



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

**INFORMATION  
ON THE MICROCREDIT SYSTEM  
OF THE FEDERATION OF BOSNIA AND HERZEGOVINA  
AS OF 31.12.2012.**

Sarajevo, April 2013.

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## 1. INTRODUCTION

The law on micro-credit organizations („Official Gazette of the Federation of BiH“, number: 59/06) (Law on MCOs) regulates the establishment, registration, activities, form of organization, business operations, manner of management, termination of operations and supervision of micro-credit organization performance (MCO), that is micro credit foundation (MCF) and micro-credit companies (MCC) in the Federation of BiH. The authorities of the Banking Agency of the Federation of BiH (Agency) over these activities are regulated by the Law on the Banking Agency of Federation of Bosnia and Herzegovina („Official Gazette of the Federation of BiH“, number: 9/96, 27/98, 20/00, 45/00, 58/02, 13/03, 19/03, 47/06, 59/06, 48/08, 34/12 and 77/12) and internal acts of the Agency, furthermore all the listed activities are performed within the Department for supervision of micro-credit organizations.

The function of supervision of the MCOs, the Agency performs through on site examinations and analyses of the reports that the MCOs submit to the Agency (*off-site*), in accordance with the Law on MCOs and regulations of the Agency. The reporting base is made of quarterly reports on balance sheet, capital, loans, loan loss reserves, performance results and other reports about individual performance segments, as well as a monthly report on interest rates.

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

### 1.1. Agency's regulations regarding business operations of MCOs

The business operations of MCOs are more closely regulated by Agency's regulations, namely the decisions adopted by the Management Board of the Agency, and instructions for business operations of MCOs adopted by the Director of the Agency.

<i>Agency's decisions regarding the business operations of MCOs</i>	<b>Official Gazette of the Federation of BiH</b>
1. Decision on conditions and the procedure for issuing the business operation license to micro-credit foundation established through the change of micro-credit organization form;	27/07
2. Decision on conditions and the procedure for issuing and revoking the business operation license and other approvals to micro-credit organizations;	27/07 and 46/11
3. Decision on conditions and procedure for issuing the business operation license and approval for acquisition of ownership participation through investments and transfer of property of the micro-credit foundation;	27/07
4. Decision on supervision of the business operations of the micro-credit organizations;	27/07 and 110/12
5. Decision on the form and content of reports that the micro-credit organizations submit to the Banking Agency of Federation of Bosnia and Herzegovina and the reporting deadlines;	27/07
6. Decision on the amount and manner for allocating and maintaining reserves for covering the loan losses of micro-credit organizations;	27/07

7. Decision on unified manner of accrual and recording of effective interest rates on loans and deposits;	48/12
8. Decision on other general conditions for business operations of the macro-credit organizations;	27/07
9. Decision on conditions and the manner of micro credit organization's acting on client's complaints;	32/10
10. Decision on fees that the micro-credit organizations pay to the Banking Agency of the Federation of BiH.	46/11
11. Decision on the minimum standards for micro credit organizations in regard to prevention of money laundering and terrorism financing activities.	48/12
<b>Agency's instructions for the business operations of MCOs</b>	
<ol style="list-style-type: none"> <li>1. Instructions for implementation of the Decision on unified manner of accrual and recording of effective interest rates on loans and deposits;</li> <li>2. Instruction for accrual of the risk weighed nominal and effective interest rates;</li> <li>3. Instruction for accrual of the adjusted return on assets;</li> <li>4. Instruction for accrual of the operational efficiency indicators and</li> <li>5. Instruction for development of the micro-credit organization reports</li> </ol>	

### ***1.2. Key examination findings in MCOs in the period from 01.01.-31.12.2012.***

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

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

Striking examples of poor economic performance of the bodies in certain foundations, which funds and foundation goal are of general importance or common interest, and which have a plentitude of funds donated for the support of the entrepreneurship and increase of income of

households, are reflected in the findings of the previously performed examinations. Therefore it was concluded that:

- To individual managers MCF pay out extremely high salaries which are not based on the market and which sometimes are even over ten thousand KM on the monthly bases, as well as inappropriately high bonuses which in two cases were over several hundred thousand KM per person;
- On member of MCF's management board is paid a monthly reimbursement in the amount of 8,3 of the average salary in the Federation of BiH, in addition to which the same member is allowed the right for special other reimbursements, privileges and benefits, and different forms of material and logistic support in unlimited amount and disposition, for example unlimited right for business trips in the country and abroad with paid all expenses, unlimited right for representation, use of the business telephone without limited expenses, official car for use with or without the driver, use of the business office without limit with all the accompanying services;
- in MCF taken and financed are expensive, unjustifiable and unnecessary projects, or concluded are damaging contracts with which other legal entities and individuals are gaining profit, on behalf of the MCF's property of general or common interest, while these expenses are being financed with inappropriate high interest rates on behalf of socially susceptible citizens – users of the micro credits.

With the goal to eliminate the cases of misuse of the position and authorities in regard to the illegal acquisition of significant material use of individual or group on behalf of poor users of micro loans, as well as cases of negligent economic performance and concluding of damaging contracts, the Agency during 2012 issued numerous orders with an aim to remove the noted irregularities and misuse by authorized individuals, as well as orders for termination of the managing/governance bodies in which these cases were found. The MCOs' bodies sometimes lean on the court's protection of the institution from orders of the Agency with which in one case prevented was efficient performance of the examiners in regard to the noted irregularities and violations.

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

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

The expected changes of the Law on the MCOs will allow the Agency to take more strict and quality measures in controlling the performance of the MCOs, which will in a more efficient

way put sanctions in regard to the above mentioned irregularities in the future and secure that the funds of MCOs are used for the purposes for which they are donated, and that MCFs comply with the foundation goals.

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

For MCO which still record a decline in the loan portfolio, the loss of the market segment, and which are deprived of the creditors' trust, due to negative trend in performance, lack of possibility to reach the set standards, it is important, in regard to the maintenance of the substance of the performance, and especially the donated funds, to negotiate a merger or acquisition which presents an important step in preserving the sector.

So far, the negotiations of larger MCOs in the Federation of BiH about establishing a joint company through transfer of property from microcredit foundation did not give results, and majority of MCOs see their chance in establishing a company through one of the foundations, which would multiply the number of legal subject performing microcredit lending in the Federation of BiH. In contrast with the position of the MCOs in the Federation of BiH, the consequences of the loan expansion in the past, current economic atmosphere, significant debt of clients and congestion of the local markets in which there are several microcredit organizations, as well as general opinion of the public about the sector, do not present an environment for multiplication of the MCOs, but for a syntheses or consolidation of the sector which would make the investment process in the microcredit companies easier, and improve the segment of the corporate management, which presents the weakest link in most of the MCOs.

As a follow up to the noted, during 2012, the Agency revoked two licenses for operations of MCF, both due to performed status changes, merger with another MCF, with which, since 2008, when the MCOs initiated the operations with the registration in the authorized registries, the Agency revoked a total of six licenses for operations, four due to merger with other MCFs, and two due to failure to implement the conditions for operations which lead to termination of operations of these MCFs. In comparison to 2008, the number of issued licenses for operations of MCOs from 20 decreased to 14 currently active licenses for operations, which presents a decline by 30%.

The Agency was not sent any requests for establishment of a micro credit foundation or micro credit company nor in 2012 nor during the previous year, while one MCF sent to the Agency a request for termination of operations, which is being processed.

### ***1.3. Measures necessary on the level of MCOs sector to eradicate the adverse effects of business operations***

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

The consolidation on the level of micro-credit organizations, especially the medium size MCOs, is necessary for the stabilization of the micro credit sector, with an aim to increase the economy of volume, improve the performance efficiency of MCFs through significant savings in expenses and decreasing the interest rates, as well as increasing the competence of the management boards, management and other personnel of MCOs. The consolidation would facilitate the strengthening of capital base of a smaller number of stronger and sounder MCOs. As a significant amount of the loan in the macro credit organizations' liabilities will mature in the coming year, and with a lack of creditors' support, the organizations may be exposed to a liquidity problem and for those reasons some MCOs made the decision about merger.

The Agency expects that the changes to the Law on micro credit organizations will correct the incomplete regulations, provide adequate instruments for MCOs performance supervision, allow a more efficient correction of the noted problems in the performance of MCOs, and eradicate possible misuse. The expected changes to the Law on micro credit organizations would enable space for additional improvements of the Agency's regulations with an aim to protect donated funds which directly provide for lending to a large number of clients which do not have access to traditional sources of financing.

## **2. THE STRUCTURE OF MICRO-CREDIT ORGANIZATIONS**

As of 31.12.2012., there are 14 MCOs in the Federation of Bosnia and Herzegovina, of that 13 MCFs (nonprofit organizations) and 1 MCF's (profit organization), as well as 27 MCCs organization units which head offices are in Republic Srpska. All MCFs that received the Agency's operating license performed the registration in compliance with the Law on MCOs, that is they were created through the change of MCOs form established in accordance with the Law on micro-credit organizations („Official Gazette of the Federation of BiH, number: 24/00) (Law on MCOs from 2000.). Therefore, all the MCOs are legal successors of the property, rights and obligations of MCOs established in accordance with the Law on MCOs from 2000. In the Attachment 1., there are basic data on MCFs and MCCs to which as of 31.12.2012., have the Agency's operating license for operations regarding the micro-credit lending.

### **2.1. Organizational parts**

As of 31.12.2012, in the Registry of microcredit organizations and their organizational parts, which in compliance with the Article 13 of the Law on Micro credit organizations is managed by the Agency, there was a recorded a total of 319 organizational units of MCOs with a head office in the Federation of BiH, of which in the Federation of BiH 213, Republic Srpska 103 and District Brčko 3. The total number of the organizational units of the MCOs with the head office in the Federation of BiH decreased by 22 organizational units, or 6% in comparison to the end of the previous year. A total of 180 organizational units of MCFs with head offices in the Federation of BiH have authorization to grant micro-credits, and as such are registered in the appropriate Registry. During 2012, the Agency issued 7 consents for establishing organizational units of MCOs and 17 consents for changes of address of the organizational units, while 12 organizational units were erased from the Agency's Registry since license for

operations due to merger was revoked from 1 MCF, and 6 were taken out from the Registry after consolidation of the balance with the MCOs. There are 8 MCFs that have organizational units outside of the Federation of BiH while 4 MCFs operate exclusively through their head office, in other words do not have open organizational units.

Agency issued licenses for operations of organizational units of one MCC which has a head office in republic Srpska, and which operates in Federation through 27 branches and field offices.

## 2.2. Personnel

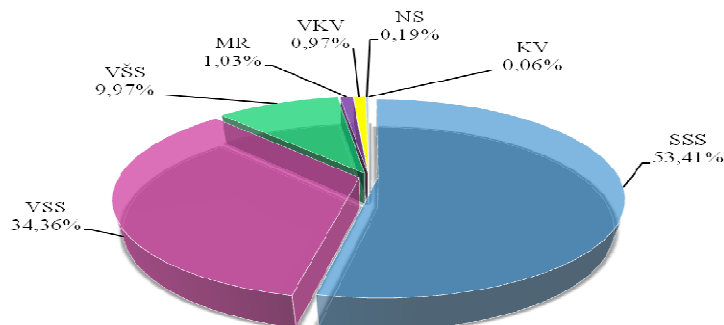
Table 1. Qualification structure of employees

No.	Qualification <sup>1</sup>	31.12.2011.		Total	Partic. (%)	31.12.2012.		Total	Partic. (%)	Ratio
		MCF	MCO			MCF	MCO			
1	2	3	4	5=(3+4)	6	7	8	9=(7+8)	10	11=9/5
1.	NS	3	0	3	0,20	3	0	3	0,19	100
2.	KV	1	0	1	0,07	1	0	1	0,06	100
3.	VKV	15	0	15	0,99	15	0	15	0,97	100
4.	SSS	817	4	821	54,41	828	2	830	53,41	101
5.	VŠS	183	0	183	12,13	154	1	155	9,97	85
6.	VSS	469	4	473	31,35	530	4	534	34,36	113
7.	MR	13	0	13	0,86	16	0	16	1,03	123
<b>TOTAL</b>		<b>1.501</b>	<b>8</b>	<b>1.509</b>	<b>100,00</b>	<b>1.547</b>	<b>7</b>	<b>1.554</b>	<b>100,00</b>	<b>103</b>

As of 31.12.2012., micro-credit sector employed a total of 1.554 employees, which is an increase by 45 in comparison to 31.12.2011 or by 3%. MCFs employ 1.547 employees or 99,5%, and MCOs 7 employees or 0,5%. In the structure of employees the largest participation is of SSS of 53,41%, VSS of 34,36% and VŠS of 9,97%.

The percentage of employees with high school is increasing (by 1%), higher education (by 13%) and masters of art (by 23%), while the number of employees with VSS is decreasing (by 15%).

Graph 1. Qualification structure of employees in MCOs as of 31.12.2012.

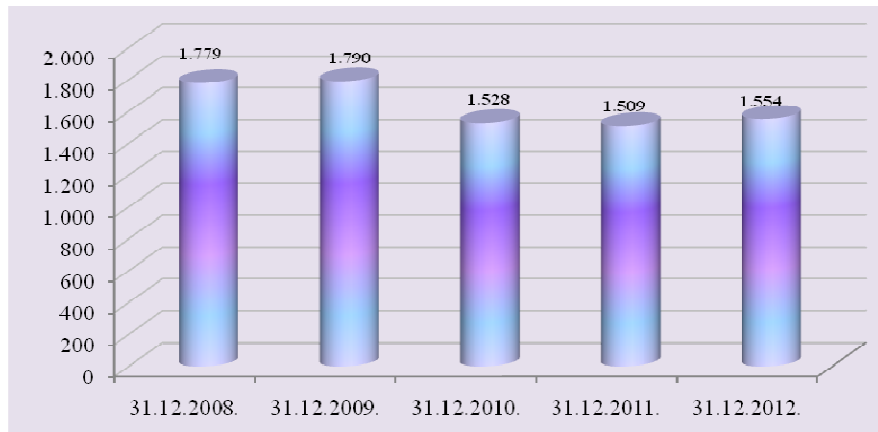


<sup>1</sup> NS – elementary education level, KV – vocational qualifications, VKV- higher vocational qualifications, SSS – high school degree, VŠS – two year college degree, VSS – University degree, MR – Master of Arts.



Reviewing the number of employees over the years of performance of MCOs, it can be concluded that the largest number of employees was reported at the end of 2009, when MCOs were employing 1.790 employees, which when compared with the data as of 30.09.2012 presents a decline of 13%. Comparing these two periods, in individual MCOs, two MCFs reported the largest decline of the number of employees of a high 33%.

*Graph 2. Number of employees in MCOs through*



### **3. ANALYSES OF THE FINANCIAL CONDITION AND PERFORMANCE ACHIEVEMENT OF MCOs**

#### **3.1 Balance Sheet**

As of 31.12.2012., the MCOs balance sheet amount is 499,7 million KM and it decreased by 2,8 million KM or 1% in relation to 31.12.2011. The balance sheet growth, in comparison to the end of previous year, was recorded by 8 MCF and the decline by 5 MCFs and 1 MCO. The decline of the balance sheet of 10% in relation to 31.12.2011 is recorded by 3 MCFs, while the decline up to 20% in relation to the end of the previous year was recorded by 1 MCF and 1 MCO, decline up to 30% was recorded by 1 MCF, while 1 MCF recorded a decline of a high 84% in comparison to the previous year. The highest participation in the total MCOs balance sheet is by six MCFs with assets in the amount of 463,6 million KM or 93%.

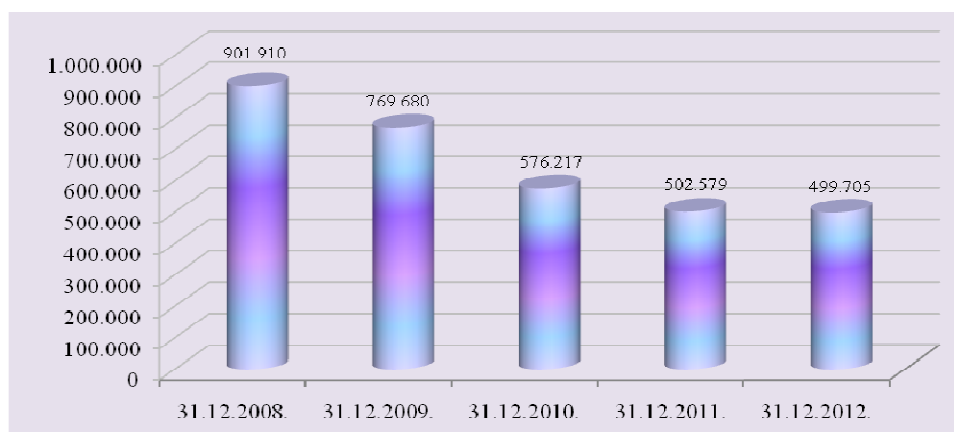
Table 2. Balance Sheet of MCOs

in 000 KM

DESCRIPTION	31.12.2011.					31.12.2012.					Ratio
	Balance as of MCF	%	Balance as of MCO	%	TOTAL	Balance for MCF	%	Balance for MCO	%	TOTAL	
1	2	3	4	5	6=(2+4)	7	8	9	10	11=(7+9)	12
<b>ASSETS</b>											
1. Cash	28.973	6	270	14	29.243	25.286	5	104	7	25.390	87
2. Placements to banks	14.975	3	0	0	14.975	8.245	2	0	0	8.245	55
3. Loans	412.802		1.582		414.384	415.883		1.349		417.232	101
4. Less: reserves for loan losses	11.647		11		11.658	7.585		25		7.610	65
5. Net loans	401.155	80	1.572	80	402.727	408.298	82	1.324	86	409.622	102
6. Business premises and other fixed assets	47.838	10	75	4	47.913	48.025	10	84	5	48.109	100
7. Long term investments	15	0	0	0	15	15	0	0	0	15	100
8. Other assets	9.048	2	57	3	9.105	9.268	2	33	2	9.301	102
9. Less: reserves for other assets, except loans	1.398	0	2	0	1.400	975		2		977	70
<b>TOTAL ASSETS</b>	<b>500.606</b>	<b>100</b>	<b>1.973</b>	<b>100</b>	<b>502.579</b>	<b>498.162</b>	<b>100</b>	<b>1.543</b>	<b>100</b>	<b>499.705</b>	<b>99</b>
<b>LIABILITIES</b>											
10. Liabilities for loans taken	330.981	66	1.175	60	332.156	311.240	62	803	52	312.043	94
11. Other liabilities	20.054	4	69	3	20.122	24.091	5	39	3	24.130	120
12. Capital	149.571	30	729	37	150.301	162.831	33	701	45	163.532	109
<b>TOTAL LIABILITIES</b>	<b>500.606</b>	<b>100</b>	<b>1.973</b>	<b>100</b>	<b>502.579</b>	<b>498.162</b>	<b>100</b>	<b>1.543</b>	<b>100</b>	<b>499.705</b>	<b>99</b>
Off balance sheet	168.222		60		168.282	172.252		52		172.304	102

Reviewing the aggregate balance sheet of MCOs over the years, the largest amount was reported at the end of 2008, when it was 902 million KM. Aggregate balance sheet amount as of 31.12.2012 is 499,7 million KM, which presents a decline of a high 45% in comparison to 2008. Comparing these two periods, in individual MCOs, two MCFs reported the largest decline of the balance sheet, in which it declined by a high 61% and 71% .

Graph 4. The amount of assets of MCOs (in 000 KM)



In the asset structure of MCOs, the cash funds are 25,4 million KM or 5% with a decline rate of 13% in comparison to 31.12.2011., and mainly relate to cash funds of MCF. Placements to banks are 8,3 million KM or 2% and are lower by 45% in comparison to the end of the

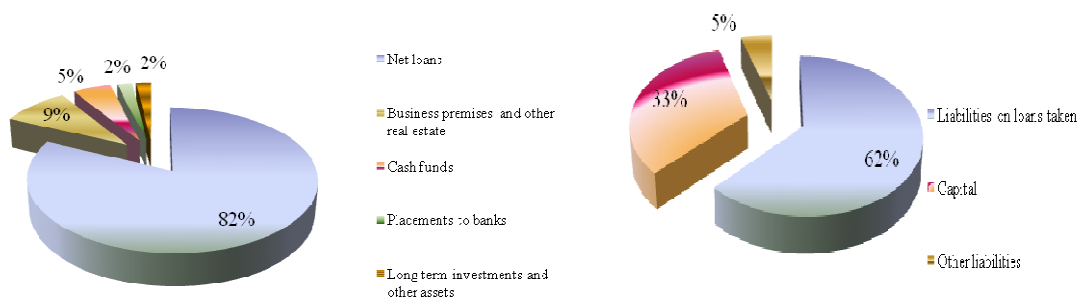
previous year. Since the investors, local commercial banks, but also different international socially oriented commercial funds, are generally showing a higher degree of caution in lending to a majority part of the MCOs, many MCOs have a limited the access to the funds they could use for funding their micro credit activity, and realize sufficient income from regular operations to cover for their expenses. Additional restrictions on the long term funds for MCOs and maturity of the short term liabilities with a poor collection can lead to insolvency of some MCOs, even larger scale operations, which presents one of more significant risks and challenges which face the managing and governance bodies .

Net loans, that is, the gross loans deducted for the loan loss reserves, are 409,6 million KM or 82% of the total assets and increased by 6,9 million KM or 2% in comparison to 31.12.2011. The growth of net loans in comparison to the previous year is recorded by 8 MCFs, while decline is reported by 5 MCFs and 1 MCO. In comparison to 31.12.2011, while the decline of the net loans up to 10% is recorded by 3 MCFs, decline up to 20% is recorded by 1 MCF and 1 MCO. One MCF recorded a decline of the net loans over 76% in comparison to the previous year.

The business premises and other fixed assets are 48,1 million KM or 9% of total assets and have declined by 196 thousand KM or 0,4%, and this balance sheet position is higher than in comparison to the end of the previous year. The percentage of fixed assets in the total assets (deducted for the amount of the donated capital) on the level of the sector is 10,63%, which is slightly higher than the prescribed amount, and reviewed individually, there are four MCFs which are breaching this standard.

The amount of 8,3 million KM or 2% refers to long term investment (15 thousand KM reported by just one MCF) and other assets ( 8,324 thousand KM deducted for the provisioning for other items of assets apart from loans), and are composed of accrued interest, advance payments, active time reconciliation and other. The percentage of other assets on the level of the sector in comparison to the total assets is 1,86%, and viewed individually, in all MCOs, other assets are under 10% in comparison to the total assets.

Graph 5. Structure of assets and liabilities of MCOs



In the liability structure of MCOs, the liabilities on acquired loans are the basic source of funds and amount to 312,1 million KM or 62% of total liabilities and decreased by 6% in comparison to 31.12.2011.

Table 3. Maturity structure of loans taken

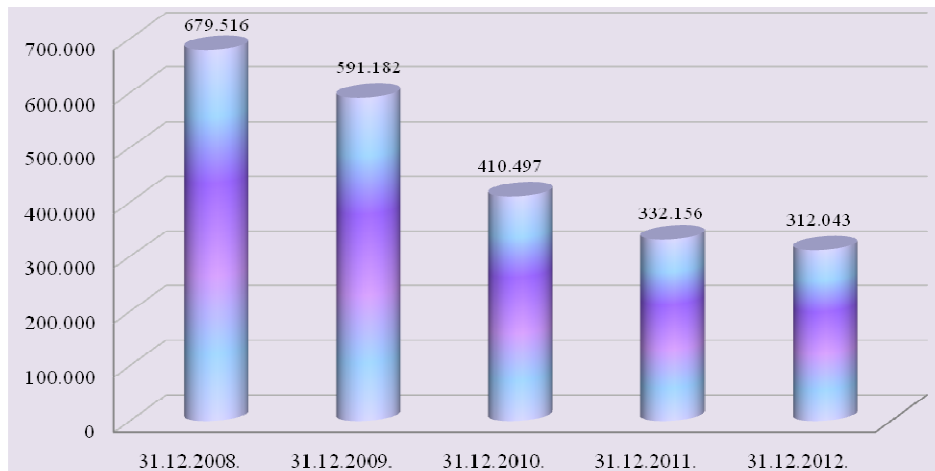
in 000 KM

DESCRIPTION	31.12.2011.				31.12.2012.				Ratio
	MCF	MCO	TOTAL	%	MCF	MCO	TOTAL	%	
1	2	3	4=(2+3)	5	6	7	8=(6+7)	9	10=8/4
<b>1. Liabilities from short term loans taken</b>	82.347	723	83.070	25	99.872	719	100.591	32	121
<b>2. Liabilities from long term loans taken</b>	248.634	452	249.086	75	211.368	84	211.452	68	85
<b>TOTAL</b>	<b>330.981</b>	<b>1.175</b>	<b>332.156</b>	<b>100</b>	<b>311.240</b>	<b>803</b>	<b>312.043</b>	<b>100</b>	<b>94</b>

Of total liabilities on loans taken, 211,5 million KM or 68% are long term loans (2 MCFs do not have them), and they declined by 15% in relation to the end of last year. Of total liabilities on loans taken 100,6 million KM or 32% are short term loans (3 MCFs do not have them), with a growth rate of 21% in comparison to the end of previous year. The liabilities from taken loans of MCFs amount to 311,2 million KM or 99,7% of total liabilities on loans taken.

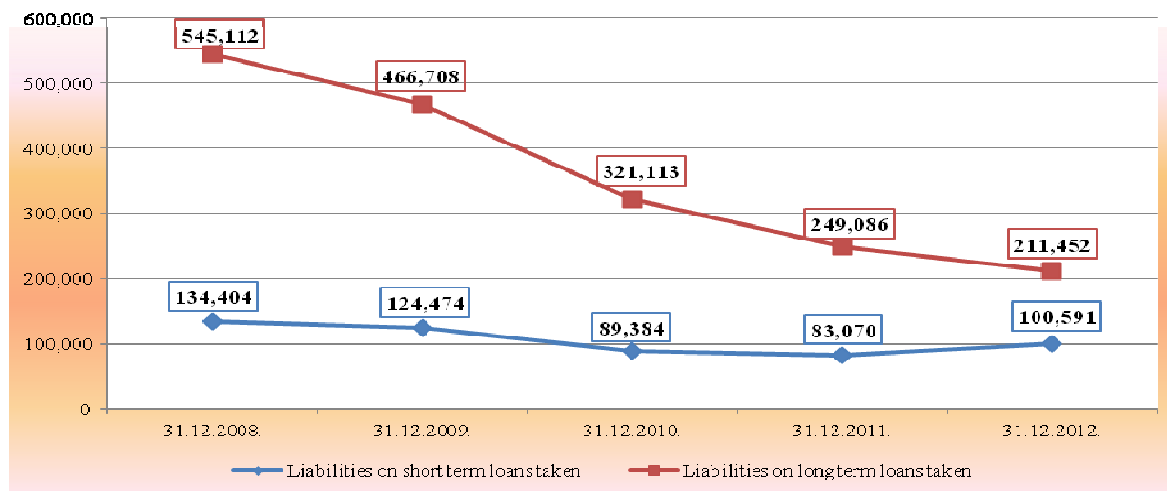
Reviewing the amount of total liabilities of MCOs on loans taken through years of performance of MCOs, their largest amount is recorded at the end of 2008, when they were 679,5 million KM. Total liabilities of MCOs in regard to loans taken as of 31.12.2012 are 312,1 million KM, and they declined by a high 54% in comparison to the end of 2008. Comparing these two periods, in individual MCOs, two MCFs recorded the largest decline of the amount of total liabilities on loans taken, in which they declined by a high 89% and 94%, respectively.

Graph 6. The amount of liabilities of MCOs on loans taken through years (in 000 KM)



As it is obvious from the graph below, in addition to the fact that the total liabilities from loans taken in comparison to 2008 are lower by 54%, or 6% in comparison to the previous year, reviewing the liabilities from loans taken by maturity of concern is the fact that the long term loans in comparison to 2008 declined by a high 61%, and are constantly decreasing, while the short term loans in comparison to 2008 declined by 25%. However, in comparison to the end of the previous year, they recorded an increase by 21%.

Graph 7. Liabilities from short term and long term loans taken



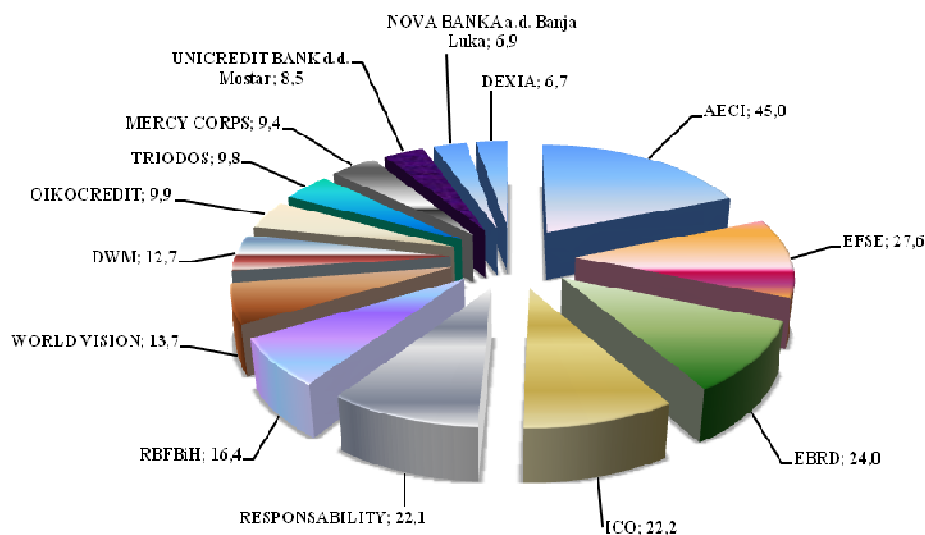
The most significant MCO creditors, with 75% of the credit liabilities, are:

- 1.) AECI – Agency for international cooperation Kingdom of Spain (45 million KM);
- 2.) EFSE – European Fund for the southeast Europe, Luxemburg (27,6 million KM);
- 3.) EBRD – European bank for reconstruction and development, Great Britain (24 million KM);
- 4.) ICO – Instituto de Credito Oficial, Spain (22,2 million KM);
- 5.) Responsibility SICAV, Switzerland (22,1 million KM);
- 6.) Development bank of the Federation of BiH<sup>2</sup> (16,4 million KM);
- 7.) World Vision International, USA (12,7 million KM);
- 8.) DWM – Developing World Markets, USA (12,7 million KM);
- 9.) Oikokredit, Netherlands (9,9 million KM);
- 10.) Triodos – Doen, Netherlands (9,8 million KM).
- 10.) Mercy Corps, USA (9,4 million KM);
- 12) UniCredit Bank d.d. Mostar, BiH (8,5 million KM);
- 13.) Nova banka a.d., Banja Luka (6,9 million KM) and
- 13.) Dexia, Switzerland (6,7 million KM) and

One MCF has an exposure, in the first creditor, of 43%, and a high 69% in the eighth creditor, which presents a high concentration in the sources of funding.

<sup>2</sup> The funds are granted under the Project of local initiatives LIP I and LIP II which management by the Decision of the Government of the Federation of BiH („Official Gazette of the Federation of BiH“, number: 78/06 and 34/07) has been transferred to the Development bank of the Federation of BiH.

Graph 8. Sources of funding of MCOs as of 31.12.2012. (in mil. KM)



Other liabilities are 24,7 million KM or 5% of total liabilities, and they consist of liabilities towards employees, suppliers, passive time reconcilements and other. A total of 5 MCF have a percentage of other liabilities higher than 10% in relation to the total liabilities.

The off-balance sheet is 172,3 million KM, and it consists of charged off credit receivables (171,9 million KM) and agent contracts (two MCFs have 0,4 million KM), and it increased by 2% in comparison to 31.12.2011.

### 3.2. Capital

The total capital of MCOs as of 31.12.2012., was 163,5 million KM, or 33% of total liabilities and it increased by 13,2 million KM or 9% in comparison to the end of 2011. The capital of MCFs is 162,8 million MCF or 99,6%, and the capital of one MCO is 0,7 million KM or 0,4%. Four MCFs have a percentage of the ratio of the amount of capital (deducted for the donated capital) to total assets lower than allowed.

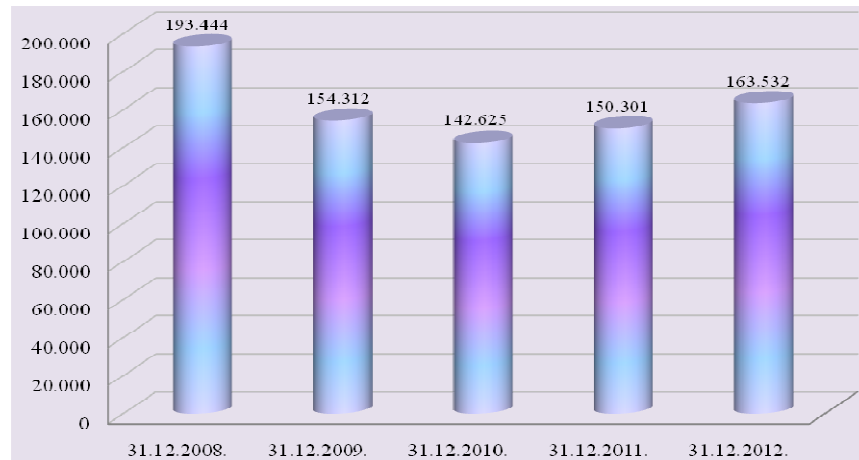
Table 4. Structure of capital of MCOs

in 000 KM

DESCRIPTION	31.12.2011.					31.12.2012.					Ratio
	Balance for MCF	%	Balance for MCO	%	TOTAL	Balance for MCF	%	Balance for MCO	%	TOTAL	
1	2	3	4	5	6=2+4	7	8	9	10	11=7+9	12=11/6
Donated capital	43.061	29	0	0	43.061	46.936	29	0	0	46.936	109
Core Capital	10.157	7	600	82	10.757	8.245	5	600	86	8.845	82
Surplus/deficit of income over expenses	93.411	62	0	0	93.411	104.779	64	0	0	104.779	112
Issue premium	0	0	0	0	0	0	0	0	0	0	0
Undistributed income	0	0	29	4	29	0	0	0	0	0	0
Regulatory provisions	0	0	100	14	100	0	0	101	14	101	101
Other reserves	2.942	2	0	0	2.942	2.871	2	0	0	2.871	98
<b>TOTAL CAPITAL</b>	<b>149.571</b>	<b>100</b>	<b>729</b>	<b>100</b>	<b>150.301</b>	<b>162.831</b>	<b>100</b>	<b>701</b>	<b>100</b>	<b>163.532</b>	<b>109</b>

Reviewing the amount of capital over the years of the MCOs performance, it can be concluded that the highest amount was reported at the end of 2008 when it was 193,4 million KM. The total capital of MCOs as of 31.12.2012 was 163,5 million KM and is lower by 15% in comparison to the end of 2008. Reviewing these two periods, in individual MCOs, we can conclude that two more significant MCFs reported the largest decline in the amount of capital, which was by a high 52% and 60% respectively. The level of capital at the end of 2012 presents the largest recorded level since the end of 2009, due to the increased surplus of income over expenses realized by the MCF (collection of the written off receivables) which influenced the total financial result realized in the current year.

*Graph 9. Amount of capital of MCOs through years (in 000 KM)*



In the capital structure the most significant is the surplus of income over expenses which is 104,8 million KM, and constitutes 64% of total capital of MCFs, and it increased by 11,3 million KM or 12% in comparison to the end of the last year.

The deficit of income over expenses for the period of 01.01. to 31.12.2012 was realized by 3 MCFs, and surplus of income over expenses 10 MCF, while one MCC realized a net profit.

Surplus of income over expenses in regular operations, at the end of 2012, was realized by 3 MCF, while 10 MCF and 1MCC realized deficit of income over expenses that is a loss in regular operations. At the end of 2012, of those 10 MCFs, 7 have, owing to extraordinary income that is higher than the realized deficit in regular operations realized a positive result, as well as one MCC. The extraordinary income is a direct result of the increased collection of the receivables from written off loans.

The significant source of capital of MCF is the donated capital which is 47 million KM or 29% of the total capital, whereas one MCC does not have any donated capital. The donated capital, in comparison to the end of the previous year increased by 9% and refers to the increase of the donated capital in four MCFs in which the examination determined that the balance was incorrectly reported to the Agency in the previous periods.

In compliance with the Article 11 of the Decision on other general conditions for performance the microcredit organizations are obliged to record donated funds and treat them as donated capital, and report the balance to the Agency. Based on the formal quarterly reports which are submitted to the Agency, 9 MCFs reported a value of the donated capital in their reports, and are recording its balance. Off site examination determined that one MCF does not report the

correct value of the donated capital which is contrary to the regulations of the Agency, and the donation reports is undervalued by around 7 million KM.

Core capital of MCOs, as of 31.12.2012, was 8,2 million KM or 5% of total capital of MCFs. Other reserves, which refer to 2 MCFs, are 2,8 million KM, or 2% of total capital of MCF. Undivided profit and legal reserves of one MCC are 0,1 million KM or 14% of total capital of the MCC, while the core capital of the MCC is 0,6 million KM, or 86%.

### 3.3. Loan portfolio

The core activity of MCOs is the micro-crediting that refers to the amount of 417,2 million KM or 83% of the total assets of the micro credit sector. The level of the total loans of sectors depends on the condition of loans of MCFs referring to 415,9 million KM or 99,7% of total loans, whereas MCCs relate to 1,3 million KM or 0,3% of total loans. Net loans, total loans minus the reserves for loan losses, are presented in the Table 6.

Table 6. Net loans

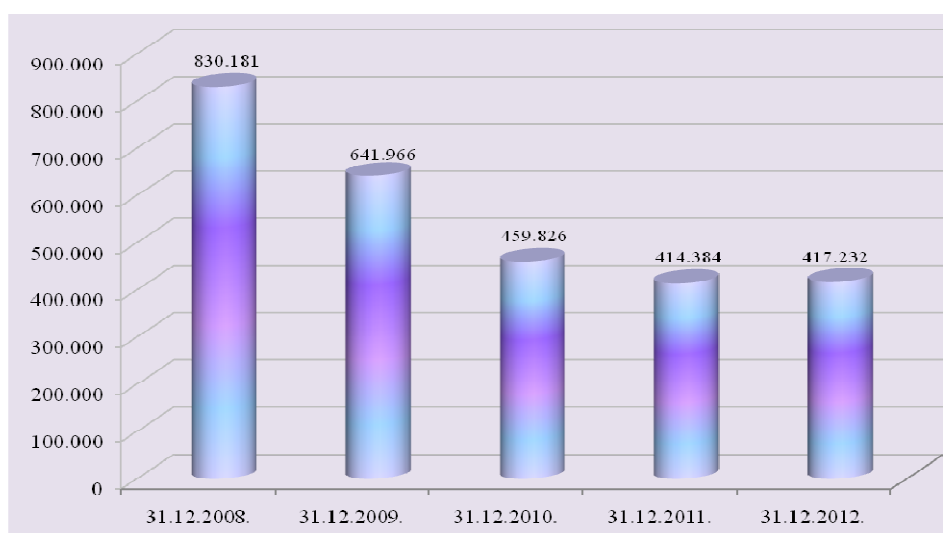
in 000 KM

No.	DESCRIPTION	31.12.2011.			31.12.2012.			Ratio
		MCF	MCC	Total	MCF	MCC	Total	
1	2	3	4	5=(3+4)	6	7	8=(6+7)	9=8/5
1.	Loans	412.802	1.582	414.384	415.883	1.349	417.232	101
2.	Loan loss reserves	11.647	11	11.658	7.585	25	7.610	65
3.	<b>Net loans (1.-2.)</b>	<b>401.155</b>	<b>1.572</b>	<b>402.727</b>	<b>408.298</b>	<b>1.324</b>	<b>409.622</b>	<b>102</b>

Net loans are 409,6 million KM and increased by 2% in comparison to 31.12.2011, while loans on gross basis also decreased by 1% in relation to the end of last year. Loan loss reserves are 7,6 million KM and have decreased by 35% in relation to 31.12.2011. The ratio of the loan loss reserves and the total loan portfolio is 1,82%, and has improved by 0,99 percent points in relation to the ratio as of 31.12.2011.



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



Reviewing the gross portfolio of the MCOs, over the years of MCOs performance, it can be concluded that the largest amount was recorded at the end of 2008 when it was 830,2 million KM. The total gross portfolio as of 31.12.2012 was 417,2 million KM, and it is almost double lower than in comparison to the end of 2008. Comparing these two periods, in individual MCOs, it can be concluded that two MCFs reported the largest gross portfolio, in which it declined by a high 63% and 75% respectively.

Table 7. Department and maturity structure of micro loans of MCOs as of 31.12.2012.

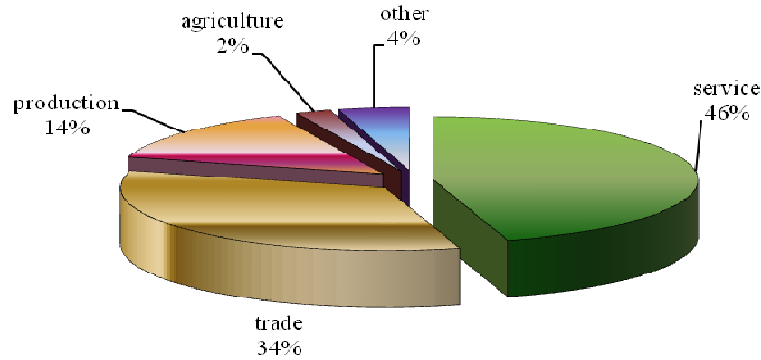
in 000 KM

No.	Micro-credits	Short term loans	Long term loans	Past due receivables	TOTAL	%
1	2	3	4	5	6=(3+4+5)	7
<b>1.</b>	<b>Legal entities</b>					
a.)	Service industry	1.329	3.493	46	<b>4.868</b>	<b>46%</b>
b.)	Trade	1.290	2.293	41	<b>3.624</b>	<b>34%</b>
c.)	Agriculture	56	175	1	<b>232</b>	<b>2%</b>
d.)	Production	559	958	11	<b>1.528</b>	<b>14%</b>
e.)	Other	77	372	13	<b>462</b>	<b>4%</b>
	<b>TOTAL 1:</b>	<b>3.311</b>	<b>7.291</b>	<b>112</b>	<b>10.714</b>	<b>100%</b>
<b>2.</b>	<b>Individuals</b>					
a.)	Service industry	7.677	89.130	914	<b>97.721</b>	<b>24%</b>
b.)	Trade	4.851	43.418	570	<b>48.839</b>	<b>12%</b>
c.)	Agriculture	8.250	134.794	780	<b>143.824</b>	<b>35%</b>
d.)	Production	1.127	20.650	187	<b>21.964</b>	<b>6%</b>
e.)	Housing needs	2.684	45.681	255	<b>48.620</b>	<b>12%</b>
f.)	Other	12.717	32.210	623	<b>45.550</b>	<b>11%</b>
	<b>TOTAL 2:</b>	<b>37.306</b>	<b>365.883</b>	<b>3.329</b>	<b>406.518</b>	<b>100%</b>
	<b>TOTAL (1+2):</b>	<b>40.617</b>	<b>373.174</b>	<b>3.441</b>	<b>417.232</b>	

According to the department structure of the micro-credits 10,7 million KM or 3% of total loans are granted to the legal entities, and 406,5 million or 97% to individuals.

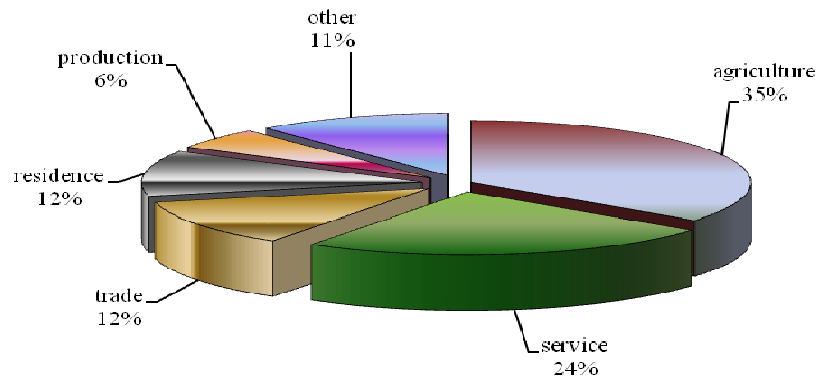
In the maturity structure of the micro-credits, short term loans, which include the past due receivables, are 44 million KM or 11%, and long term loans are 373,2 million KM or 89%. The past due receivables alone are 3,4 million KM or 1% of the total loans and almost entirely refer to loans to individuals.

Graph 10. Sector structure of microcredit loans granted to legal entities



According to the sector structure the largest amount of total amount of micro-credits to **legal entities** has been allocated in the trade and service sector – service industry 4,9 million, or 46%, and trade 3,6 million KM or 34%. For production allocated is 1,5 million KM or 14% of the total amount of micro-credits granted to legal entities, then 0,2 million KM for agriculture or 2%, and 0,5 million or 4% for other purposes.

Graph 11. Sector structure of microcredit loans granted to individuals



In regard to loans to **individuals**, 143,8 million KM or 35% was granted to agriculture, then 97,7 million KM or 24% for service industry, whereas 48,9 million KM or 12% was granted the sector of trade, for housing needs 48,6 million KM or 12%, and for production 22 million KM or 6%, and for other 45,5 million KM or 11%.

Based on the analyses of the sector structure it is concluded that the micro-credit lending is in most part directed to lending to agriculture ( 35%) and service industry (25%) and mainly relates to long term loans to individuals, which leads to loans being granted to individuals that

do not have access to traditional financing sources, partly due to the risk in the business they perform and partly due to the lack of adequate collateral. In relation to the end of the previous year, the percentage of loans granted to individuals in service industry and agriculture is increasing, while the loans granted for housing needs and other purposes are declining, which means that the focus of the sector is on the support to the micro-entrepreneurship.

According to the Decision on the amount and manner for allocating and maintaining the loan loss reserves of MCOs („Official Gazette of the Federation of BiH“, number: 27/07), MCOs are obliged to allocate all loan funds and other receivables in certain groups by applying the days of default criteria in such a manner that each group is assigned reserves for loan and other losses on the charge of operation expenses.

The base for accrual of the amount of the reserves is the amount of unpaid loans, accrued interest and fees and all other items where MCO is exposed to risk of payment default, which is business failure. The following table shows the amounts of receivables distributed through the given groups and accrued interests in those groups as of 31.12.2012:

Table 8. Report on the amount and manner of establishing the reserves for loan losses as 31.12.2012.

in 000 KM

No.	Days of default	Reserve rates	Loan amount	Past due interest		Amount of other items of assets	Provisioning			Total provisionin g
				Reserve rates	Amount of interest		For loans	For past due interest	For other items of assets	
1	2	3	4	5	6	7	8=(4x3)/100	9=(5x6)/100	10=(7x3)/100	11=(8+9+10)
1.	0	0%	396.852	0%	22	253	0	0	0	0
2.	1 – 15	2%	5.352	2%	104	0	107	2	0	109
3.	16 – 30	15%	7.156	100%	110	0	1.073	110	0	1.183
4.	31 – 60	50%	2.631	100%	122	0	1.316	122	0	1.438
5.	61 – 90	80%	1.413	100%	133	0	1.130	133	0	1.263
6.	91 – 180	100%	3.828	100%	602	0	3.983	610	0	4.593
<b>TOTAL</b>			<b>417.232</b>		<b>1.093</b>	<b>253</b>	<b>7.610</b>	<b>977</b>	<b>0</b>	<b>8.587</b>

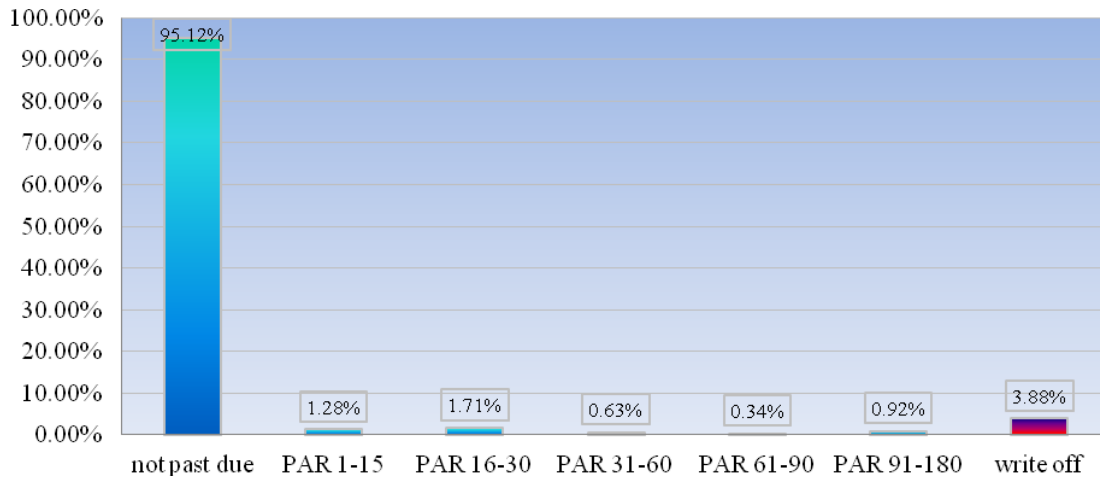
7.	over 180	Write off	16.202	100%	3.568					
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Defaults in payment of longer than one day have loans in the amount of 20,4 million KM. The rate for the loans in default of more than one day, as of 31.12.2013, is 4,88%, and recorded a decrease in relation to the end of previous year by 1,21 percent points.

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

Total amount of accrued reserves on all bases is 8,5 million KM and have declined by 34% in comparison to 31.12.2011, while the write off in the current year was 16,2 million KM in principal and 3,5 million KM in interest.

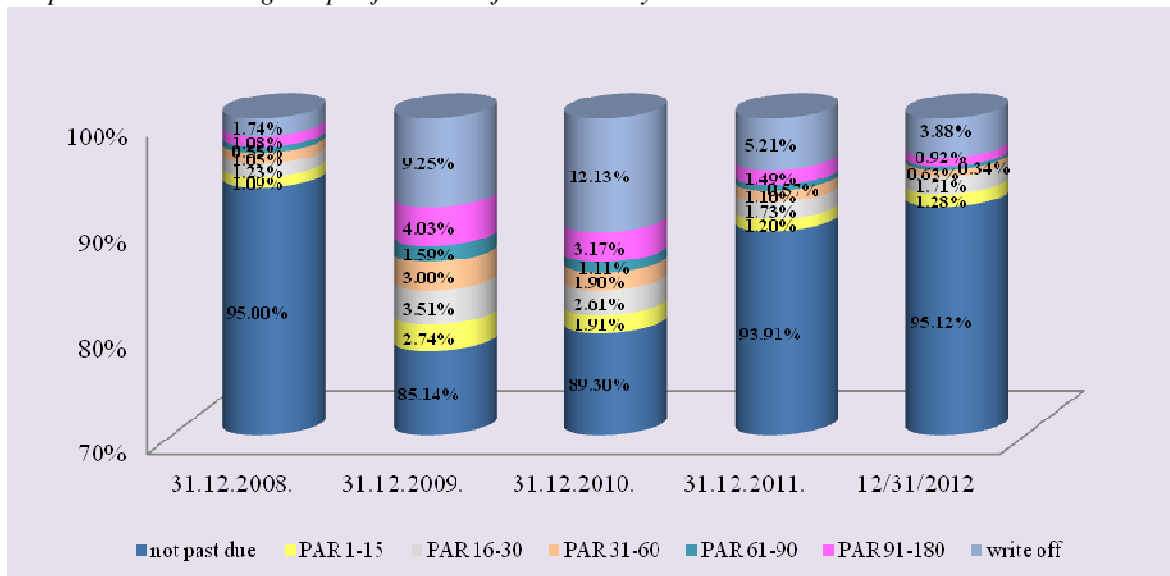
Graph 12. MCOs portfolio asset quality as of 31.12.2012.



### 3.3.1. Key indicators for the credit portfolio quality

In comparison with the previous years, with an insignificant growth of the microcredit portfolio of 1%, the microcredit sector as of 31.12.2012 reported an improvement of the active loan portfolio quality indicators. Most of MCCs are exposed to the pressure of competition by larger MCOs as well as banks, and far smaller MCOs are faced with a lack of funds for financing the loan portfolio.

Graph 13. MCOs gross portfolio classification over years

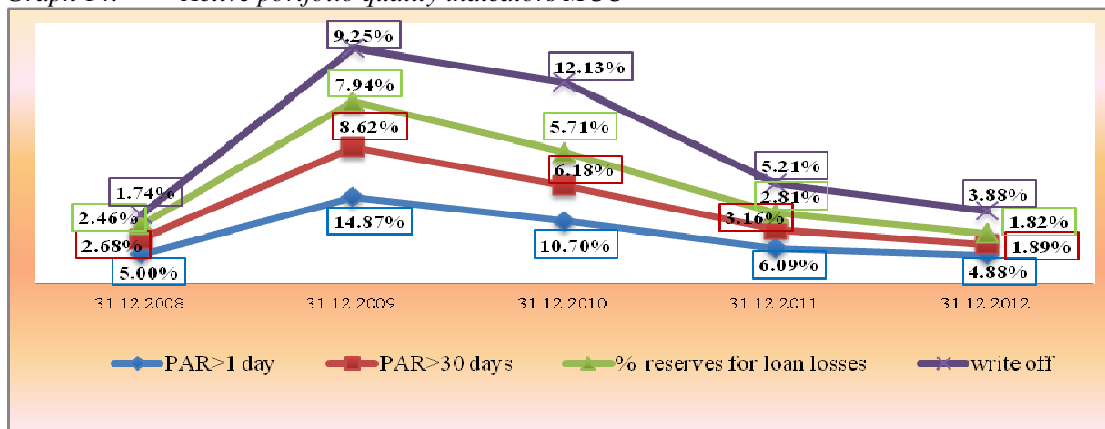


The improvement of the active credit portfolio quality is reflected in the decrease of the loan loss reserves rate from 2,81%, as of 31.12.2011, to 1,82%. The portfolio in the risk of over 30 days delinquency also decreased from 3,16% to 1,89%. The total result of the sector in regard

to the risk portfolio, is within the standards prescribed by the Agency, while 14 MCOs, 3 MCFs do not fulfill the standard the Agency set for the risk in the portfolio which should be below 5%. The portfolio in risk over one day delinquent also recorded a decline and from 6,09% (at the end of the previous year) decreased to 5,96%.

In regard to the loan portfolio quality indicators and other performance results of the MCFs, the Agency is expressing a reserve in regard to the correctness of the data, since one of the largest MCFs, which has over 20% of the market participation, did not act in accordance with the Agency's orders within the prescribed deadlines which were issued based on the performed examination of this MCF in reference to the significant amount of the ordered additional reserves, and further the reports of this MCF are not in compliance with the regulations of the Agency.

Graph 14. Active portfolio quality indicators MCC



During 2012., MCCs wrote off 12,965 loan accounts in a total amount of 19,7 million KM, of which 16,2 million KM refers to the written off principle, which is 3,88% total gross loans, with which the write off on the level of the micro credits is higher than the Agency's standard (up to 3%), and seven MCFs which do not fulfill the Agency's standards.

In reference to the liability for initiating the court proceedings for collection of the past due written off receivables, and not collected for over 180 days, the on-site examination in one MCF which has a significant market participation it was determined that over 10.000 not collected loan parties in a total amount of over 15 million KM, which is contrary to the Article 3., paragraph 3 of the Decision on the amount and manner for establishing and maintaining the reserves to cover the micro credit organizations losses. Since this MCF performs all the money transactions in regard to the payment and collection of the loans in cash, by avoiding to initiate the court proceedings for these cases created is a space for illegal actions in regard to the collection of the written off receivables and other misuse.

The microcredit organizations continued to invest efforts in the collection of the receivables from written off loans (in the current year MCOs collected 10,1 million KM of the written off principle, that is 1,5 million KM of written off interest), which is evident from the reported extraordinary income at the end of 2012., which are in comparison to the same period previous year higher by 16%. During 2012, three MCFs permanently wrote off a total 371 thousand KM of the principle and 46 thousand KM in interest.

As it can be seen in the table bellow, the amount of the written off principle and interest in the fourth quarter of 2012, is not proportional to the amount of the write off in the previous quarters of the current year, which is a result of the merger of one MCF to another in this period, where the total write off of the merged MCF were recorded as an initial balance of the MCF successor in the fourth quarter in 2012.

Table 9. Receivables from written off principle and interest

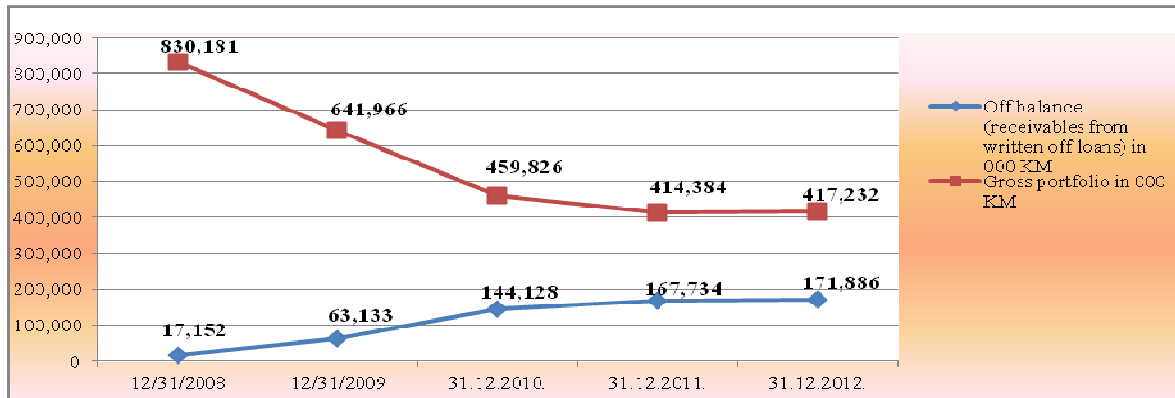
in 000 KM

DESCRIPTION	INDIVIDUALS		LEGAL ENTITIES		TOTAL	
	Written off principle	Written off interest	Written off principle	Written off interest	Written off principle	Written off interest
1	2	3	4	5	6	7
Opening balance as of 01.01.2012.	133.894	23.083	2.656	439	136.550	23.522
<b>Changes in 2012. :</b>						
<b>New write off in the current year</b>	<b>15.999</b>	<b>3.552</b>	<b>203</b>	<b>16</b>	<b>16.202</b>	<b>3.568</b>
Write off in the period 01.01.-31.03.	3.129	781	31	2	3.160	783
Write off in the period 01.04.-30.06.	2.463	468	71	5	2.533	473
Write off in the period 01.07.-30.09.	3.252	634	45	4	3.297	638
Write off in the period 01.10.-31.12.	7.155	1.668	57	5	7.212	1.673
<b>Collected in the current year</b>	<b>9.897</b>	<b>1.511</b>	<b>182</b>	<b>28</b>	<b>10.079</b>	<b>1.539</b>
Collection of the write off in the period 01.01.-31.03.	2.313	449	39	8	2.352	457
Collection of the write off in the period 01.04.-30.06.	2.531	432	36	5	2.566	438
Collection of the write off in the period 01.07.-30.09.	2.551	317	47	6	2.598	323
Collection of the write off in the period 01.10.-31.12.	2.502	313	61	9	2.563	322
<b>Permanent write off in the current year</b>	<b>368</b>	<b>46</b>	<b>3</b>	<b>0</b>	<b>371</b>	<b>46</b>
Permanent write off in the period 01.01.-31.03.	128	19	3	0	131	19
Permanent write off in the period 01.04.-30.06.	4	1	0	0	4	1
Permanent write off in the period 01.07.-30.09.	2	1	0	0	2	1
Permanent write off in the period 01.10.-31.12.	234	25	0	0	234	25
Balance as of 31.12.2012.	139.629	25.078	2.674	426	142.303	25.504

\* Note: The data in the Table 8 are different from the total receivables from written off loans reported in the off balance sheet reports by the amount of 4 million KM, which refers to out of court settlements and suspended interest in two MCFs.

The total write offs from written off loans, which are in off balance sheet records as of 31.12.2012, are 171,8 million KM and are higher by 2% in comparison to the end of the previous year. In comparison to 2008, the gross portfolio of the MCOs was divided in half, while the receivables from written off loans are higher by over 10 times, and as of 31.12.2012 are 41% of total loan portfolio.

Graph 15. Off balance sheet records (receivables from written off loans) and gross portfolio of MCOs



There are significant quality discrepancies between different MCOs, which are evident from the data that five MCFs have over 70% of total written off loans in comparison to the total gross portfolio (in one MCF the total amount of receivables from written off loans, which are in the off balance sheet, is by 15% higher than the amount of the gross loans), which is a direct consequence of the credit expansion in the past. Two MCFs and one MCC reported total write off under 10% of total gross portfolio.

### 3.3.2. Collection of loans through guarantees as insurance instruments and clients' complaints

The consequences of the global economic crises on the financial sector, inadequate loan policies and weaknesses in the internal controls of MCCs, as well as the general excessive debt of the users of the micro credits, influenced the lending process and the credit portfolio quality. Due to the trend of increase of delinquent receivables, that is the delay of clients in paying their obligations, there were activated guarantor obligations in a number of delinquent loans, which had such a security, so the repayment obligation passed on to the guarantors. With an aim to collect, monitor and analyze the data on the loans that are being paid by the guarantors, as of 31.12.2009, the Agency issues a new reporting form OKJ – repayment of loans by the guarantor.

As of 31.12.2012, according to the reports of the MCOs in reference to the loans paid by the guarantors in the Federation of BiH, 4.018 guarantors repaid 1,8 million KM of the total granted amount of loans which are repaid with this insurance instrument in the amount of 24 million KM (3.689 credit units), which is by 53% less guarantors who repay loans of others in comparison to 31.12.2011. (4,2 million KM, paid by 8.553 guarantors, while the amount of the total granted loans was 45,6 million KM – 7.805 credit units). The average amount of loans which during 2012 were repaid or are being repaid by the guarantors is 447 KM. The decrease of the number of guarantors who pay loans of others by half is a result of an incorrect reporting of data in certain MCOs in the previous years.

Of the total number of loan units, paid by the guarantor are 1,76% of credit units, and in comparison to the end of 2011, the participation of loans paid by the guarantors has a slight increase in the total number of loans, by 0,86 percentual points. Of 14 MCOs, one MCF does not have recorded payments by guarantors, while two MCFs reported the largest participation

of the loans paid by guarantors in comparison to the total number of loans (5,53% and 4,84%).

The balance of the remaining debt from loans as of 31.12.2012 was 7,9 million KM, which is 1,90% of the gross loans of MCOs and in comparison to 31.12.2011 the participation of the remaining debt in the gross portfolio is lower by 0,97 percentual points. (31.12.2011, the balance of the remaining debt in regard to loans with the guarantors was: 11,9 million KM in comparison to 414,4 million KM in gross portfolio, which presents 2,87% of gross loans of MCOs).

According to the MCOs reports, and in compliance with the conditions and manner for performance of the micro credit organization in regard to clients' complaints ("Official Gazette of the Federation of BiH" number : 32/10) in the period 01.10 – 31.12.2012, the clients of the MCOs filed a total of 98 complaints and all were in reference to complaints towards the MCFs. Of 13 MCFs with a license for operation from the Agency, for 6 there are no recorded complaints in the reporting quarter, as well as for one MCC. The largest number of complaints refers to the complaints category "Other", a total of 73, and in majority part they refer to complaints based on the denied request for loan or restructuring, then complaints in regard to the questioning of the guarantors pledge, complaints of the guarantor in reference to the collection procedure, as well as in regard to the behavior of the loan officers. The co-debtors/guarantors filed 42, clients 41, and other interested parties 15 complaints. MCF resolved in a positive manner 68 complaints, negatively 12, while 18 complaints are being processed or in the resolution.

### ***3.4. Risk weighted nominal and effective interest rates for micro-credits***

Effective interest rate on micro-credit loans is the actual market price of those loans, and is accrued and recorded in compliance with the Decision on the unified manner of accrual and recording of the effective interest rate on loans and deposits – revised version („Official Gazette of the Federation of BiH“, number: 48/12).

The accrual of the effective interest rate includes the data on the amount of the nominal interest rate on loans, the amount of reimbursements and fees that MCOs calculate for the client in the loan approval process and the amount of reimbursements and fees known on the day of the calculation, that MCOs calculate for the client during the implementation of the loan agreement. Weighted nominal and effective interest rates are calculated on the newly approved loans in the reporting month.

In accordance with the monthly reports on risk weighted nominal and effective interest rates on loans in 2012, MCOs placed microloans in a total amount of 399,9 million KM, which is by 32,8 million, or 9% higher than the amount of the micro credits placed in the previous year. The MCO's balance as of 31.12.2012, was 209,084 in active loan accounts, which is a decline by 6,233 active loan accounts, or 3% less than at the end of the previous year. The average amount of the micro loans on the level of the sector, as of 31.12.2012., was 1,995 KM, which is an average for MCFs (31.12.2011. - 1.925 KM), while the average amount of micro loans of MCCs is 2,230 KM.



Table 10. Average nominal and effective interest rates for microcredit loans for the IV quarter of 2012 – through products

No.	DESCRIPTION	Weighted nominal interest rate (average)	Weighted effective interest rate (average)
<b>1.</b>	<b>Short term loans for:</b>		
1.1.	Service industry	<b>25,30%</b>	<b>33,01%</b>
1.2.	Trade	<b>24,00%</b>	<b>31,33%</b>
1.3.	Agriculture	<b>23,69%</b>	<b>31,69%</b>
1.4.	Production	<b>22,09%</b>	<b>27,39%</b>
1.5.	Housing needs	<b>20,73%</b>	<b>27,31%</b>
1.6.	General purpose – basic needs	<b>26,86%</b>	<b>39,32%</b>
1.7.	Other	<b>25,06%</b>	<b>33,91%</b>
<b>2.</b>	<b>Long term loans for:</b>		
2.1.	Service industry	<b>23,38%</b>	<b>27,68%</b>
2.2.	Trade	<b>23,78%</b>	<b>28,06%</b>
2.3.	Agriculture	<b>20,62%</b>	<b>24,29%</b>
2.4.	Production	<b>21,90%</b>	<b>25,14%</b>
2.5.	Housing needs	<b>21,79%</b>	<b>25,20%</b>
2.6.	General purpose - basic needs	<b>28,05%</b>	<b>35,64%</b>
2.7.	<b>Other</b>	<b>26,65%</b>	<b>32,39%</b>

For short term loans, average nominal interest rates are in the range between 20,73% for housing needs to 26,86% for general purpose loans, and for the effective interest rate in the range of 27,31% for housing needs to 39,32% for general purpose loans.

For long term loans, the average nominal interest rates are in the range between 20,62% for housing needs to 28,05% for trade, and effective interest rate in the range of 24,29% for housing needs to 35,64% for general purpose loans.

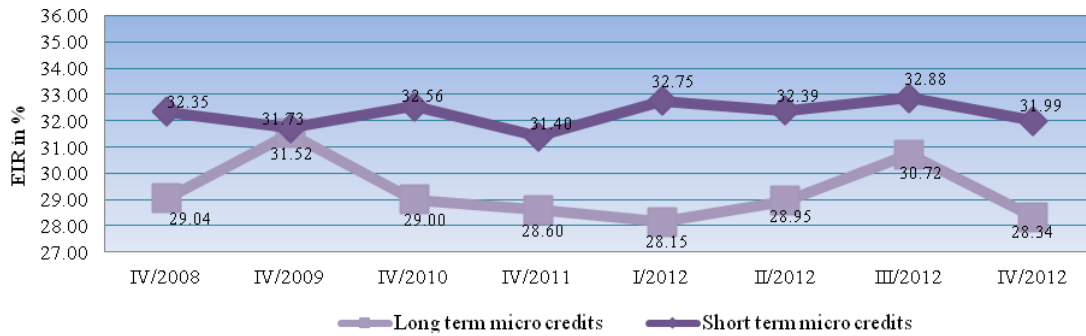
Based on the analyses of the MCOs' interest rates on lending products it can be concluded that the cheapest loans are granted to agriculture activities, and the most expensive are general purpose loans, loans for basic needs.

The average effective interest rates on short term and long term micro-credits in the Federation of BiH through quarters are presented in the Table 10.

Table 11. Trend of average effective interest rates ( EIR) on micro-credit through quarters

AVERAGE EIR in % for	IV/2008	IV/2009	IV/2010	IV/2011	I/2012	II/2012	III/2012	IV/2012
Short term micro-credits	32,35	31,73	32,56	31,40	32,75	32,39	32,88	31,99
Long term micro-credits	29,04	31,52	29,00	28,60	28,15	28,95	30,72	28,34

Graph 16. Movement trend for average effective interest rates on micro credits through quarters (in %)



At the end of the fourth quarter of 2012, the average effective interest rates in the microcredit sector on the long term loans recorded a insignificant decline (by 0,26 percentual points) in comparison to the fourth quarter of 2011, while the average effective interest rates on the short term loans are increasing (by 0,59 percent points).

Reviewing the interest rates in comparison to the previous quarter in 2012, it can be concluded that the average effective interest rates on long term and short term loans, at the end of the fourth quarter of 2012, recorded a decline.

With an aim to increase the transparency in lending and protect clients of the micro credit organizations, the Agency prevented the reporting of interest rates on the monthly bases even when reported are effective interest rates on loans, so that MCOs clients are not deceived.

The Agency expects that the implementation of the above mentioned regulation will result in additional decline of the interest rates in micro credit organizations, as the clients will be better informed about the unified reporting on interest rates for micro-credit loans in public media, advertising, as well as in the loan contracts.

### 3.5. *Income Statement*

The structure of the income statement of the micro-credit sector in the Federation of BiH is presented in the Table 11.

Table 12. Income Statement MCOs

in 000 KM

No.	DESCRIPTION	For the period 01.01. - 31.12.2011.				For the period 01.01. - 31.12.2012.				Ratio
		MCF	MCC	Total	%	MCF	MCC	Total	%	
1	2	1	2	3=(1+2)	4	5	6	7=(5+6)	8	9=(7/3)
<b>1.</b>	<b>INTEREST INCOME AND SIMILAR TYPES OF INCOME</b>									
1.1.	Interest income and similar types of income	91348	318	91.666	92	88.026	337	88.363	89	96
1.2.	Operating income	8414	76	8.490	8	10.447	48	10.495	11	124
<b>2.</b>	<b>TOTAL INCOME (1.1.+1.2.)</b>	<b>99.762</b>	<b>394</b>	<b>100.156</b>	<b>100</b>	<b>98.473</b>	<b>385</b>	<b>98.858</b>	<b>100</b>	<b>99</b>
<b>3.</b>	<b>EXPENSES</b>									
3.1.	Income expenses and similar expenses	22.273	74	22.347	22	19.218	82	19.300	19	86
3.2.	Operating expenses	69.309	328	69.637	68	72.499	301	72.800	72	105
3.3.	Expenses for reserves for loan and other losses	10.904	5	10.909	11	9.335	25	9.360	9	86
<b>4.</b>	<b>TOTAL EXPENSES (3.1.+3.2.+3.3.)</b>	<b>102.486</b>	<b>407</b>	<b>102.893</b>	<b>100</b>	<b>101.052</b>	<b>408</b>	<b>101.460</b>	<b>100</b>	<b>99</b>
5.	EXTRAORDINARY INCOME	15.129	45	15.174		17.551	24	17.575		116
6.	EXTRAORDINARY EXPENSES	1.384	0	1.384		1.830	1	1.831		132
<b>7.</b>	<b>TOTAL INCOME -EXPENSES (2+5-4-6)</b>	<b>11.021</b>	<b>32</b>	<b>11.053</b>		<b>13.142</b>	<b>0</b>	<b>13.142</b>		<b>119</b>
<b>8.</b>	<b>SURPLUS/DEFICIT OF INCOME OVER EXPENSES</b>	<b>11.021</b>		<b>11.021</b>		<b>13.142</b>		<b>13.142</b>		<b>119</b>
9.	INCOME BEFORE TAXES		32	32			0	0		
10.	TAXES		3	3			0	0		
11.	NET INCOME/LOSS		29	29			0	0		
<b>12.</b>	<b>TOTAL FINANCIAL RESULT</b>			<b>11.050</b>				<b>13.142</b>		

The total income of MCOs for the period of 01.01. - 31.12.2012., is 98,8 million KM, of which 98,4 million KM or 99,6% refers to income of MCFs, and 0,4 million KM or 0,4% on income of one MCC. In comparison to the same period of last year, total income of MCCs is in decline by 1,3 million KM, or 1%.

The core income is interest income and it is 88,3 million KM or 89% of total income and in relation to the same period of previous year the interest income is in decline by 3,3 million KM or 4% while operating expenses are 10,5 million KM or 11% of total income and in relation to the same period last year increased by 2 million KM, or 24%.

The total expenses are 101,4 million KM, of which 101 million or 99,6% relates to expenses of MCF, and 0,4 million KM or 0,4% to expenses of one MCC. In relation to the same period of last year the total expenses have increased by 1,4 million KM or 1%.

In the structure of expenses, 19,3 million KM or 19% of total expenses are expenses related to interests on acquired loans and other similar expenses, and have decreased by 3 million KM or 14% in regard to the same period of last year. Operational expenses are 72,8 million KM or 72% of total expenses and in relation to the same period of last year increased by 3,1 million KM or 5%. The operating expenses refer to expenses of salaries and contributions in the amount of 39,3 million KM (01.01. – 31.12.2011: 37,7 million KM), expenses related to the business premises, other fixed assets and utilities 17,1 million KM (01.01.-31.12.2011: 17,7

million KM), and other operating expenses in the amount of 16,4 million KM. (01.01.-31.12.2011.: 14,2 million KM). The expenses related to the reserves for loan losses and other losses are 9,3 million or 9% of total expenses, and in comparison to the same period last year decreased by 1,5 million KM or 14%.

The evident trend in the increase of the salaries is not logical when the activities of the MCOs are significantly lower in comparison to the previous period and in the situation in which the income from the regular activities does not cover the expenses from the regular activities, which speaks about inadequate MCOs property management.

Based on the MCOs reports an average monthly salary of an MCF employee is 1,015 KM while the average monthly net amount of benefits, stimulations and bonuses is 84 KM, so it is concluded that the average monthly salary with the bonuses is 1.099 KM.

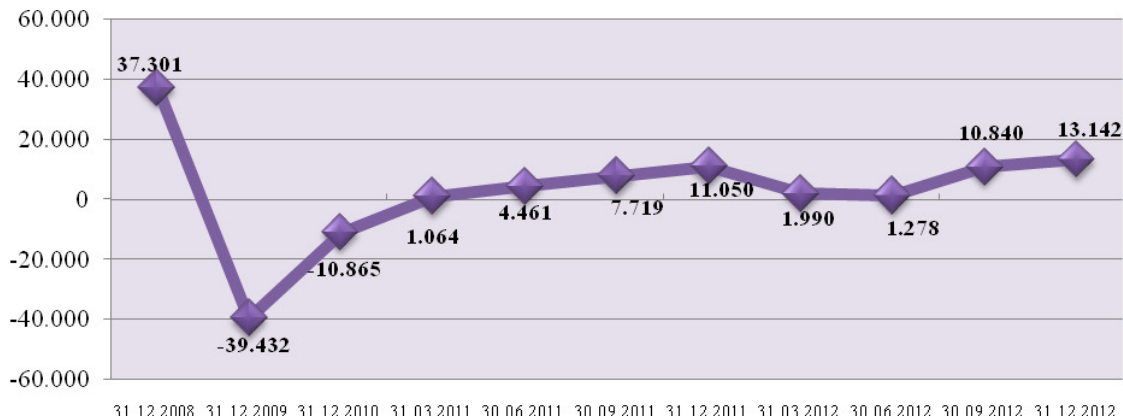
An average monthly salary of loan officers in MCCs is 796 KM, higher management 3,683 KM, while the average monthly net of the reimbursement to the members of the management board in MCCs is 579 KM.

However, the insight in certain MCFs recorded payments of extremely high monthly reimbursements to the members of the managing bodies which have the character of earnings, while certain managers of MCFs based on the management contract in 2012 were paid an amount of a high 14,000 KM. In 2012, it was recorded that certain managers of MCFs . were paid monthly bonus amounts of 13,800 KM, although the monthly payments were already very high. In one MCF recorded were payments of monthly reimbursement to one member of management board in the amount of 7000 KM. If to that added are the representation expenses, in some cases in unlimited amount, expenses for use of the car without restrictions, expenses for acquisition of academic titles in tens of thousands of KM per individual, expenses for issuing the life insurance which in one case is 30.000 KM for a member of Management Board, and premiums which are in the amount of around 500.000 KM with unlimited expenses for international business travels, expenses for use of the cellular telephones of up to 18,000 KM, it is clear that in certain cases it is a question of a significant misuse of funds by MCFs which are founded with a goal to be manage with a general or common interest, for improvement of the material position of users of the micro loans and on the damage of the users which pay the interest rate of up to 50 %.

In the period from 01.01 to 31.12.2012, the extraordinary income of MCOs was 17,5 million KM and in comparison to the same period last year was higher by 2,4 million KM, which is by 16%. In majority part the extraordinary income refers to the collection of receivables from written off loans. The extraordinary expenses of MCOs, realized during the current year, were 1,8 thousand KM, and in comparison to the same period last year they increased by 447 thousand KM that is 32%.

For the period of 01.01.-31.12.2012., the net income of one MCC was 0,2 thousand KM (01.01. – 31.12.2011.: 29 thousand KM). In this period MCF realized a surplus of income over expenses in a total amount of 13,142 thousand KM, while in the same period of last year the MCFs realized a surplus of income over expenses in a total amount of 11,021 thousand KM. In the period from 01.01 to 31.12.2011, of total 13 MCFs, 3 MCFs had a deficit of income over expenses in a total amount of 98 thousand KM, and 10 MCF realized an income surplus in the total amount of 13,240 thousand KM.

Graph 17. Total financial result of MCOs through quarters (in 000 KM)



On the level of the microcredit sector in the Federation of BiH, there is realized a positive financial result in the amount of 13,142 thousand KM, which is by 2,092 thousand KM or 19% higher than in comparison to the same period last year.

#### 4. COMPLIANCE OF MCOs' PERFORMANCE WITH THE SPNiFTA STANDARDS

The evaluation of the compliance of the MCOs with the standards for prevention of money laundering and terrorism financing activities (SPNiFTA) is based on the evaluation of the MCOs compliance, the result of the performed examinations of the compliance of the performance with the SPNiFTA standards.

Based on the findings determined in these examinations it can be concluded that the MCOs took necessary actions in order to eliminate the risk from money laundering and terrorism financing activities, which can occur in their operations. MCOs adopted policies and procedures which define liabilities and activities in regard to prevention of money laundering and terrorism financing activities, and adopted the policy on client acceptance. However, this policy does not adequately define the criteria for the client classification in the risk groups and in most cases client profile registries were not established.

The policy on identification and monitoring of the MCOs' clients' activities defined the obligation to identify the client, verify the client's identity and continuously monitor the activities of the client, and perform the client identification in the operations. However, not in all cases the cases did they verify the clients identity that is they did not for their purposes secure documentation which documents the establishment of a business relation. MCOs did not perform identification of the sources of funds which serve to the clients for performing the transactions with which paid are the loan annuities, and in cases in which the identification was performed, performed was not the verification of the identification. Also, they did not perform continuous monitoring of the clients' activities, and the policies did not define the volume and frequency of such monitoring. Special problem is the monitoring of transactions in the amount higher than the loan which can be granted, and which is in connection with the related entities for which there is a suspicion that they may be performing a criminal act (predicate act for money laundering).

The elements of the mentioned policy are defined in the programs of the MCOs, however certain problems exist in the definition of the reporting lines and there are problems in appointment and functioning of the authorized individuals for taking actions for prevention of money laundering and terrorism financing activities. Problems exist in the organization of the internal audit and in the part of the revision of the compliance of the MCOs with the SPNiFTA standards.

Taking into account the listed problems in the implementation of the measures on prevention of money laundering and terrorism financing it can be concluded that the action system for prevention of the money laundering and terrorism financing activities is still not complete. In evaluation of the effectiveness and efficiency of the taken actions it must be concluded that in the microcredit sector there are still reasons for supervisory concern. The quality of money laundering and terrorism financing risk management is marginal satisfactory, while the quantity of this risk is moderate..

## **5. CONCLUSION AND RECOMMENDATIONS**

Analyzing the reports of MCOs as of 31.12.2012., we can conclude the following:

- Aggregate balance sheet of MCOs as of 31.12.2012. is 499,7 million KM, of which 498,2 million KM refers to MCFs or 99,7%, and 1,5 million KM to MCCs or 0,3% of the total balance sheet of MCOs. At the end of the 2012, the aggregate balance sheet was lower by 2,8 million KM or 1% in comparison to the balance as of 31.12.2011;
- The total gross loans of MCOs as of 31.12.2012. are 417,2 and are 83% of total assets of MCOs, and net loans are 409,6 million KM. The loans on gross base increased by 1% in comparison to 31.12.2011;
- The basic source of funds for MCOs are liabilities on acquired loans that, as of 31.12.2012., are 312,1 million KM or 62% of total liabilities of MCOs and decreased by 6% in comparison to 31.12.2011;
- The total capital of MCOs as of 31.12.2012., is 163,5 million KM or 33% of total liabilities of MCOs which is by 9% higher in comparison to the previous year, of which the capital of MCF is 162,8 million KM, and capital of one MCC is 0,7 million KM. The most significant items of capital of MCFs are the surplus of income over expenses in the amount of 104,8 million KM, which constitutes 64% of the total capital of MCF, then the donated capital which is 47 million KM or 29% of total capital of MCF, while one MCO does not have donated capital. The core capital and other reserves of MCFs are 11 million KM, or 7% of total capital of MCF. The undivided profit and reserves of one MCC are 0,1 million KM or 14% of total capital of MCOs, while the core capital is 0,6 million KM or 86% of total capital of MCCs.
- In the period from 01.01. to 31.12.2012, the 10 MCFs realized a surplus in income over expenses in the amount of 13,240 thousand KM, while the deficit of income over expenses was realized by 3 MCFs in the amount of 98 thousand KM, which means that MCFs as of 31.12.2012., performed with a surplus income over expenses in the total amount of 13,142 thousand KM. One MCO, in the period from 01.01. – 31.12.2012, realized a net profit in the amount of 0,2 thousand KM, which means that a positive financial result in the amount of 13,142 thousand KM was realized on the level of the micro credit sector in the Federation of BiH, which is by 19% more than in the same period previous year.

- As of 31.12.2012, a total of MCOs (13 MCFs and 1 MCC) employ a total of 1,554 employees, which is by 45 employees or 3% more than as of 31.12.2011, while at the end of 2012, MCOs had a total of 319 organizational units, which is by 22 organizational units or 6% less than in comparison to the end of the previous year.

In the following period, MCOs need to intensify their work on:

- Finding partners for consolidation, the MCF which have smaller amounts of capital, and high amounts of written off loans, should adopt clear strategies for merger with larger and stronger MCFs in order to optimize resources, preserving the donated funds, provide for support from foreign creditors, as well as provide future for the employees in the MCOs;
- Increase the responsibility of the managing boards, securing independence from management as well as control of management by the management boards;
- Establishment of the control mechanisms for project justifications and materially significant performance expenses, including the salaries and bonuses for the management, as well as the representation expenses which are being financed with the foundations' funds, or which are directly alimented with high interest rates;
- Establishment of internal audit, completely independent from the MCO's management which will supervise the management segment, also, and regularly report about it to the management board;
- Control of the interest rates and realization of the goals from the LoMCOs through active participation of the managing bodies in the procedure for issuing the policies in regard to the establishment of the prices for microloans;
- Reduction of the performance expenses, full implement the principles of good economic performance with the funds of the foundation and application of the principles of good cooperative practices;
- Decrease of interest rates on micro loans;
- Full implementation of the Article 2 of the Law on MCOs which implies performance with an aim to improve the material position of the user of microcredit, increase of the employment and providing the support for the entrepreneurship;
- Improvement of the internal audit and internal control system, improvement of the performance efficiency and optimization of the resources of MCOs and implementation of the responsible lending principle;
- Obligatory exchange of information on the level of department and the Central credit registry;
- Implementing all actions needed in order to resolve the problem of clients and creditors with too much debt;
- Improving the institutional capacity and
- Complete implementation of the regulations that are in effect and increase of the transparency in performance.

**Number: U.O.-50-3/13**  
**Sarajevo, 02.04.2013.**

## **ATTACHMENTS**

- Attachment 1. Basic Data on MCOs
- Attachment 2. Balance Sheet MCFs
- Attachment 3. Balance Sheet MCOs
- Attachment 4. Income Statement MCFs
- Attachment 5. Income Statement MCOs
- Attachment 6. Review of donated capital of MCFs



## Attachment 1

## BASIC DATA ON MCOs

No	Micro-credit organization name	Address and main office	Director	Tel/Fax	E-mail and Web	31.12.2012.			
						Amount of assets in 000 KM	Amount of assets in 000 KM	Number of employees	Amount of assets in 000 KM
1.	MKD "ADRIA mikro" d.o.o. Mostar	ul. Kneza Višeslava 14 88 000 MOSTAR	Sena Martina Topić	036/ 348-891, 348-890 fax	<a href="mailto:adria.mikro@tel.net.ba">adria.mikro@tel.net.ba</a>	1.543	701	7	1
2.	MKF "EKI" Sarajevo	ul. Džemala Bijedića bb 71 000 SARAJEVO	Sadina Bina	033/ 754-370, 754-388 fax	<a href="mailto:sbina@mkoeki.com">sbina@mkoeki.com</a> <a href="http://www.mkoeki.com">www.mkoeki.com</a>	106.280	39.769	274	67
3.	MKF "LIDER" Sarajevo	ul. Turhanija 2 71 000 SARAJEVO	Džavid Sejfović	033/ 250-580, 250-581 fax	<a href="mailto:dzavids@lider.ba">dzavids@lider.ba</a> <a href="http://www.lider.ba">www.lider.ba</a>	11.106	10.431	49	11
4.	"LOK MKF" Sarajevo	ul. Skenderija 13 71 000 SARAJEVO	Nusret Čaušević	033/ 564-200, 564-201 fax	<a href="mailto:central.office@lok.ba">central.office@lok.ba</a> <a href="http://www.lok.ba">www.lok.ba</a>	67.198	7.908	223	50
5.	MKF "MELAHA" Sarajevo	ul. Hamdije Kreševljakovića 59 71 000 SARAJEVO	v.d. Jakob Finci	033/ 205-737 tel/fax	<a href="mailto:viktor@melaha.ba">viktor@melaha.ba</a>	981	244	2	0
6.	MKF "MI-BOSPO" Tuzla	ul. Bosne srebrene bb 75 000 TUZLA	Nejira Nalić	035/ 270-283, 252-448 fax	<a href="mailto:mi-bospo@mi-bospo.org">mi-bospo@mi-bospo.org</a> <a href="http://www.mi-bospo.org">www.mi-bospo.org</a>	31.333	15.976	144	24
7.	MKF "MIKRA" Sarajevo	ul. Marka Marulića 2/VI 71 000 SARAJEVO	Sanin Čampara	033/ 616-162, 717-141 fax	<a href="mailto:mikra@mikra.ba">mikra@mikra.ba</a> <a href="http://www.mikra.ba">www.mikra.ba</a>	16.459	4.468	100	27
8.	MKF "MIKRO ALDI" Goražde	ul. Panorama bb 73 000 GORAŽDE	Ferida Softić	038/ 226-456, 221-004 fax	<a href="mailto:mka.aldi@bih.net.ba">mka.aldi@bih.net.ba</a> <a href="http://www.mikroaldi.org">www.mikroaldi.org</a>	3.810	3.173	20	5
9.	"PARTNER MKF" Tuzla	ul. 15. maja bb 75 000 TUZLA	Senad Sinanović	035/ 300-250, 300-269 fax	<a href="mailto:partner@partner.ba">partner@partner.ba</a> <a href="http://www.partner.ba">www.partner.ba</a>	114.032	44.343	283	53
10.	MKF "PRIZMA" Sarajevo	ul. Bistrik Medresa 43 71 000 SARAJEVO	Jure Žigo	033/ 573-320, 446-583 fax	<a href="mailto:hq@prizma.ba">hq@prizma.ba</a> <a href="http://www.prizma.ba">www.prizma.ba</a>	114.253	22.446	295	46
11.	"PRVA ISLAMSKA MKF" Sarajevo	ul. Jukićeva 75 71 000 SARAJEVO	Edina Hadžimurtezić	033/ 666-233, 666-224 fax	<a href="mailto:info@mfi.ba">info@mfi.ba</a>	1.665	1.428	9	0
12.	MKF "SANI" Zenica	ul. Mehmedalije Tarabara 10 72 000 ZENICA	Sulejman Haračić	032/ 405-606 tel/fax	<a href="mailto:mikrosanizenica@yahoo.com">mikrosanizenica@yahoo.com</a>	445	271	4	0
13.	MKF "SUNRISE" Sarajevo	ul. Hamdije Kreševljakovića 51 71 000 SARAJEVO	Zoran Dučić	033/ 278-020, 278-032 fax	<a href="mailto:sunrise@microsunrise.ba">sunrise@microsunrise.ba</a> <a href="http://www.microsunrise.ba">www.microsunrise.ba</a>	30.546	12.333	143	35
14.	MKF "VORTT-INVEST" Sarajevo	ul. Azize Šaćirbegović 128 71 000 SARAJEVO	Mustafa Kapić	033/720-949, 720-941 fax	<a href="mailto:vorttdoo@yahoo.com">vorttdoo@yahoo.com</a>	54	41	1	0
<b>TOTAL</b>						<b>499.705</b>	<b>163.532</b>	<b>1.554</b>	<b>319</b>

## Attachment 2.

**BALANCE SHEET OF MCFs***in 000 KM*

No.	DESCRIPTION	31.12.2011.	%	31.12.2012.	%	Ratio
1	2	3	4	5	6	7=5/3
<b>ASSETS</b>						
<b>1.</b>	<b>Cash (1a+1b)</b>	<b>28.973</b>	<b>6</b>	<b>25.286</b>	<b>5</b>	<b>87</b>
1a)	Cash and noninterest –bearing deposit accounts	20.935	4	21.022	4	100
1b)	Interest-bearing deposit accounts	8.038	2	4.264	1	53
2.	Placement to banks	14.975	3	8.245	2	55
3.	Loans	412.802		415.883		101
3a)	Reserves for loan losses	11.647		7.585		65
<b>3b)</b>	<b>Net loans (3-3a)</b>	<b>401.155</b>	<b>80</b>	<b>408.298</b>	<b>82</b>	<b>102</b>
4.	Premises and other fixed assets	47.838	9	48.025	9	100
5.	Long term investments	15	0	15	0	100
6.	Other assets	9.048	2	9.268	2	102
7.	Less: reserves for other items of the assets, except loans	1.398		975		70
<b>8.</b>	<b>TOTAL ASSETS</b>	<b>500.606</b>	<b>100</b>	<b>498.162</b>	<b>100</b>	<b>100</b>
<b>LIABILITIES</b>						
9.	Liabilities on taken short term loans	82.347	16	99.872	20	121
10.	Liabilities on taken long term loans	248.634	50	211.368	42	85
11.	Other liabilities	20.054	4	24.091	5	120
<b>12.</b>	<b>TOTAL LIABILITIES</b>	<b>351.035</b>	<b>70</b>	<b>335.331</b>	<b>67</b>	<b>96</b>
13.	Donated capital	43.061		46.936		109
14.	Core capital	10.157		8.245		81
<b>15.</b>	<b>Surplus of income over expenses</b>	<b>114.647</b>		<b>161.552</b>		<b>141</b>
15a)	For previous years	102.577		146.017		142
15b)	For current year	12.070		15.535		129
<b>16.</b>	<b>Deficit of income over expenses</b>	<b>21.236</b>		<b>56.773</b>		<b>267</b>
16a)	For previous years	20.330		56.296		0
16b)	For current year	906		477		53
17.	Other reserves	2.942		2.871		98
<b>18.</b>	<b>TOTAL CAPITAL</b>	<b>149.571</b>	<b>30</b>	<b>162.831</b>	<b>33</b>	<b>109</b>
<b>19.</b>	<b>TOTAL LIABILITIES</b>	<b>500.606</b>	<b>100</b>	<b>498.162</b>	<b>100</b>	<b>100</b>
<b>OFF BALANCE SHEET</b>						
	<b>- written off loans</b>	167.674		171.834		102
	<b>- agent contracts</b>	548		418		76

**Attachment 3.**

**BALANCE SHEET OF MCOs**

*in 000 KM*

No.	DESCRIPTION	31.12.2011.	%	31.12.2012.	%	Ratio
1	2	3	4	5	6	7=5/3
<b>ASSETS</b>						
<b>1.</b>	<b>Cash (1a+1b)</b>	<b>270</b>	<b>14</b>	<b>104</b>	<b>7</b>	<b>38</b>
1a)	Cash and noninterest –bearing deposit accounts	270	14	104	7	38
1b)	Interest-bearing deposit accounts	0	0	0	0	0
2.	Placements to banks	0	0	0	0	0
3.	Loans	1.582		1.349		85
3a)	Reserves for loan losses	11		25		238
<b>3b)</b>	<b>Net loans (3-3a)</b>	<b>1.572</b>	<b>80</b>	<b>1.324</b>	<b>86</b>	<b>84</b>
4.	Premises and other fixed assets	75	4	84	5	112
5.	Long term investments	0	0	0	0	0
6.	Other assets	57	2	33	2	0
7.	Less: reserves for other items of the assets, except loans	2		2		0
<b>8.</b>	<b>TOTAL ASSETS</b>	<b>1.973</b>	<b>100</b>	<b>1.543</b>	<b>100</b>	<b>78</b>
<b>LIABILITIES</b>						
9.	Liabilities on taken short term loans	723	37	719	47	99
10.	Liabilities on taken long term loans	452	23	84	5	19
11.	Other liabilities	69	3	39	3	57
<b>12.</b>	<b>TOTAL LIABILITIES</b>	<b>1.244</b>	<b>63</b>	<b>842</b>	<b>55</b>	<b>68</b>
13.	Donated capital	0		0		0
14.	Core capital	600		600		100
15.	Issue premium	0		0		0
<b>16.</b>	<b>Undistributed profit (16a+16b)</b>	<b>29</b>		<b>0</b>		<b>0</b>
16a)	Previous years	0		0		0
16b)	Current year	29		0		0
17.	Regulatory reserves	100		101		
18.	Other reserves	0		0		0
<b>19.</b>	<b>TOTAL CAPITAL</b>	<b>729</b>	<b>37</b>	<b>701</b>	<b>45</b>	<b>96</b>
<b>20.</b>	<b>TOTAL LIABILITIES</b>	<b>1.973</b>	<b>100</b>	<b>1.543</b>	<b>100</b>	<b>78</b>
<b>OFF BALANCE SHEET</b>						
	<b>- written off loans</b>	60		52		86
	<b>- agent contracts</b>	0		0		0

Attachment 4.

**INCOME STATEMENT OF MCFs**

in 000 KM

No.	DESCRIPTION	For the period 01.01. - 31.12.2011.	%	For the period 01.01. - 31.12.2012.	%	Ratio
1	2	3	4	5	6	7=(5/3)
<b>I</b>	<b>FINANCIAL INCOME AND EXPENSES</b>					
<b>1.</b>	<b>Interest income and similar income</b>					
1.1.	Interest from interest bearing deposit accounts with depositary institutions	485	0	76	0	16
1.2.	Interest from placements to banks	706	1	263	0	37
1.3.	Loan interest	89.281	98	86.781	99	97
1.4.	Other financial income	876	1	906	1	103
<b>1.5.</b>	<b>Total interest income and similar income (1.1. to 1.4.)</b>	<b>91.348</b>	<b>100</b>	<b>88.026</b>	<b>100</b>	<b>96</b>
<b>2.</b>	<b>Interest expenses and similar expenses</b>					
2.1.	Interest on borrowings	21.567	97	18.406	96	85
2.2.	Other financial expenses	706	3	812	4	115
<b>2.3.</b>	<b>Total interest expenses and similar expenses (2.1. to 2.2.)</b>	<b>22.273</b>	<b>100</b>	<b>19.218</b>	<b>100</b>	<b>86</b>
<b>3.</b>	<b>Net financial income (1.5. - 2.3.)</b>	<b>69.075</b>		<b>68.808</b>		<b>100</b>
<b>II</b>	<b>OPERATING INCOME AND EXPENSES</b>					
<b>4.</b>	<b>Operating income</b>					
4.1.	Fees for completed services	7.600	90	9.808	94	129
4.2.	Other operating income	814	10	639	6	79
<b>4.3.</b>	<b>Total operating income (4.1. to 4.2.)</b>	<b>8.414</b>	<b>100</b>	<b>10.447</b>	<b>100</b>	<b>124</b>
<b>5.</b>	<b>Operating expenses</b>					
5.1.	Cost of salaries and benefits	37.628	54	39.132	54	104
5.2.	Costs of business premises, other fixed assets and utilities	17.605	26	16.966	23	96
5.3.	Other operating expenses	14.076	20	16.401	23	117
<b>5.4.</b>	<b>Total operating expenses (5.1.to 5.3.)</b>	<b>69.309</b>	<b>100</b>	<b>72.499</b>	<b>100</b>	<b>105</b>
6.	Cost of provisioning for loan and other losses	10.904		9.335		86
<b>7.</b>	<b>Surplus/deficit of income over expenses from direct business operations (3.+4.3.-5.4.-6.)</b>	<b>-2.724</b>		<b>-2.579</b>		<b>95</b>
8.	Extraordinary income	15.129		17.551		116
9.	Extraordinary expenses	1.384		1.830		132
<b>10.</b>	<b>Surplus/deficit of income over expenses (7.+8.-9.)</b>	<b>11.021</b>		<b>13.142</b>		<b>119</b>

Attachment 5.

**INCOME STATEMENT OF MCOs**

in 000 KM

No.	DESCRIPTION	For the period 01.01. - 31.12.2011.	%	For the period 01.01. - 31.12.2012.	%	Ratio
1	2	3	4	5	6	7=(5/3)
<b>I</b>	<b>FINANCIAL INCOME AND EXPENSES</b>					
<b>1.</b>	<b>Interest income and similar income</b>					
1.1.	Interest from interest bearing deposit accounts with depositary institutions	0	0	0	0	n/a
1.2.	Interest from placements to banks	0	0	0	0	n/a
1.3.	Interest from loans	315	99	331	98	105
1.4.	Other financial income	3	1	6	2	200
<b>1.5.</b>	<b>Total interest income and similar income (1.1. to 1.4.)</b>	<b>318</b>	<b>100</b>	<b>337</b>	<b>100</b>	<b>106</b>
<b>2.</b>	<b>Interest expenses and similar expenses</b>					
2.1.	Interest on borrowings	71	96	75	91	106
2.2.	Other financial expenses	3	4	7	9	233
<b>2.3.</b>	<b>Total interest expenses and similar expenses (2.1. to 2.2.)</b>	<b>74</b>	<b>100</b>	<b>82</b>	<b>100</b>	<b>111</b>
<b>3.</b>	<b>Net financial income (1.5. - 2.3.)</b>	<b>244</b>		<b>255</b>		<b>105</b>
<b>II</b>	<b>OPERATING INCOME AND EXPENSES</b>					
<b>4.</b>	<b>Operating income</b>					
4.1.	Fees for completed services	40	53	48	100	120
4.2.	Other operating income	36	47	0	0	0
<b>4.3.</b>	<b>Total operating income (4.1. to 4.2.)</b>	<b>76</b>	<b>100</b>	<b>48</b>	<b>100</b>	<b>63</b>
<b>5.</b>	<b>Operating expenses</b>					
5.1.	Costs of salaries and benefits	123	38	185	61	150
5.2.	Costs of business premises, other fixed assets and utilities	103	31	81	27	79
5.3.	Other operating expenses	103	31	35	12	34
<b>5.4.</b>	<b>Total operating expenses (5.1. to 5.3.)</b>	<b>329</b>	<b>100</b>	<b>301</b>	<b>100</b>	<b>91</b>
6.	Cost of provisioning for loan and other losses	5		25		500
<b>7.</b>	<b>PROFIT/LOSS FROM DIRECT BUSINESS OPERATIONS (3.+4.3.-5.4.-6.)</b>	<b>-14</b>		<b>-23</b>		<b>164</b>
8.	Extraordinary income	45		24		53
9.	Extraordinary expenses	0		1		n/a
10.	INCOME/LOSS BEFORE TAXES	32		0		0
11.	TAXES	3		0		0
<b>12.</b>	<b>NET PROFIT/LOSS</b>	<b>29</b>		<b>0</b>		<b>0</b>

**Attachment 6.**

**REVIEW OF THE DONATED CAPITAL OF MCFs as of 31.12.2012.**

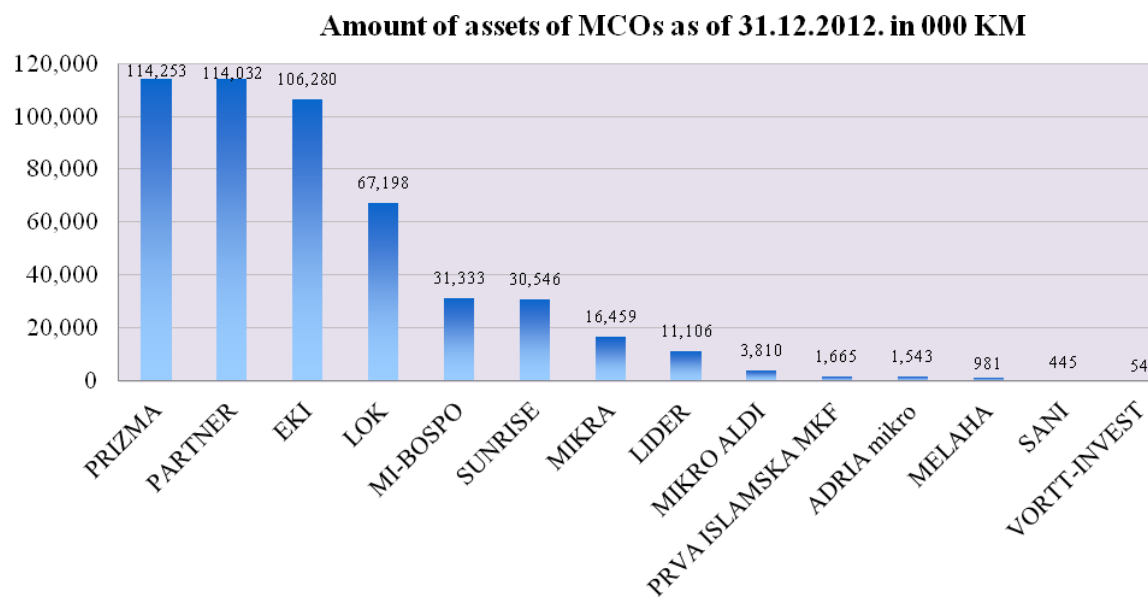
In 000 KM

No.	Name of the Donator	MKF EKI Sarajevo	MKF LIDER Sarajevo	MKF MI-BOSPO Tuzla	MKF MIKRA Sarajevo	MKF MIKRO ALDI Gorazde	PARTNER MKF Tuzla	MKF PRIZMA Sarajevo	PRVA ISLAMSKA MKF	MKF SUNRISE Sarajevo	TOTAL
<b>Donations for the credit fund</b>		<b>5.246</b>	<b>5.891</b>	<b>3.366</b>	<b>4.070</b>	<b>804</b>	<b>6.828</b>	<b>7.490</b>	<b>3.459</b>	<b>1.942</b>	<b>39.097</b>
1.	USAID	3.046					3.046	3.046			9.138
2.	CHF-(SIDA, MEDI, HILP)		5.891								5.891
3.	CRS				4.070						4.070
4.	UNHCR			479		200	1.229	992		614	3.514
5.	Islamic Relief WW, Predstavništvo Sarajevo								3.459		3.459
6.	LIP (funds of the Government of FBiH)			947			675			1.214	2.836
7.	UNDP	1.932					59	672			2.663
8.	PRM/USA State Department							2.006			2.006
9.	UMCOR			377			317	774			1.468
10.	IRC			383			805				1.188
11.	Women's World Banking			1.034							1.034
12.	Mercy Corps						697				697
13.	OXSfam					500					500
14.	USDA Know-How Project	237									237
15.	Church World Service			146							146
16.	Udruženje građana "ALDI"					104					104
17.	DK iz spajanja sa udrugom "LORI" Orašje									98	98
18.	CRIC	31									31
19.	SOLIDARITES									16	16
<b>Donations for fixed assets</b>		<b>8</b>	<b>0</b>	<b>0</b>	<b>65</b>	<b>0</b>	<b>229</b>	<b>61</b>	<b>0</b>	<b>10</b>	<b>373</b>
20.	Mercy Corps						229				228
21.	CRS				65						65
22.	ICMC							53			53
23.	SOLIDARITES									10	10
24.	WORLD VISION Int.	8									8
25.	PHARE							8			8
<b>Donations for operating expenses</b>		<b>2.050</b>	<b>874</b>	<b>946</b>	<b>0</b>	<b>0</b>	<b>1.593</b>	<b>3.087</b>	<b>29</b>	<b>709</b>	<b>9.289</b>
26.	PRM							2.047			2.047
27.	SIDA Housing	1.828									1.828
28.	USAID			946			255				1.201
29.	UNHCR						176	840			1.016
30.	LIP (sredstva Vlade FBiH)						201			709	910
31.	CHF		874								874
32.	Mercy Corps						739				739
33.	CGAP						45	150			195
34.	EBRD	105					1				106
35.	IFC	104									104
36.	WORLD BANK						45				45
37.	MFC						20	34			54
38.	UNDP						43				43
39.	Islamic Relief WW, Predstavništvo Sarajevo								29		29
40.	ADA ASBL (RATING)						20				20
41.	Other	13					49	17			79
<b>TOTAL DONATED CAPITAL</b>		<b>7.304</b>	<b>6.765</b>	<b>4.312</b>	<b>4.135</b>	<b>804</b>	<b>8.650</b>	<b>10.639</b>	<b>3.488</b>	<b>2.661</b>	<b>48.759</b>

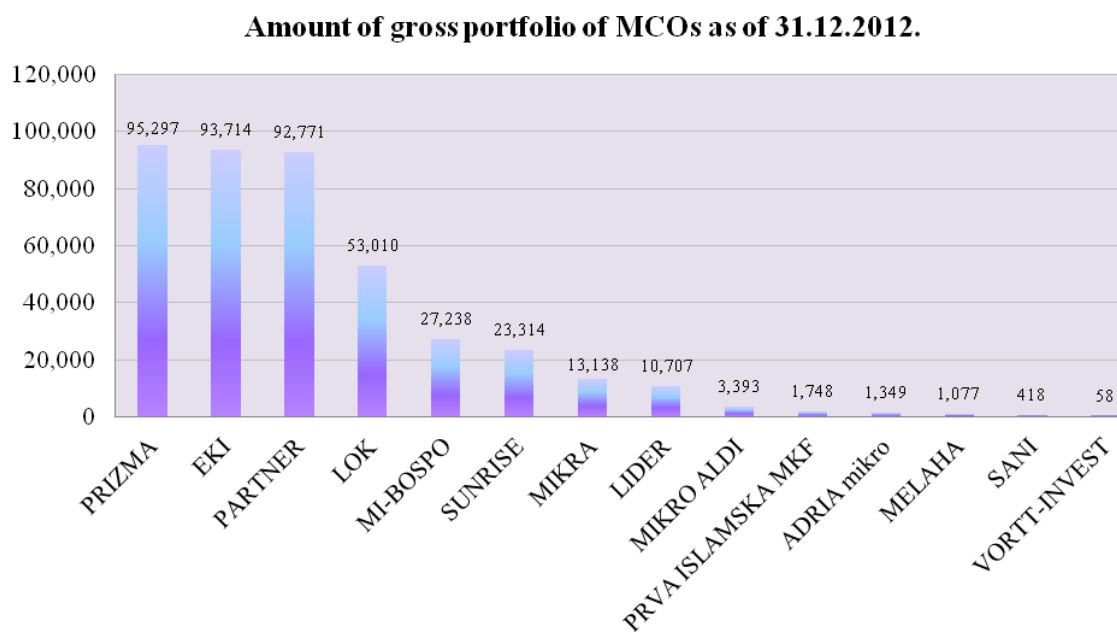
**GRAPHS:**

- Graph 1. Amount of MCO assets as of 31.12.2012. in 000 KM
- Graph 2. Amount of MCO gross portfolio as of 31.12.2012. in 000 KM
- Graph 3. Amount of liabilities from MCOs loans taken as of 31.12.2012 in 000 KM
- Graph 4. Amount of MCO capital as of 31.12.2012.
- Graph 5. Amount of donated capital of MCOs as of 31.12.2012 in 000 KM
- Graph 6. Income surplus/deficit over the expenses of MCFs that is net profit/loss of MCCs for the period from 01.01 – 31.12.2012 in 000KM.
- Graph 7. Number of MCOs employees as of 31.12.2012.
- Graph 8. Number of organizational parts of MCOs with the head office in the Federation of BiH as of 31.12.2012.
- Graph 9. Average risk weighted EIR for short term loans for MCOs in the fourth quarter of 2012.
- Graph 10. Average risk weighted EIR for long term loans for MCOs in the fourth quarter of 2012.
- Graph 11. Risk portfolio over 30 days as of 31.12.2012.
- Graph 12. Fixed assets and capital in relation to the total assets as of 31.12.2012.
- Graph 13. Total receivables on written off loans in relation to the gross portfolio of MCOs as of 31.12.2012.

**Graph 1.**

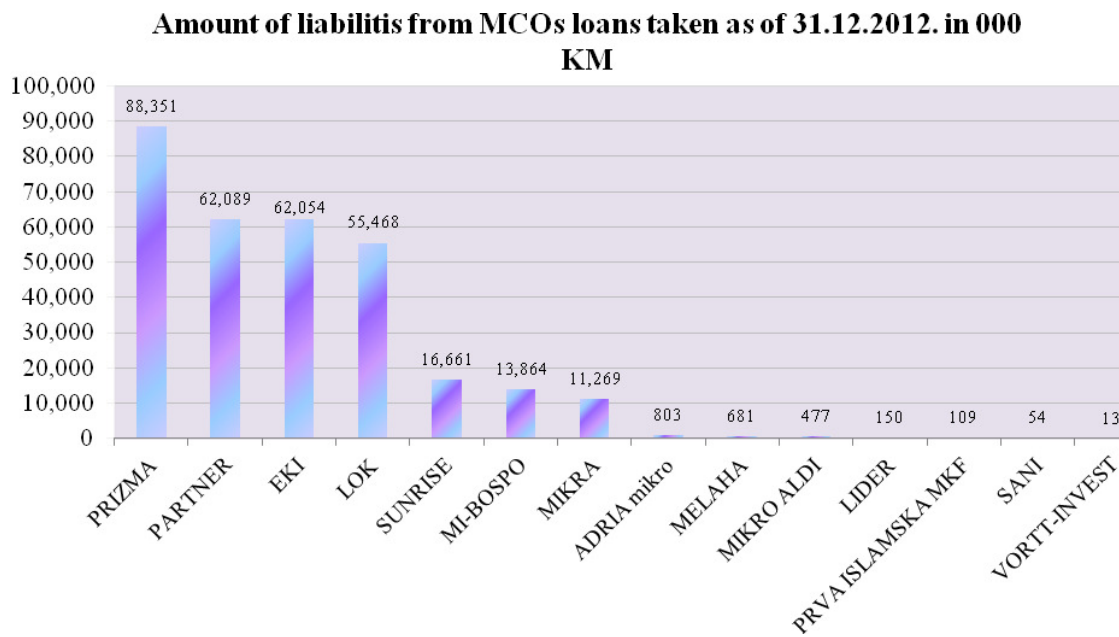


**Graph 2.**

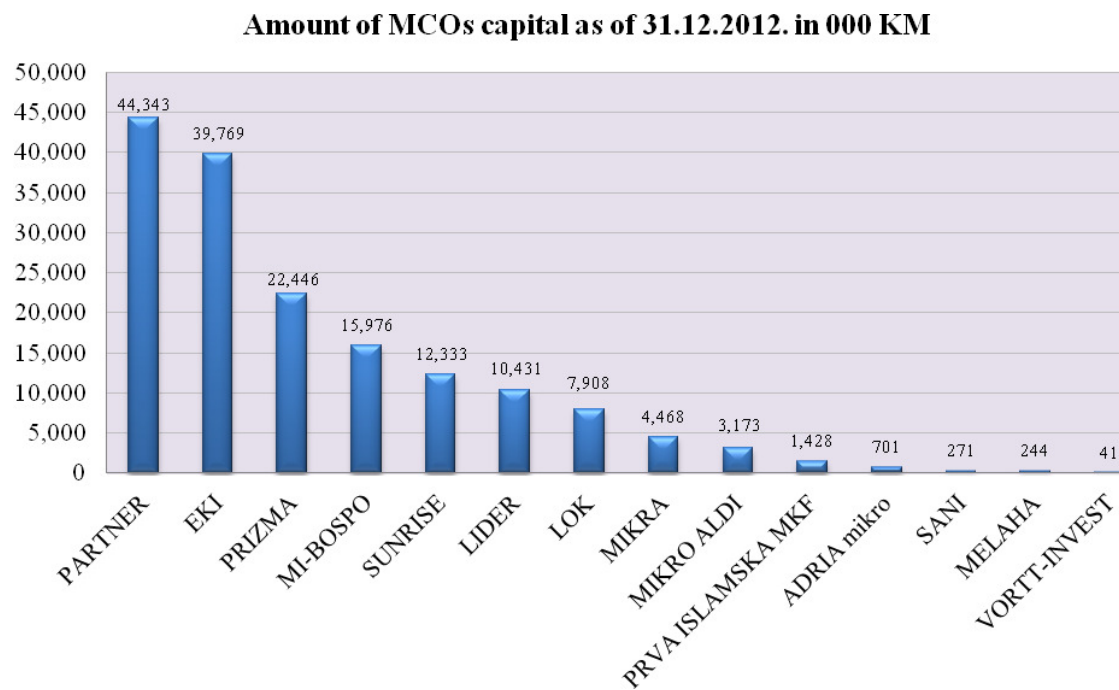




**Graph 3.**

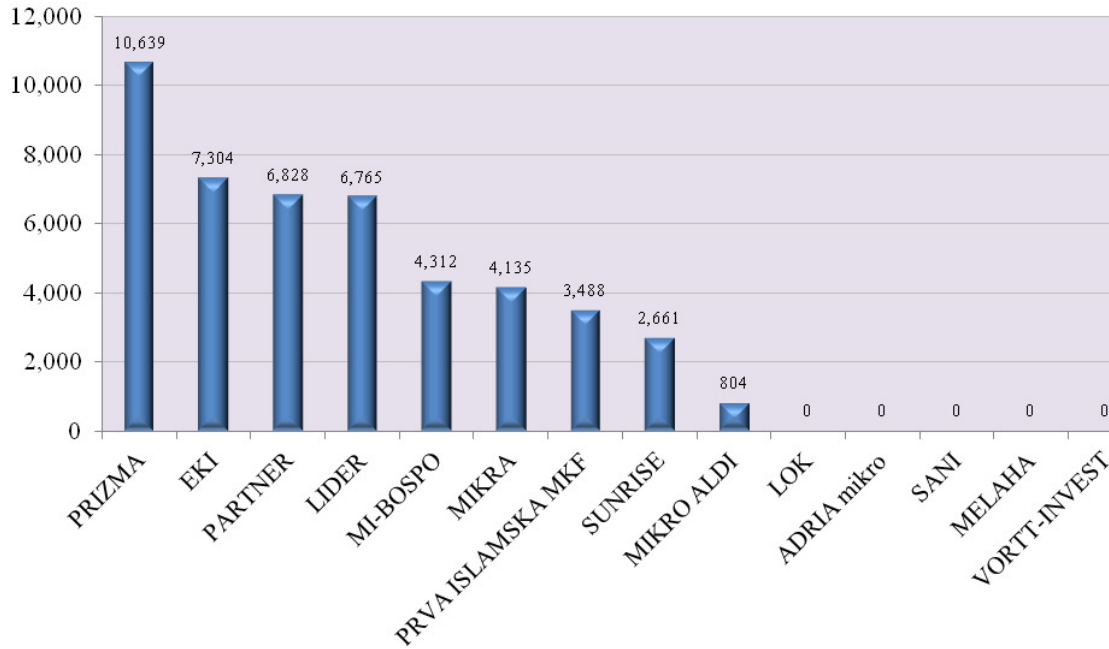


**Graph 4.**



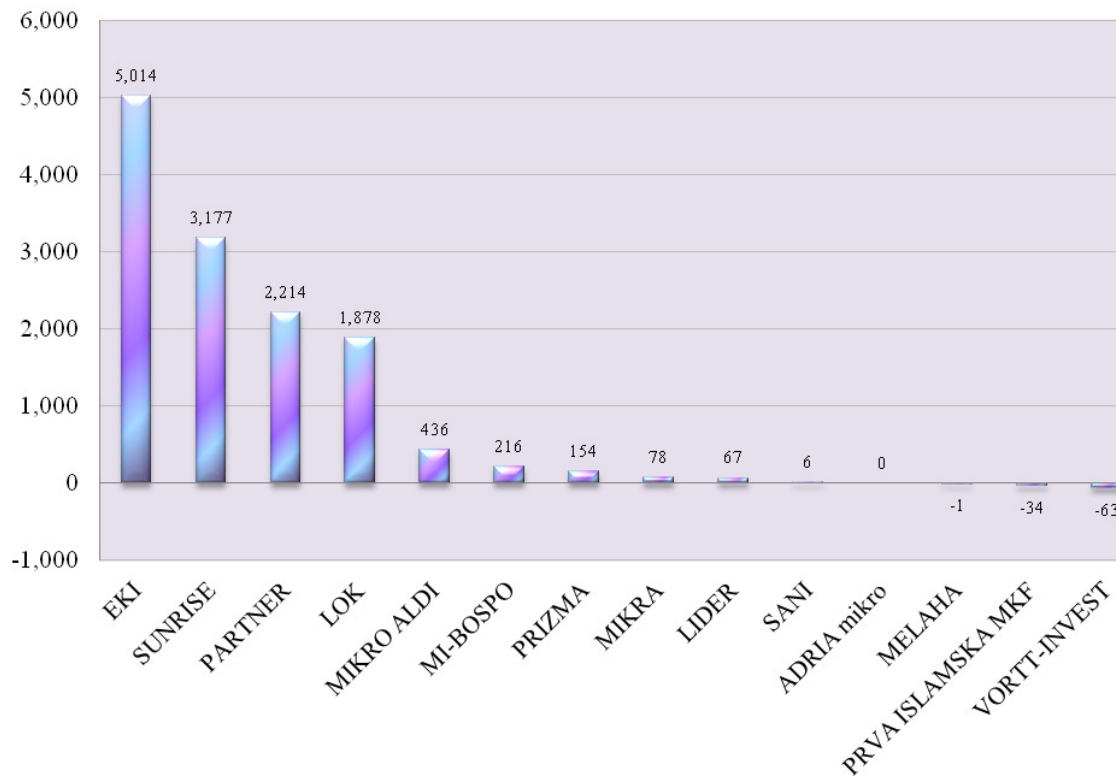
**Graph 5.**

**Amount of donated capital (based on reports) of MCOs  
as of 31.12.2012. in 000 KM**

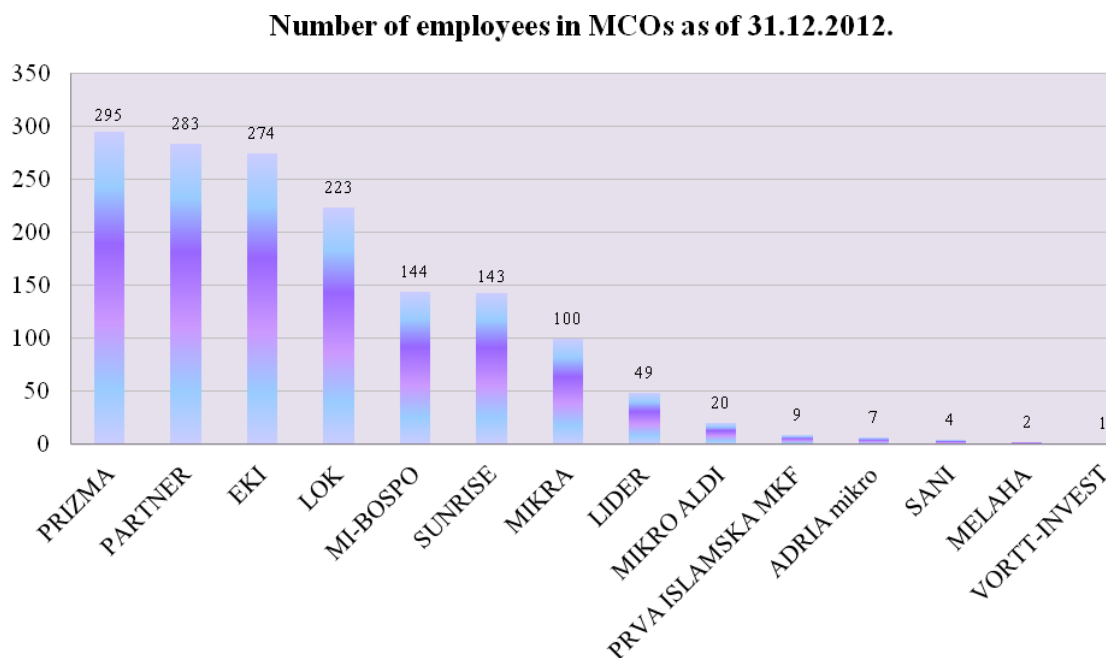


**Graph 6.**

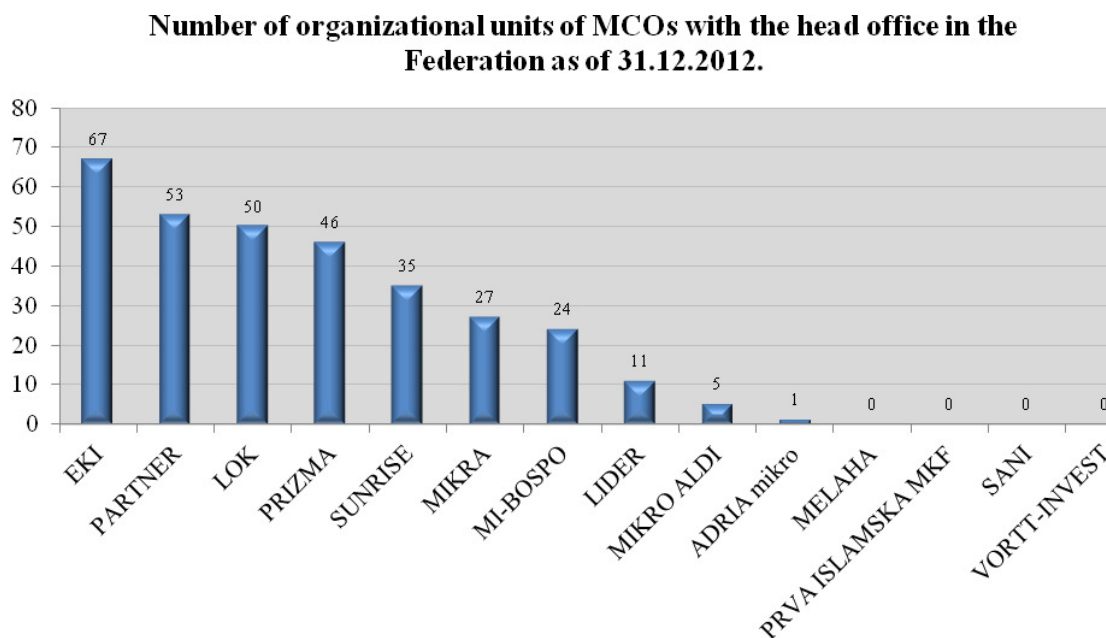
**Surplus/deficit of income over expenses of MCFs, or net income/loss of  
MCCs for the eperiod 01.01.-31.12.2012. in 000 KM**



**Graph 7.**

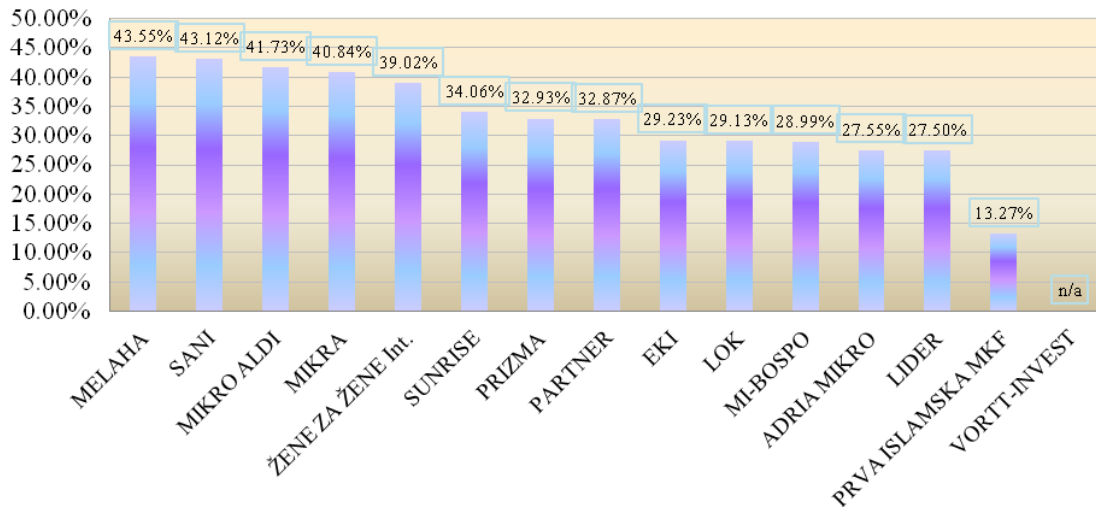


**Graph 8.**



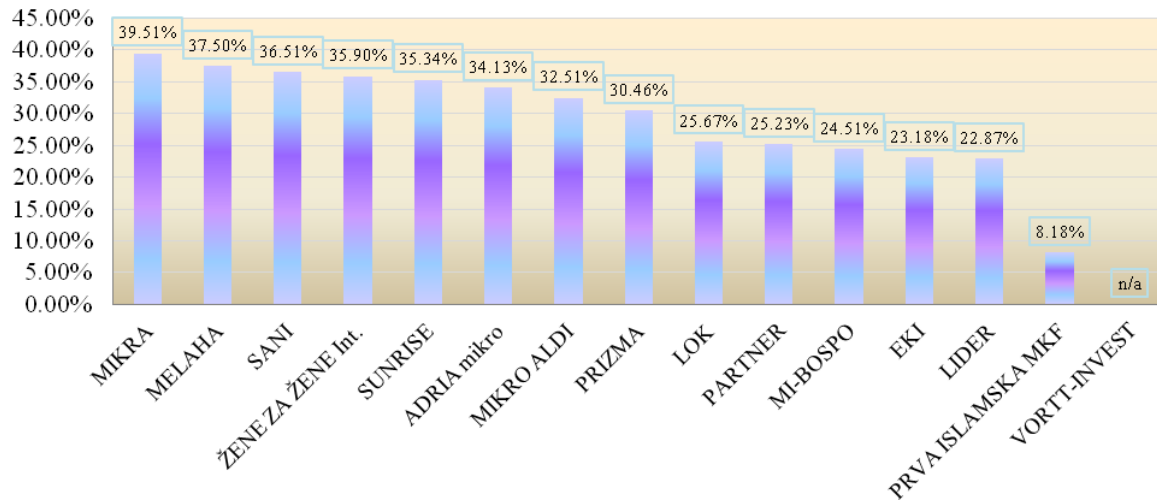
**Graph 9.**

**Average risk weighted EIR on short term loans  
based on reports from MCOs in the IV quarter of 2012.**



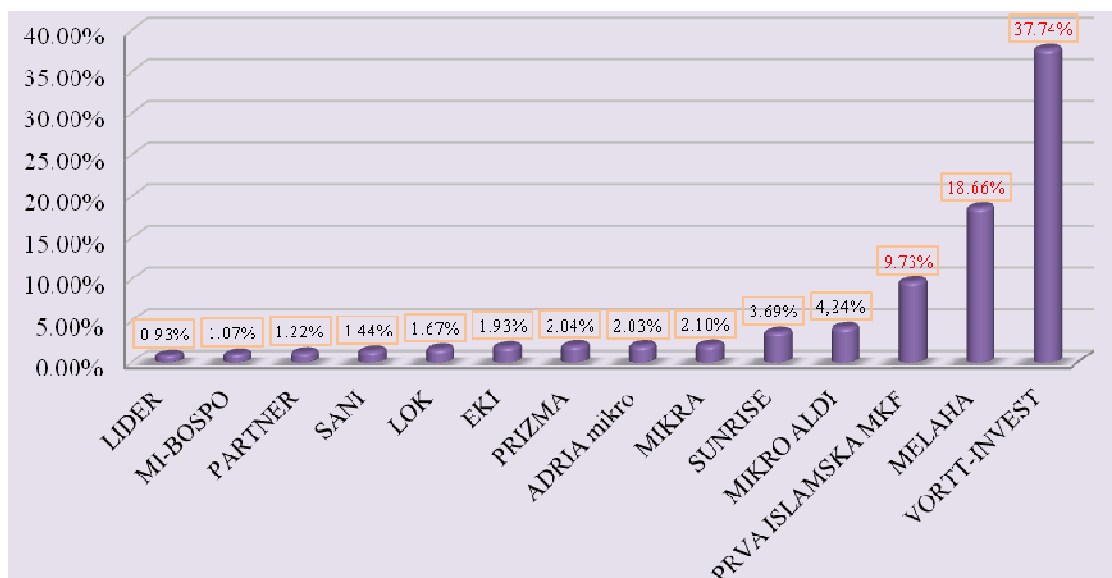
**Graph 10.**

**Average risk weighted EIR on long term loans  
based on reports of MCOs in the IV quarter of 2012.**



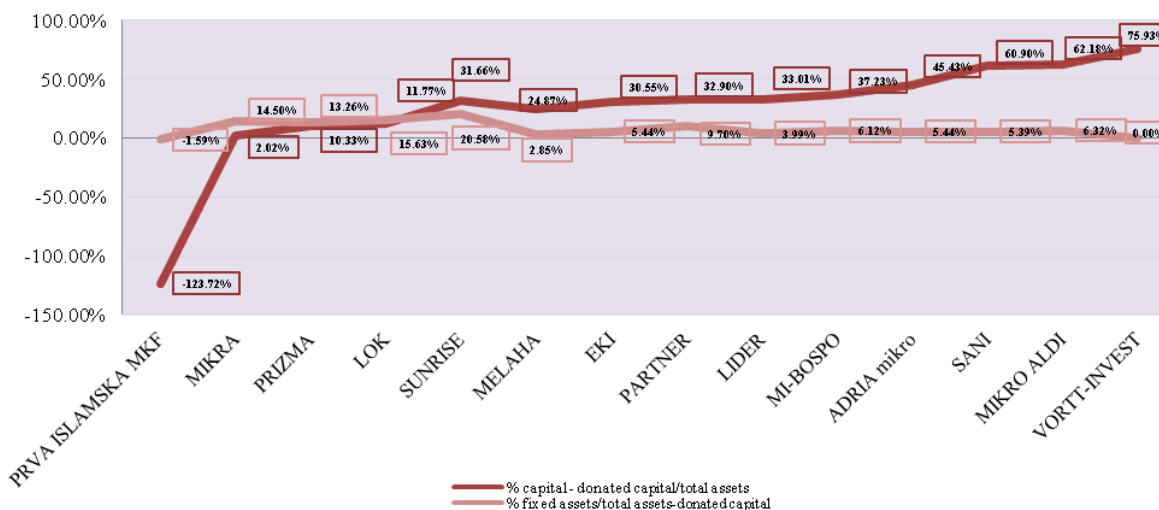
**Graph 11.**

**Portfolio in risk over 30 days as of 31.12.2012.**



**Graph 12.**

**Fixed assets and capital in comparison to the total assets as of 31.12.2012.**



Graph 13.

**Total receivables from written off loans in comparison to the total gross portfolio of MCOs as of 31.12.2012.**

