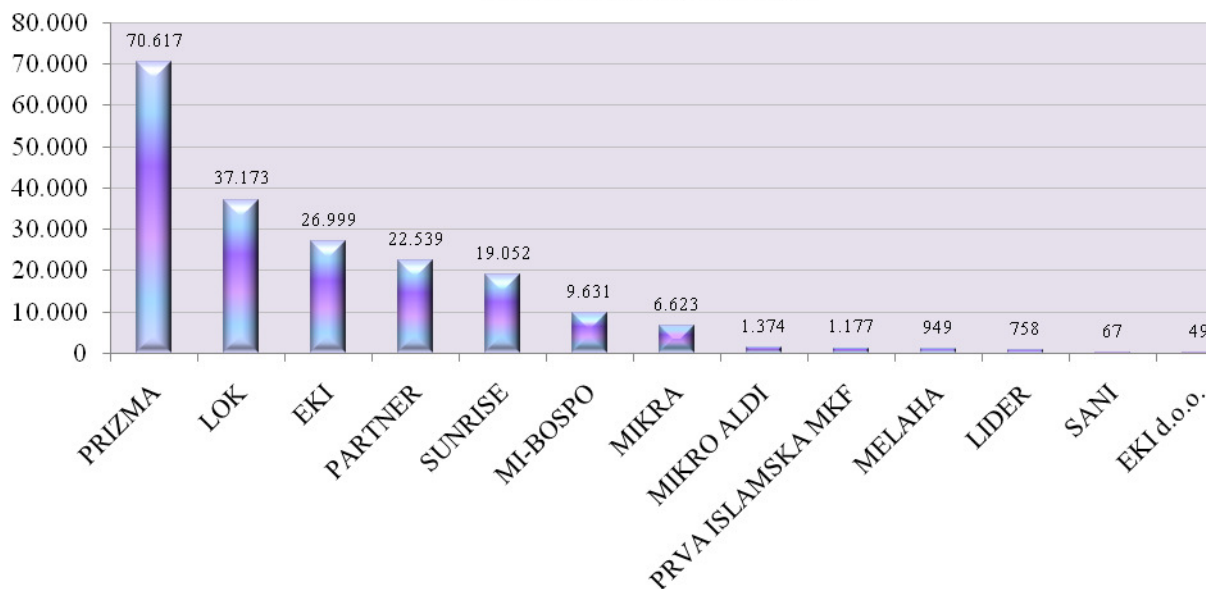
Graph 13.

Collection amount by written-off loans in KM 000 in the period 01.01.-31.03.2015



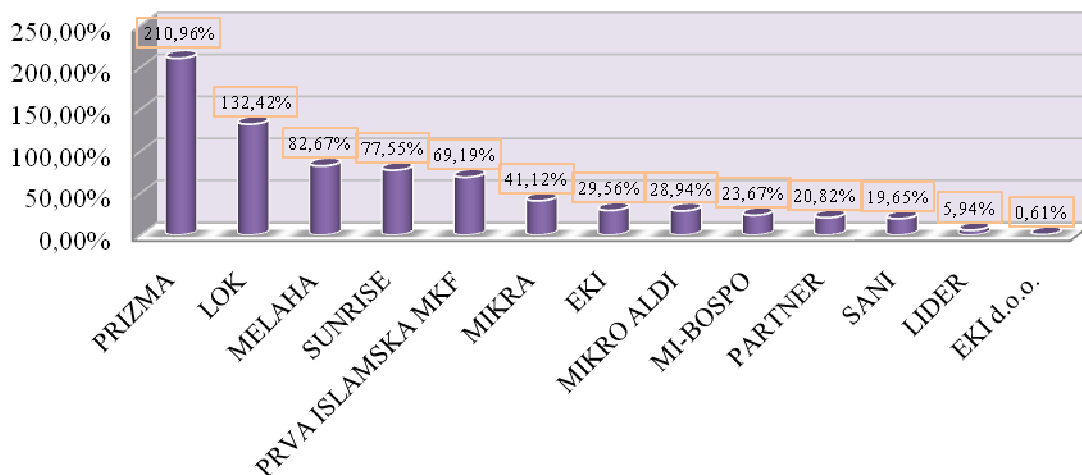
Graph 14.

Total receivables amount by written-off loans of MCOs in KM 000 with balance as of 31.03.2015



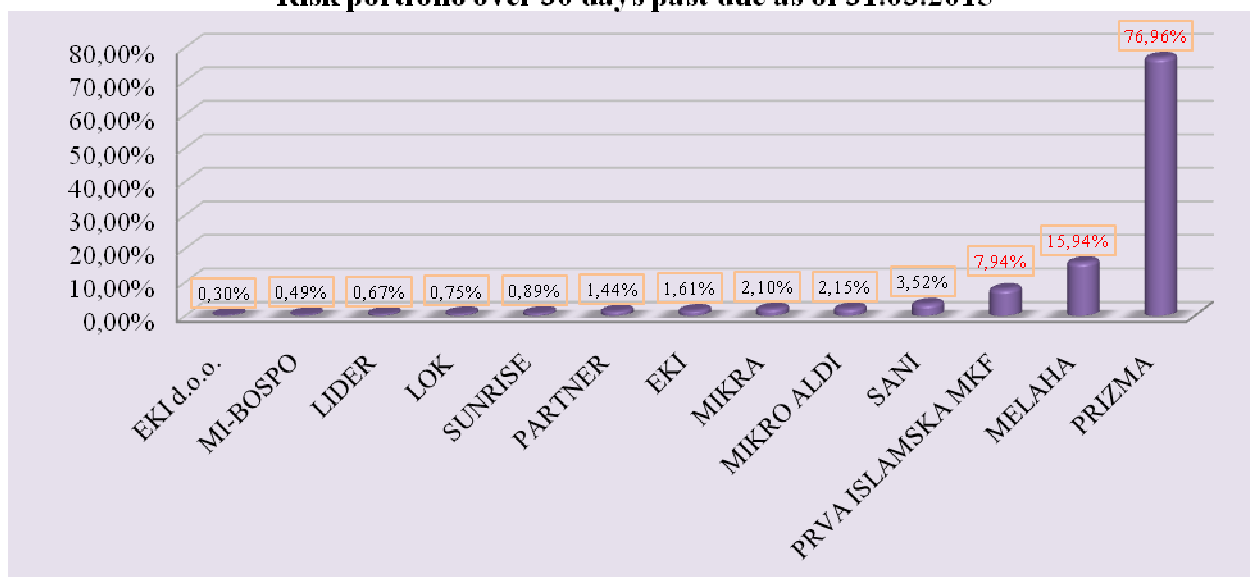
Graph 15.

Total receivables by written-off loans vs. total gross portfolio of MCOs as of 31.03.2015



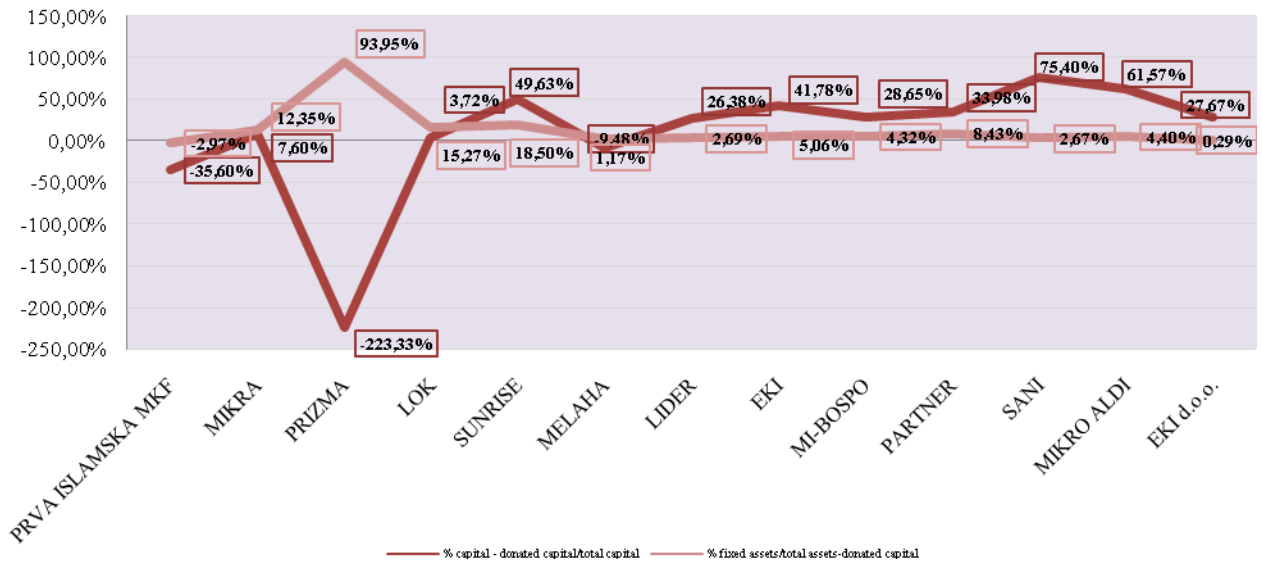
Graph 16.

Risk portfolio over 30 days past due as of 31.03.2015



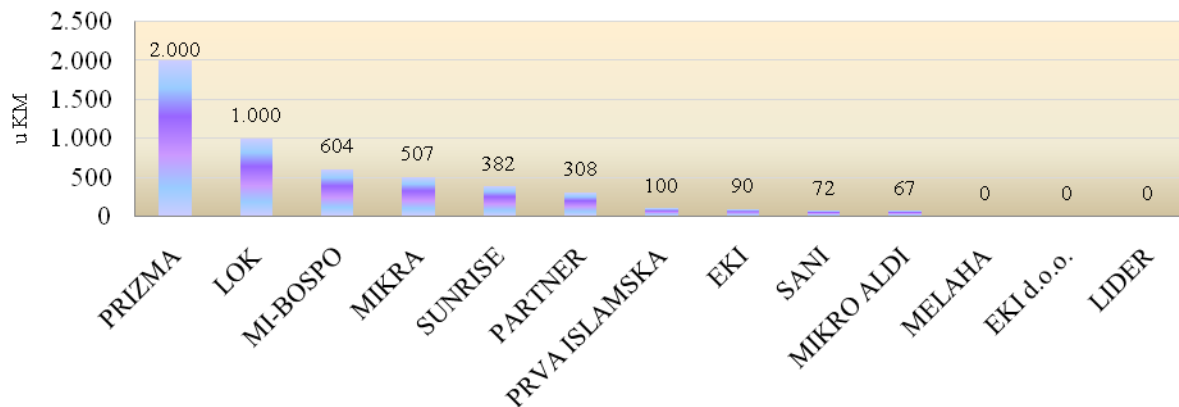
Graph 17.

Fixed assets and capital vs. total assets as of 31.03.2015



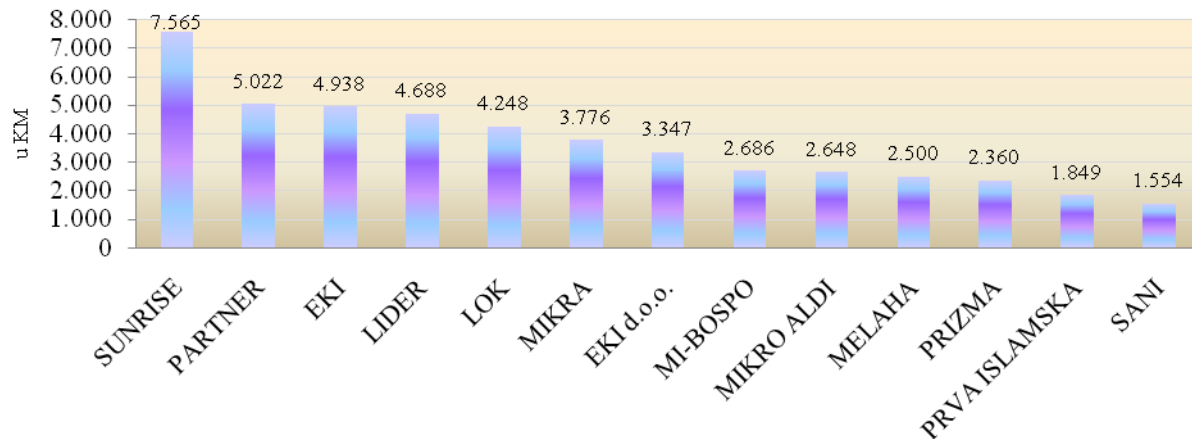
Graph 18.

Average monthly compensations to members of management/supervisory board of MCOs for the period 01.01.-31.03.2015



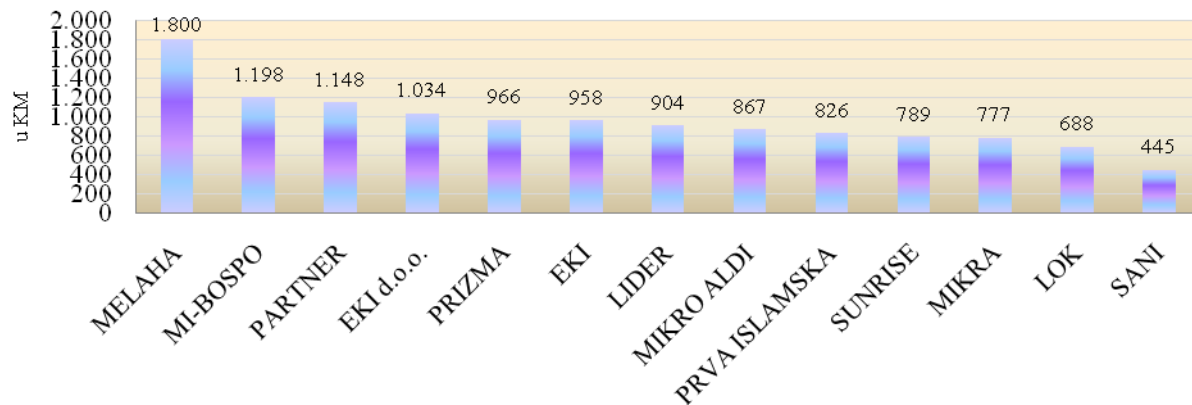
Graph 19.

Average monthly income of senior management in MCOs for the period 01.01.-31.03.2015



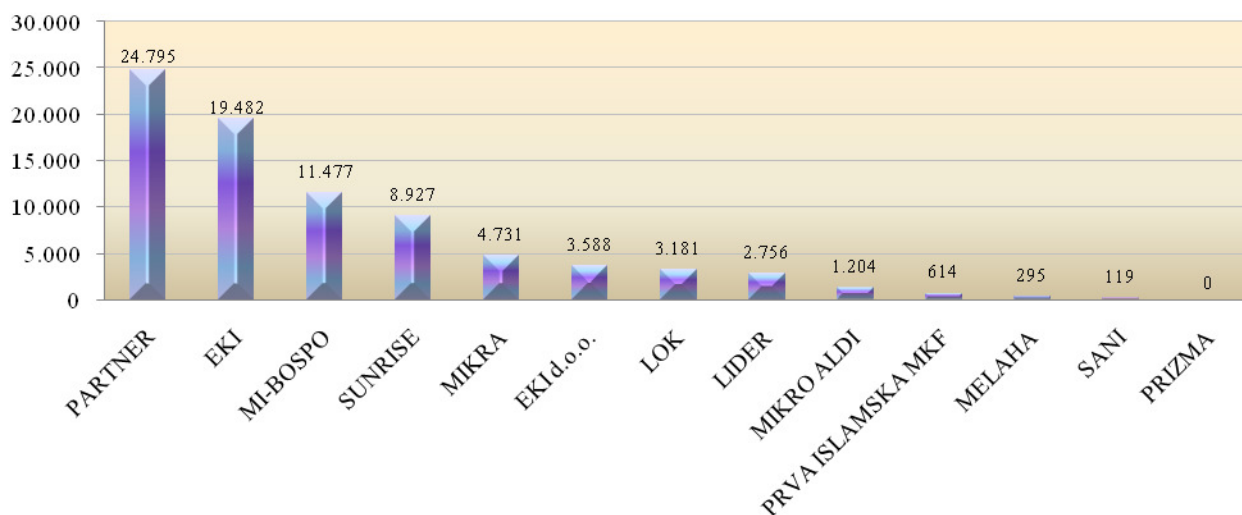
Graph 20.

Average monthly income of loan officers of MCOs for the period 01.01.-31.03.2015



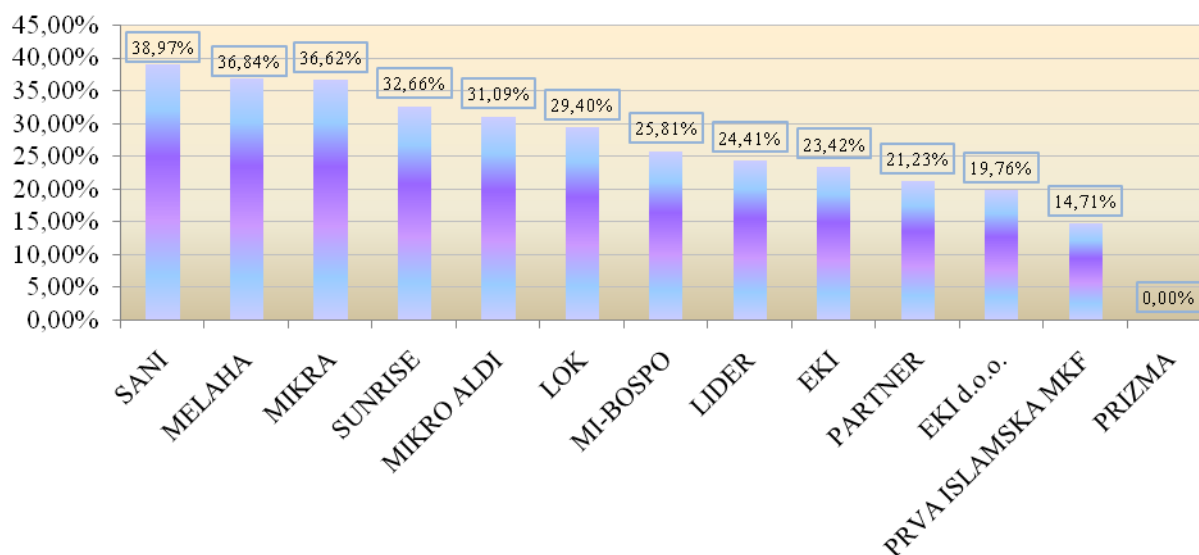
Graph 21.

Total microloans disbursed in Q1 2015 in KM 000



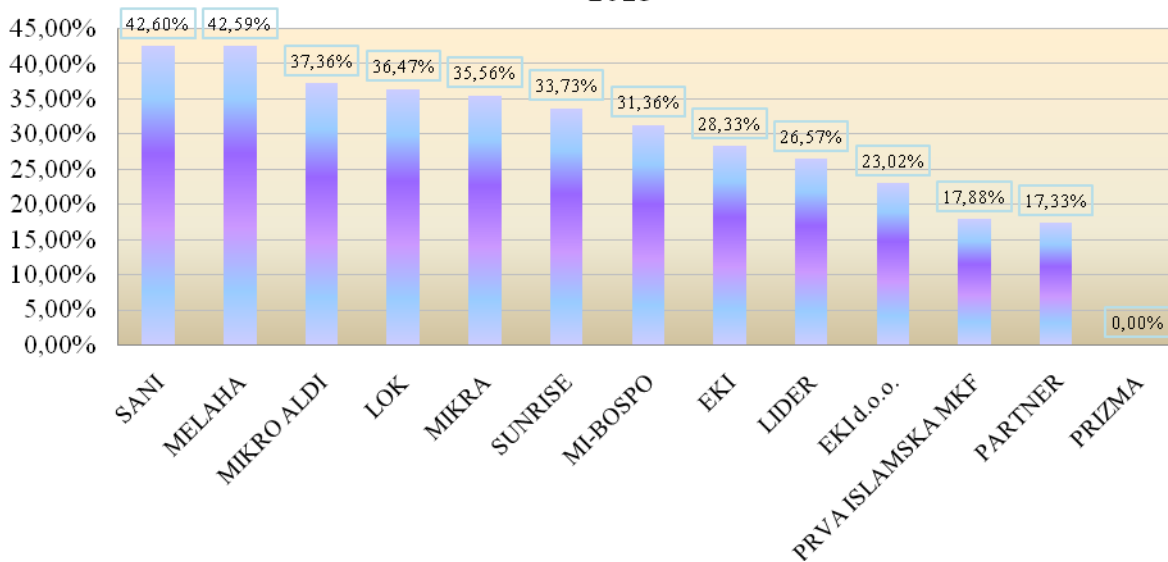
Graph 22.

Average weighted EIR on total loans as per MCO reports of in Q1 2015



Graph 23.

Average weighted EIR on short-term loans as per MCO reports in Q1 2015



Graph 24.

Average weighted EIR on long-term loans as per MCO reports in Q1 2015

