



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

**INFORMATION ON THE MICROCREDIT SYSTEM
OF THE FEDERATION OF BOSNIA AND HERZEGOVINA
AS OF 31.12.2014**

Sarajevo, March 2015

The Banking Agency of the Federation of B&H (the Agency), as a regulatory institution conducting supervision of microcredit organizations, prepared the Information on the Microcredit System of the Federation of Bosnia and Herzegovina as of 31.12.2014 based on the analysis of monthly and quarterly reports on business operations, information and data submitted to the Agency by microcredit organisations (*off-site* supervision) and data obtained during on-site examinations (*on-site* supervision). The Information was drafted on the basis of final data from reports submitted to the Agency by MCOs on 31.12.2014.

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I INTRODUCTION

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

In the conducted examinations of microcredit organisations, it was determined that the majority operates in accordance with laws and by-laws as well as in accordance with the objectives due to which they were established. The majority of MCFs has recorded an increase in the level of assets and has significantly improved its business practices and processes, as well as internal controls. Great efforts were made to improve the collection process of loans from off-balance records in the majority of MCOs, which influences the financial discipline of clients as well as the improvement of the business results of MCOs.

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

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

In the interest of the stability of the microcredit system, the Agency has taken a number of corrective actions toward the aforementioned MCF, however, at the proposal of the MCF at hand, the Agency's decisions were postponed by provisional court measures until the resolution of the administrative dispute, and the Agency's jurisdiction under the Law on Agency and the LoMCO were completely derogated in this case, as a result of which the Agency is prevented from acting in a manner that would effectively regulate the market and adequately protect the stability of the microcredit system in the Federation of B&H.

The failure to adopt the earlier proposed amendments to the LoMCO, which, in accordance with the Conclusion of the Government of the Federation of B&H, would enable more efficient corrective measures for institutions and bodies violating the LoMCO and the Agency's regulations, led to significant damage to the donated capital and the foundation's property. Unfortunately, the consequences are felt by the whole microcredit system, which

includes clients, creditors as well as employees of MCOs, which the Agency has previously warned against. The failure to adopt the proposed amendments to the LoMCO was favourable to several individuals finding a safe haven for irregularities and damage made to the the foundation's millions in assets in the current regulations that insufficiently sanction damages made to the property of a foundation and donated funds, which are of common interest, as defined in the Law on Associations and Foundations.

As of 31.12.2014, 13 MCOs, 12 of which are MCFs (non-profit organisations) and 1 of which is an MCC (profit organisation), had the Agency's licence for business operations in the Federation of B&H. They operated through 282 organisational units. As of 31.12.2014, the total headcount of the microcredit sector was 1 308, which is 95 employees or 7% fewer compared to 31.12.2013. This drop in the headcount was mostly influenced by the layoff of 102 employees at one MCO. Without the data of this MCO, the microcredit sector would have recorded a slight increase in the headcount during the reporting period.

As of 31.12.2014, the balance sheet total of MCOs amounted to KM 452.3 million, KM 445.2 million or 98.4% of which relate to MCFs and KM 7.1 million or 1.6% to the MCC. The balance sheet total of MCOs at the end of 2014 was lower by KM 23.6 million or 5% compared to the balance as of 31.12.2013. This drop was primarily influenced by the drop in the balance sheet total of one MCF with a large volume of operations, which reduced the aforementioned by even KM 52.5 million or 60%. Without the data of this MCF, the microcredit sector would have recorded a significant increase in the balance sheet total in the amount of KM 28.9 million compared to the end of the previous year.

As of 31.12.2014, total MCO gross loans, as the most significant item of MCO assets, amounted to KM 381.3 million and make up 84% of total assets of MCOs, and are therefore lower by 4% compared to the balance as at the end of the previous year, while net loans amounted to KM 355.2 million and are lower by 9% compared to the balance as of 31.12.2013. Microlending is largely directed toward agriculture (34%) and service activities (21%) and is mostly related to long-term loans to natural persons. MCOs have reduced effective interest rates on total microloans, which is how, at the end of the fourth quarter of 2014, the average weighted effective interest rates on total loans in the microcredit sector amounted to 24.41%, and thus saw a slight drop of 0.88 percentage points compared to the fourth quarter of 2013. In order to reduce interest rates on microloans in the context of protecting consumers-clients of microcredit organisations, and fulfilling the mission of microlending, during examinations, the Agency particularly values and controls all types of operating costs of MCOs that have a significant impact on the setting of interest rates and assesses their necessity, pursuant to which it issues appropriate orders. The focus of the Agency's examinations in the period to come will be to control MCO costs, their justification and effectiveness, with the aim of reducing interest rates on microloans placed by MCOs in the Federation of B&H.

Compared to the end of the previous year, as of 31.12.2014, the microcredit portfolio saw a drop of 4%, caused by the decrease in the portfolio in one MCF with a significant volume of operations, which reduced the aforementioned by KM 25.8 million or 36% and showed a deterioration of quality indicators of the active loan portfolio by increasing the loan loss provisions rate from 1.39%, which is what it amounted to as of 31.12.2013, to 6.86%. Furthermore, the risk portfolio exceeding 30 days past due was also increased from 1.50% to 8.39. The total sector result with respect to the risk portfolio is significantly outside the framework of the prescribed standard. Although 10 out of 13 MCOs operate within the prescribed limit, one MCF significantly violates the standard with 60.57%, which affects the

total sector result in terms of the risk portfolio, which must be below 5%. The risk portfolio exceeding more than one day past due also saw a significant deterioration and increased from 2.96%, which is what it amounted to at the end of the previous year, to 11.00%. At sector level, the percentage of write-offs amounted to 5.06% as of 31.12.2014 and this indicator was higher by 2.43 percentage points compared to the end of the previous year, and is significantly outside the framework of the prescribed standard. Although 10 out of 13 MCOs operate within the prescribed limit, one MCF significantly violates the standard with 25.38%, which affects the total sector result in terms of write-off percentage, which must be below 3%.

The extraordinarily poor result of the business operations of one MCF with a significant volume of operations had the key impact on the deterioration of the quality indicators of the active loan portfolio of the microcredit sector in the Federation of B&H. In the case of this MCF, the loan loss provisioning rate amounted to 48.55% as of 31.12.2014 and recorded an increase of even 41.16 percentage points compared to 31.12.2013, when it amounted to 2.93%. Furthermore, the risk portfolio for more than 30 days past due amounted to 60.57% (the prescribed limit is up to 5%) and saw a significant increase of even 58.06 percentage points compared to the reporting period, when it amounted to 2.51%. In the same way, the write-off percentage was 25.38% as of 30.09.2014 (the prescribed limit is up to 3%) and also recorded an increase of 18.92 percentage points compared to 31.12.2013, when it amounted to 6.46%.

It can be concluded from the aforementioned that this MCF continuously and on multiple occasions violates the standards and prescribed limits and destabilises the microcredit sector of the Federation of B&H, which would, without the participation of the aforementioned in the MCO system, record a significant improvement in the prescribed standards for the loan portfolio and the active loan portfolio quality indicators of the microcredit sector would thus be as follows: risk portfolio exceeding 30 days past due 1.22% (the prescribed limit is up to 5%), write-off percentage 1.28% (the prescribed limit is up to 3%), and loan loss provisions rate 1.13%.

The main source of funding of MCOs are loan commitments, which amounted to KM 264.8 million or 58% of total MCO liabilities as of 31.12.2014 and are down by 2% compared to the balance as of 31.12.2013. Total MCO capital as of 31.12.2014 amounted to KM 161.1 million or 36% of total MCO liabilities, which is lower by KM 18.6 million or 10% compared to the end of the previous year, with the capital of MCFs amounting to KM 158.6 million or 98.4% and the capital of one MCC amounting to KM 2.5 million or 1.6%. The capital drop of the microcredit sector was primarily influenced by the capital drop in one MCF with a significant volume of operations, which, as a result of losses in business operations, reduced its capital by KM 45 million. Without the data of this MCF, the microcredit sector would record a significant increase in capital in the amount of KM 26.4 million compared to the end of the previous year. The most significant MCF capital items are excess income over expenses in the amount of KM 84.8 million, which constitutes 53% of total MCF capital, followed by donated capital, which amounted to KM 67.5 million or 43% of total MCF capital, whereas one MCC does not have donated capital. Core capital and other MCF reserves amounted to KM 6.3 million, i.e. 4% of total MCF capital. The core capital of one MCD amounts to KM 600 thousand, and the loss to KM 387 thousand.

In the period from 01.01. to 31.12.2014, out of a total of 12 MCFs, even 11 MCFs had excess income over expenses in the total amount of KM 15 120 thousand, while only one MCF recorded less income over expenses in the total amount of KM 45 072 thousand. One MCF generated a net loss in the amount of KM 387 thousand in the period from 01.01. to 31.12.2014. Although 11 MCOs recorded a positive result in the amount of approximately KM 15 million, the microcredit sector in the FB&H as a whole recorded a negative financial

result of approximately KM 30 million (KM 30 339 thousand), which is the consequence of the negative result of one MCF in the amount of approximately KM 45 million.

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

With respect to operational sustainability, out of 13 MCOs, 6 MCFs cover expenses with regular income, while 6 MCFs and 1 MCC are not operationally sustainable in the reporting period.

Regarding the differences between the preliminary and final reports, the balance sheet total of MCOs as of 31.12.2014 according to final data amounted to KM 452 326 thousand and is down by KM 11 thousand compared to the balance as of 31.12.2014 according to preliminary data. Changes in assets are mostly related to a reduction in provisions for loan losses in one MCF due to an error in cancelling the costs of provisions and are also related to the impairment of other assets in two MCFs.

Total gross loans, as the most important assets item, amounted to KM 381 306 thousand as of 31.12.2014 according to final data and amounted to the same according to preliminary data.

Loan commitments as of 31.12.2014 amounted to KM 264 777 thousand according to final data and are down by KM 9 396 thousand relative to the balance as of 31.12.2014 according to preliminary data, when they amounted to KM 274 173 thousand. One MCF recorded funds in the amount of KM 9 396 thousand as donated capital, with the former being transferred as a grant to the ownership of the Foundation by means of a contract concluded with a creditor. As of 31.12.2014, total capital amounted to KM 161 106 thousand according to final data and is up by KM 8 462 thousand compared to the balance as of 31.12.2014 according to preliminary data, when it amounted to KM 152 644 thousand. This difference is mostly related to the aforementioned conversion of liabilities to donated capital and the increase in expenses in two MCFs due to an increase in tax liabilities.

Special notes: When drafting the regular quarterly Information on the Microcredit System of the Federation of Bosnia and Herzegovina, the Agency uses data submitted by the MCOs on the basis of quarterly reports. During its examinations of MCO business operations, the Agency checks the accuracy of the submitted reports. In relation to this, the Agency has reservations in the case of one MCO with a significant volume of operations regarding the accuracy of the reports submitted on 31.12.2014. Due to significant irregularities in its operations and on the basis of reports submitted as of 30.06.2014, the licence for microlending operations of the MCF at hand was revoked on 09.10.2014 after the necessary procedures were carried out. However, a temporary court measure postponed the Agency's Decision to revoke the licence until the completion of the administrative dispute. Even after the postponement of the Decision at the MCF's request, the aforementioned saw a significant deterioration in business operations and significantly threatens the microcredit system in the Federation of B&H with its results.

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

1. MICROCREDIT SECTOR STRUCTURE

1.1. Number of Microcredit Organisations

As of 31.12.2014, 13 MCOs have operating licences of the Agency, 12 of which are MCFs (non-profit organisations) and 1 of which is an MCC (profit organisation), as well as 29 organisational units of MCCs seated in Republika Srpska. All MCFs that have obtained the operating licence from the Agency have performed a re-registration in accordance with the LoMCO, i.e. they came to be as a result of the change in the form of MCOs established in accordance with the Law on Microcredit Organisations („Official Gazette of the Federation of B&H, No.: 24/00). Therefore, all MCFs are legal successors of the property, rights and obligations of MCOs established in accordance with the Law on Microcredit Organisations from 2000.

Annex 2 includes the main data on MCFs and MCC, which have the Agency's operating licence for microlending business operations as of 31.12.2014.

1.2. Organisational Units

As of 31.12.2014, there was a total of 282 organisational units of MCOs seated in the Federation of B&H according to the Registry of Microcredit Organisations and their organisational units, which is maintained by the Agency in line with Article 13 of the LoMCO. Out of this number, a total of 186 organisational units of microcredit organisations are seated in the Federation of B&H, 93 in Republika Srpska and 3 in Brčko District. The total number of organisational units of MCOs seated in the Federation of B&H is lower by 26 organisational units, i.e. by 8% compared to the end of the previous year. A total of 151 organisational units of MCOs seated in the Federation of B&H have the authority to assign microloans and are therefore registered in the competent registry.

In 2014, the Agency issued 12 approvals for the establishment of organisational units of MCOs, 38 approvals for the closing of organisational units and 19 approvals for changing the address of organisational units of MCOs. In that period, one MCF, which has an 8% share in the balance sheet total of MCOs, closed even 27 organisational units, which constitutes a decrease of 60% compared to the number of organisational units at the end of the previous year. 8 MCOs have organisational units outside of the Federation of B&H, and 3 MCOs operate exclusively from their seat, i.e. they have no open organisational units in either the Federation of B&H or in Republika Srpska. The Agency has issued operating licences for the business operations of the organisational units of one MCC, which is seated in Republika Srpska and operates in the Federation of B&H through 29 branches and field offices.

1.3. Human Resources

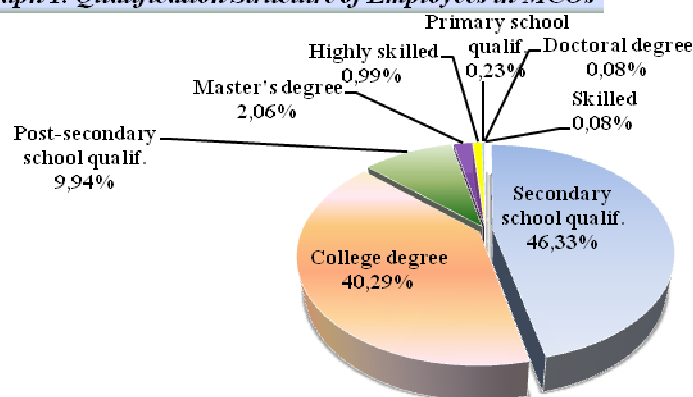
As of 31.12.2014, the total headcount of the microcredit sector was 1 308, which is lower by 95 employees or 7% compared to 31.12.2013. This drop in the number of employees at sector level was mostly influenced by the layoff of 102 employees or 54% in one MCO. MCFs employ 1 290 employees or 98.6% and the MCC 18 employees or 1.4%.

Table 1. Qualification Structure of Employees

No.	Qualification	31.12.2013		Total	Share (%)	31.12.2014.		Total	Share (%)	Index
		MCF	MCC			MCF	MCC			
1	2	3	4	5=(3+4)	6	7	8	9=(7+8)	10	11=9/5
1.	PSQ	3	0	3	0.21	3	0	3	0.23	100
2.	S	1	0	1	0.07	1	0	1	0.08	100
3.	HS	15	0	15	1.07	13	0	13	0.99	87
4.	SSQ	707	2	709	50.53	600	6	606	46.33	85
5.	PSSQ	138	1	139	9.91	128	2	130	9.94	94
6.	CD	513	6	519	36.99	518	9	527	40.29	102
7.	MR	16	0	16	1.14	26	1	27	2.06	169
8.	DR	1	0	1	0.07	1	0	1	0.08	100
TOTAL		1 394	9	1 403	100.00	1 290	18	1 308	100.00	93

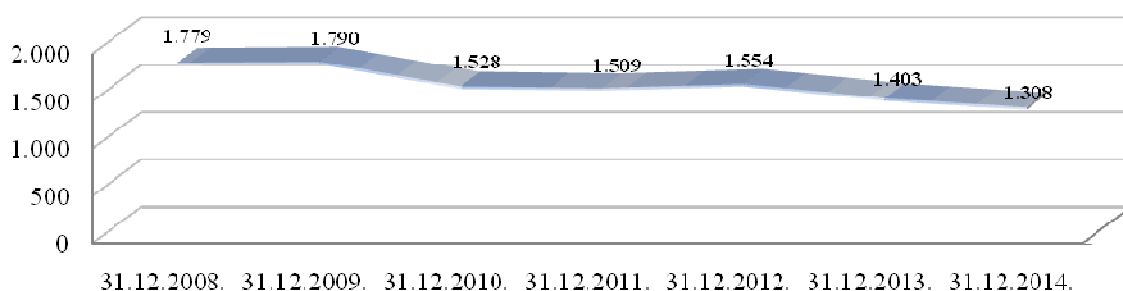
The employees structure is dominated by secondary school qualification with 46.33%, university degrees with 40.29% and two-year post-secondary qualification with 9.94%. The percentage of employees with secondary school qualification is dropping by 15%, with two-year post-secondary qualification by 6%, while the share percentage of employees with university degrees is increasing by 2% and that of employees with Master's degrees by even 69%

Graph 1. Qualification Structure of Employees in MCOs



An overview of the number of MCO employees throughout the years reveals that the biggest number of employees was recorded at the end of 2009, when the total headcount of MCOs was 1 790. As of 31.12.2014, MCOs had 1 308 employees, down by 7% compared to the end of 2009. A comparison of these two periods in the case of individual MCOs reveals that two MCFs recorded the largest drop in the number of employees by even 62% and 49%, respectively.

Graph 2. Number of Employees in MCOs by Year



2. FINANCIAL INDICATORS OF MCO BUSINESS OPERATIONS

2.1. Balance Sheet

As of 31.12.2014, the balance sheet volume of MCOs amounts to KM 452.3 million, which is lower by KM 23.6 million or 5% compared to the balance as of 31.12.2013. The balance sheet volume increased with 8 MCFs and one MCC compared to the end of the previous year, while 3 MCFs recorded a drop and one MCF maintained approximately the same balance sheet level compared to the reporting period.

A drop in the balance sheet total of up to 20% was recorded with 2 MCFs compared to 31.12.2013. One MCF with a significant volume of operations reduced its assets by even KM 52.5 million in 2014 and recorded a drop of even 60% compared to the end of the previous year, which affected the drop in assets at sector level. Without the data of this MCF, the sector would have recorded a significant increase in the amount of KM 28.9 million.

Six MCFs with assets in the amount of KM 401.3 million or 89% have the largest share in total MCO balance.

- KM 000 -

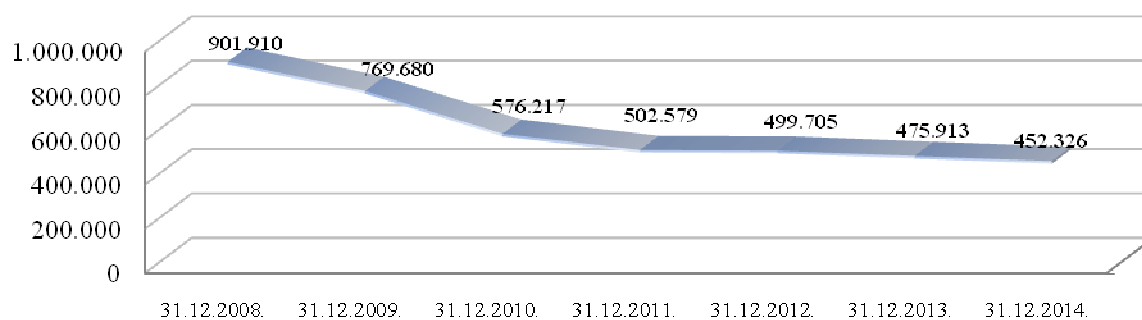
Table 2. Balance Sheet MCOs

DESCRIPTION	31.12.2013			31.12.2014					Index
	Balance for MCFs	Balance for MCCs	TOTAL	Balance for MCFs	%	Balance for MCCs	%	TOTAL	
1	2	4	6=(2+4)	7	8	9	10	11=(7+9)	12
ASSETS									
1. Cash	24 123	88	24 211	36 912	8	2 001	28	38 913	161
2. Facilities to banks	4 054	0	4 054	3 523	1	0	0	3 523	87
3. Loans	395 382	886	396 268	376 275		5 031		381 306	96
4. Loan loss provisions	5 507	16	5 523	26 140		11		26 151	473
5. Net loans	389 875	870	390 745	350 135	78	5 020	71	355 155	91
6. Business premises and other fixed assets	42 596	50	42 646	39 373	9	29	0	39 402	92
7. Long-term investments	761	0	761	3 061	1	0	0	3 061	402
8. Other assets	14 018	28	14 046	13 820	3	71	1	13 891	99
9. Provisions for other assets items, except loans	549	1	550	1 618		1		1 619	294
TOTAL ASSETS	474 878	1 035	475 913	445 206	100	7 120	100	452 326	95

LIABILITIES									
10. Loan commitments	268 565	348	268 913	260 474	58	4 303	61	264 777	98
11. Other liabilities	27 201	92	27 293	26 134	6	309	4	26 443	97
12. Capital	179 112	595	179 707	158 598	36	2 508	35	161 106	90
TOTAL LIABILITIES	474 878	1 035	475 913	445 206	100	7 120	100	452 326	95
Off-balance records	170 598	55	170 653	182 483		56		182 539	107

An overview of the balance sheet total of MCOs throughout the years reveals that the largest amount of the aforementioned was recorded at the end of 2008, when it amounted to KM 902 million. The balance sheet total of MCOs as of 31.12.2014 amounted to KM 452.3 million and it is lower by even 50% compared to the end of 2008. A comparison of these two periods in the case of individual MCOs shows that two MCFs recorded the largest drop in the balance sheet total, with even 71% and 68%, respectively.

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



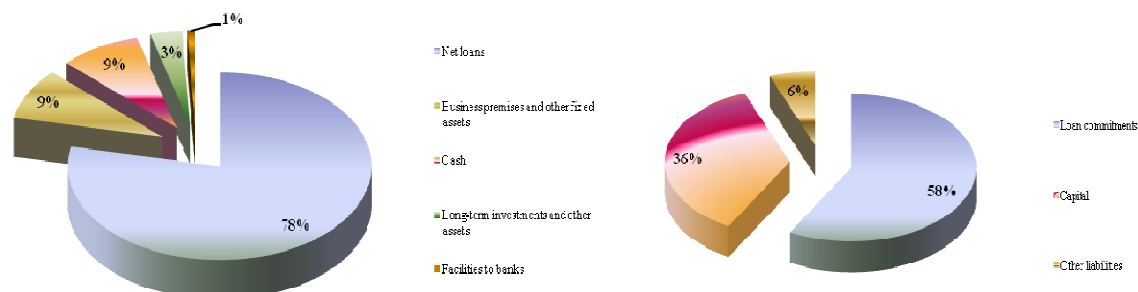
In the assets structure of MCOs, cash funds amount to KM 38.9 million or 9% with a growth rate of even 61% compared to 31.12.2013 and largely related to cash funds of MCFs. Facilities to banks amount to KM 3.5 million or 1%, which is lower by 13% compared to the end of the previous year.

Net loans, i.e. gross loans net of loan loss provisions amount to KM 355.2 million or 78% of total assets and are lower by KM 35.6 million or 9% compared to 31.12.2013. Net loan growth compared to the end of the previous year was recorded by 8 MCFs and 1 MCC, a drop was recorded by 4 MCFs. Compared to 31.12.2013, a net loan drop of up to 10% was recorded by 1 MCF, a drop of up to 20% was recorded by 1 MCF, and a drop of up to 30% was also recorded by 1 MCF. One MCF with a significant volume of operations reduced net loans by even KM 46.5 million in 2014 and recorded a net loan drop of 66% compared to the end of the previous year, which accordingly affected the decline of this balance sheet item at sector level.

Business premises and other fixed assets amount to KM 39.4 million or 9% of total assets and this balance sheet item is lower by KM 3.2 million or 8% compared to the end of the previous year. The fixed assets percentage compared to total assets (net of donated capital) is 10.24%, at sector level, which is slightly above the allowed amount (up to 10%). Individually, four MCFs violate this standard. Only one MCF recorded long-term investments in the amount of KM 3.1 million, while other assets (net of provisions for other assets items except loans)

amount to KM 12.3 million, which include calculated interest, advances, accrued and deferred items, etc. These two balance sheet items make up 3% of total assets of the microcredit sector. Other assets percentage at sector level compared to total assets is 3.07% and individually, this item is above 10% in the case of one MCF.

Graph 4. Assets and Liabilities Structure of MCOs



Loan commitments in the MCO liabilities structure are the main source of funding, amounting to KM 264.8 million or 58% of total liabilities and being down by 2% compared to 31.12.2013.

- KM 000 -

Table 3. Maturity Structure of Taken Loans

DESCRIPTION	31.12.2013				31.12.2014				Index
	MCFs	MCCs	TOTAL	%	MCFs	MCCs	TOTAL	%	
1	2	3	4=(2+3)	5	6	7	8=(6+7)	9	10=8/4
1. Liabilities on short-term loans	81 258	202	81 460	30	78 848	217	79 065	30	97
2. Liabilities on long-term loans	187 307	146	187 453	70	181 626	4 086	185 712	70	99
TOTAL	268 565	348	268 913	100	260 474	4 303	264 777	100	98

Out of total loan commitments, long-term loans (of which there is no record in the case of 2 MCFs) amount to KM 185.7 million or 70% and are lower by 1% compared to the end of the previous year. Out of total loan commitments, short-term loans (of which there is no record in the case of 3 MCFs) amount to KM 79.1 million or 30% and have a 9% rate of decrease compared to the end of the previous year. As of 31.12.2014, two MCFs did not have loan commitments.

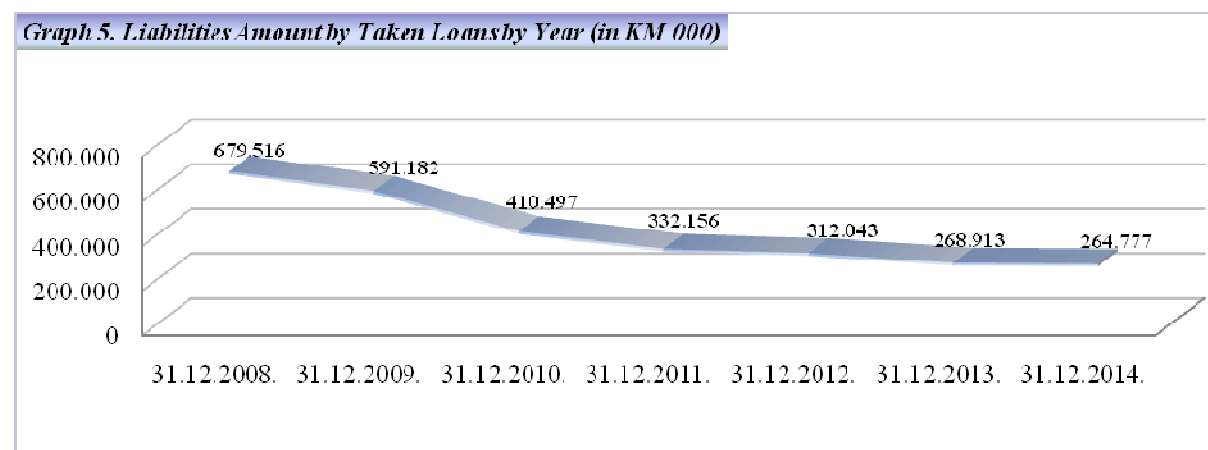
Given that creditors, both local commercial banks and various international socially-oriented commercial funds, are generally very cautious and abstain from lending a large number of MCOs, many MCOs are deprived of funds with which they would finance its microcredit activity and generate sufficient income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

Additionally, the mistrust of 19 creditors that claimed over KM 53.4 million from one MCF with a significant volume of operations, which has suffered substantial losses and is fully illiquid and insolvent due to the poor quality of its loan portfolio and poor management of the maturity of assets and liabilities, is one of the major risks for the development and growth of the sector.

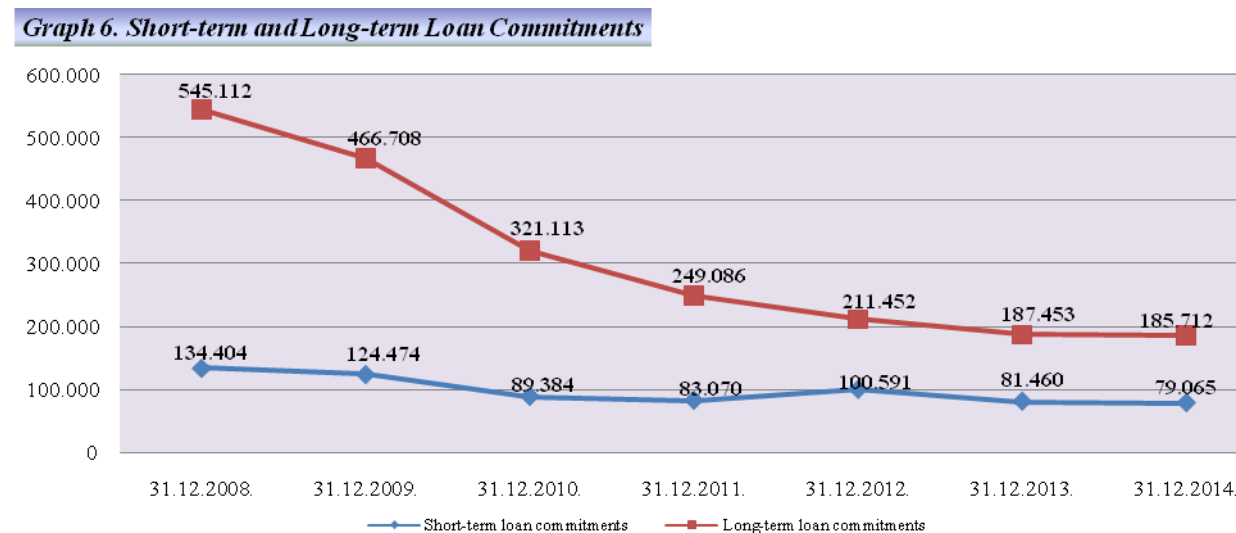
Since the beginning of the second quarter of 2014, the aforementioned MCF's accounts with commercial banks have been frozen for failing to meet obligations to creditors. On the day the Information was drafted, in the Transaction Account Register of the Central Bank of B&H, one MCF had tens of frozen accounts, which implies continuous illiquidity. According to the submitted MCO liquidity reports as of 31.12.2014, maintaining liquidity in one MCO can

significantly affect the difficulties in keeping the amount of the active loan portfolio at approximately the same level or at a level reduced up to 5%.

Looking at the total liabilities amount of MCOs by taken loans throughout the years of MCO operations, the biggest amount was recorded at the end of 2008 when they amounted to KM 679.5 million. Total liabilities of MCOs by taken loans as of 31.12.2014 amounted to KM 264.8 million, and are lower by even 61% compared to the end of 2008. A comparison of these two periods in the case of individual MCOs shows that two MCFs recorded the biggest drop in total liabilities by taken loans by even 86% and 79%, respectively.



As can be seen in the graph below, in addition to the fact that loan commitments are lower by 60% compared to 2008 and lower by 2% compared to the end of the previous year, looking at the liabilities on taken loans by maturity, long-term loans have dropped by even 66% compared to 2008 and by 1% compared to the end of 2013, while short-term loans are lower by 41% compared to 2008 and lower by 3% compared to 31.12.2013.

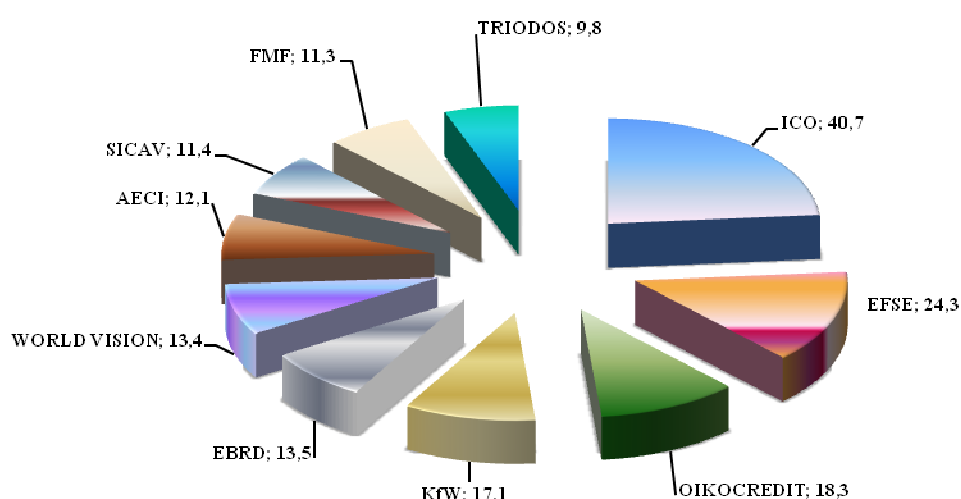


The ten most significant creditors of MCOs with 65% of total loan commitments owed to them are:

- 1) ICO - Instituto de Credito Oficial, Spain (KM 40.7 million)
- 2) EFSE – European Fund for Southeast Europe, Luxembourg (KM 24.3 million)
- 3) Oikokredit, Netherlands (KM 18.3 million)

- 4) KfW – Kreditanstalt für Wiederaufbau, Germany (KM 17.1 million);
- 5) EBRD – European Bank for Reconstruction and Development, Great Britain (KM 13.5 million)
- 6) World Vision International, USA (KM 13.4 million)
- 7) AECI – Spanish Agency for International Development Cooperation (KM 12.1 million)
- 8) Responsibility SICAV, Switzerland (KM 11.4 million)
- 9) Federal Ministry of Finance, Federation of B&H (KM 11.3 million)
- 10) Triodos – Doen, Netherlands (KM 9.8 million).

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



Other liabilities amount to KM 26.4 million or 6% of total liabilities. These include liabilities to employees, suppliers, accrued expenses and others. The percentage of other liabilities at sector level compared to total liabilities is 9.08%, and individually, a total of 7 MCFs recorded more than 10% of other liabilities compared to total liabilities.

Off-balance records as of 31.12.2014 amount to KM 182.5 million, which includes write-offs (KM 182.2 million) and barter deals (KM 0.3 million in the case of two MCFs), and are up by 7% compared to the balance as of 31.12.2013.

2.2. Capital

The total capital of MCOs as of 31.12.2014 amounts to KM 161.1 million or 36% of total liabilities, which is lower by KM 18.6 million or 10% compared to the end of 2013. The capital of MCFs amounts to KM 158.6 million or 98.4%, and the capital of one MCC to KM 2.5 million or 1.6%. The capital drop of the microcredit sector was primarily influenced by the capital drop in one MCF with a significant volume of operations, which reduced its capital by KM 45 million. Without the data of this MCF, the microcredit sector would record a significant increase in capital in the amount of KM 26.4 million compared to the end of the previous year.

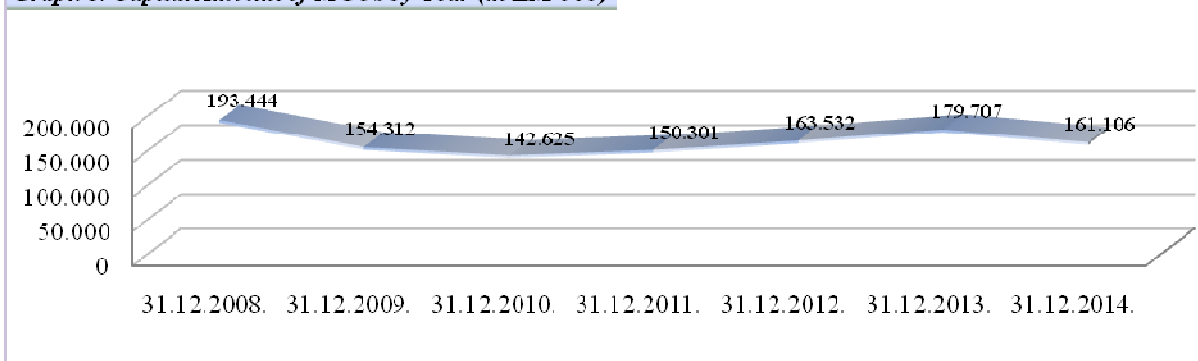
The total capital of the microcredit sector (net of donated capital) amounts to 20.69% of total assets, with 5 MCFs having a percentage of capital amount (net of donated capital) compared to total assets that is lower than allowed, i.e. less than 10% of total assets.

Table 4. Capital Structure of MCOs

DESCRIPTION	31.12.2013					31.12.2014					Index
	Balance for MCFs	%	Balance for MCCs	%	TOTAL	Balance for MCFs	%	Balance for MCCs	%	TOTAL	
1	2	3	4	5	6=2+4	7	8	9	10	11=7+9	12=11/6
Donated capital	49 640	28	0	0	49 640	67 521	43	0	0	67 521	136
Core capital	8 291	4	600	101	8 891	3 820	2	600	24	4 420	50
Surplus/deficit of income over expenses	117 975	66	0	0	117 975	84 795	53	0	0	84 795	72
Issue premiums	0	0	0	0	0	0	0	0	0	0	0
Unallocated profit	0	0	-106	-18	-106	0	0	-392	-16	-392	370
Legal reserves	0	0	101	17	101	0	0	2 300	92	2 300	2277
Other reserves	3 206	2	0	0	3 206	2 462	2	0	0	2 462	77
TOTAL CAPITAL	179 112	100	595	100	179 707	158 598	100	2 508	100	161 106	90

An overview of the capital amount of MCOs throughout the years reveals that the biggest amount was recorded at the end of 2008, when it amounted to KM 193.4 million. The total capital of MCOs as of 31.12.2014 amounted to KM 161.1 million, and is lower by 17% compared to the end of 2008. A comparison of these two periods in the case of individual MCOs shows that one MCF recorded the biggest capital drop by KM 42.6 million.

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



In the capital structure of MCFs, the excess of income over expenses is the most important, and it amounts to KM 84.8 million and makes up 53% of total MCF capital, which is lower by KM 33.2 million or 28% compared to the end of the previous year. A deficit of income over expenses for the period from 01.01. to 31.12.2014 was recorded by 1 MCF, while 11 MCFs recorded an excess of income over expenses and one MCC recorded a net loss. As of 31.12.2014, an excess of income over expenses from regular operations was recorded by 6 MCFs, while 6 MCFs and 1 MCC recorded a deficit of income over expenses, i.e. loss of regular operations. Out of those 6 MCFs, 5 of them recorded a positive result at the end of 2014 due to extraordinary income, which was significantly higher than the generated deficit of income over expenses in the case of some MCFs. Extraordinary income is a direct result of the increased collection of receivables for written-off loans.

A significant source of MCF capital is donated capital, which amounts to KM 67.5 million or 43% of total MCF capital, while one MCC has no donated capital. The amount of donated capital, as reported by MCOs, is higher by KM 17.9 million compared to the end of the previous year, i.e. 36%, and it almost completely accounts for the increase in donated capital in the case of two MCFs. During an on-site examination, one MCF was found to have previously incorrectly reported on it to the Agency, while one MCF recorded funds in the

amount of KM 9.4 million as donated capital, with the former being transferred as a grant to the ownership of the Foundation by means of a contract concluded with a creditor.

In accordance with Article 11 of the Decision on General Conditions for Operations of Microcredit Organisations, MCOs shall keep records on donated funds and treat them as donated capital on which they have to report to the Agency. As per official quarterly reports, being submitted to the Agency, 11 MCFs include the amount of donated capital in their reports and keep records on their balance.

The core capital of MCF as of 31.12.2014 amounts to KM 3.8 million or 2% of total MCF capital. Other reserves, which relate to 2 MCFs, amount to KM 2.5 million or 2% of total MCF capital. The core capital of one MCC amounts to KM 600 thousand and its loss to KM 387 thousand.

2.3. Loan Portfolio

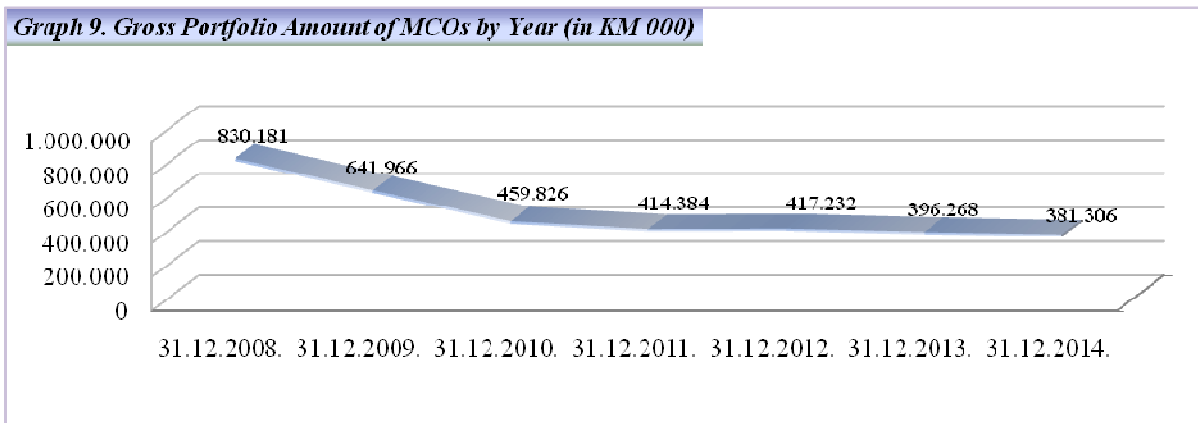
The main activity of MCOs is microlending, to which the amount of KM 381.3 million or 84% of total assets of the microcredit sector is related. The level of total sector loans depends on loans of MCFs, which account for KM 376.3 million or 98,7% of total loans, while the MCC accounts for KM 5 million or 1,3% of total loans. Net loans, which make up total loans net of loan loss provisions are presented in Table 5.

- KM 000 -

Table 5. Net Loans								
No.	DESCRIPTION	31.12.2013			31.12.2014			Index
		MCFs	MCCs	Total	MCFs	MCCs	Total	
1	2	3	4	5=(3+4)	6	7	8=(6+7)	9=8/5
1.	Loans	395 382	886	396 268	376 275	5 031	381 306	96
2.	Loan loss provisions	5 507	16	5 523	26 140	11	26 151	473
3.	Net loans (1.-2.)	389 875	870	390 745	350 135	5 020	355 155	91

Net loans amount to KM 355.2 million and are lower by 9% compared to 31.12.2013, while gross loans are also lower by 4% compared to the end of the previous year.

Loan loss provisions amount to KM 26.2 million and are up by 373% compared to 31.12.2013. The loan loss provisions to total loan portfolio ratio amounts to 6.86% and recorded a drop of 5.47% compared to 31.12.2013. One MCF with a significant volume of operations increased loan loss provisions by KM 20.6 million compared to 31.12.2013, which has affected the significant increase in loan loss provisions at sector level and the drop of portfolio quality indicators.



An overview of the gross portfolio of MCOs throughout the years of MCO operations shows that the largest amount was recorded at the end of 2008, when it amounted to KM 830.2 million. The total gross portfolio as of 31.12.2014 amounted to KM 381.3 million and dropped by 54% compared to the end of 2008. A comparison of these two periods in the case of individual MCOs reveals that two MCFs recorded the biggest gross portfolio drop, by even 76% and 75%, respectively.

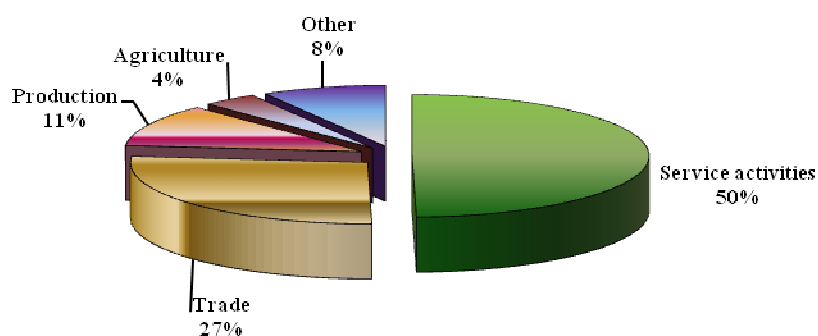
- KM 000 -

Table 6. Sector and Maturity Structure of Microloans as of 31.12.2014

No.	Microloans	Short-term loans	Long-term loans	Receivables due	TOTAL	%
1	2	3	4	5	6=(3+4+5)	7
1.	Legal entities					
a.)	Service activities	414	3 148	28	3 590	50%
b.)	Trade	345	1 578	18	1 941	27%
c.)	Agriculture	29	238	2	269	4%
d.)	Production	227	580	3	810	11%
e.)	Other	145	461	5	611	8%
	TOTAL 1:	1.160	6.005	56	7.221	100%
2.	Natural persons					
a.)	Service activities	6 999	65 088	6 219	78.306	21%
b.)	Trade	4 632	23 988	5 558	34.178	9%
c.)	Agriculture	7 714	113 588	7 188	128.490	34%
d.)	Production	1 416	8 625	2 916	12.957	4%
e.)	Housing needs	2 886	54 822	166	57.874	15%
f.)	Other	16 023	43 876	2 381	62.280	17%
	TOTAL 2:	39.670	309 987	24 428	374 085	100%
	TOTAL (1+2):	40.830	315 992	24 484	381 306	100%

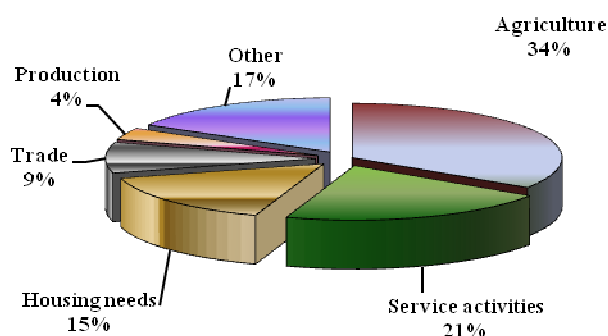
Out of the total number of microloans, KM 7.2 million or 2% were granted to legal entities and KM 374.1 million or 98% were granted to natural persons. In the maturity structure of microloans, short-term loans with receivables due account for KM 65.3 million or 17% and long-term loans for KM 316 million or 83%. Receivables due total KM 24.5 million or 6% of total loans and are almost completely related to loans granted to natural persons.

Graph 10. Sector Structure of Microloans to Legal Entities



The largest amount of total microloans to **legal entities** was placed for service activities and trade – KM 3.6 million or 50% for service activities and KM 1.9 million or 27% for trade. Out of the total microloan amount to legal entities, KM 0.8 million or 11% were granted for production, while KM 0.3 million or 4% were granted for agriculture and KM 0.6 million or 8% for other purposes.

Graph 11. Sector Structure of Microloans to Natural Persons



As for loans to **natural persons**, KM 128.5 million or 34% was placed for agriculture, followed by KM 78.3 million or 21% for service activities, KM 57.9 million or 15% for housing needs, KM 34.2 million or 9% for trade, KM 13 million or 4% for production and KM 62.3 million or 17% for other purposes.

- KM 000 -

Table 7. Sector Structure of Microloans				
Microloans for:	31.12.2013	31.12.2014	Share	Index
Agriculture	142 133	128 759	34%	91
Service activities	93 750	81 896	21%	87
Other	45 481	62 891	17%	138
Housing needs	49 288	57 874	15%	117
Trade	45 028	36 119	9%	80
Production	20 588	13 767	4%	67
TOTAL	396 268	381 306	100%	96

Based on the analysis of the industry, it can be concluded that microlending is largely directed toward lending of agriculture (34%) and service activities (21%), and that it mostly includes long-term loans for natural persons. This means that loans are, in the majority of cases, approved to persons who do not have an access to traditional sources of funding due to both the riskiness of the business operations they perform and due to the lack of proper collaterals. Compared to the end of the previous year, the total loan percentage for all loan products shows a drop between 9% and 33%, save for housing loans and loans for other purposes, which are up by 17%, i.e. 38% compared to the end of the previous year. In terms of microloan maturity, long-term microloans are down by 3% compared to the end of the previous year, while short-term microloans (including receivables due) are down by 8%.

- KM 000 -

DESCRIPTION	31.12.2013	31.12.2014	Share	Index
Long-term microloans	325 426	315 992	83%	97
Short-term microloans with receivables due	70 842	65 314	17%	92
TOTAL	396 268	381 306	100%	96

According to reports that microcredit organisations submitted to the Agency in relation to the amount of risk portfolio as a result of the May 2014 natural disasters, as of 31.12.2014, the active loan portfolio, which was not past due as of 30.04.2014 and which was at risk as a result of the natural disasters, amounted to KM 21.1 million, of which the amount of KM 10.1 million related to one MCF. The loan portfolio that was past due as of 30.04.2014 and was additionally at risk as a result of the natural disasters, amounted to KM 0.2 million. As a result of the natural disasters, a moratorium was declared for 43 loan accounts in the total amount of KM 106 thousand. The loan portfolio that was renegotiated – rescheduled as a result of the natural disasters amounted to KM 2.8 million. Loans for agriculture (38%) and loans for housing needs (27%) have the largest share in the amount of rescheduled loans as a result of the natural disasters.

According to the Decision on the Amount and Manner of Creating and Maintaining Reserves for Covering Loan Losses of Microcredit Organisations („Official Gazette of the Federation of B&H“, No.: 27/07), MCOs shall allocate all loan proceeds and other receivables to certain groups by applying the days past due criterion in a way that funds for loan loss provisions and other losses are allocated to each group debiting operating expenses. The basis for the calculation of the reserves is the amount of outstanding loan, due interest and fee and any other items in which the MCO is exposed to the risk of impossible collection, i.e. business failure. Receivables amounts divided into the set groups and calculated reserves by these groups with the balance as of 31.12.2014 can be seen in Table 9.

No.	Days past due	Provisioning rates	Loan amount	Share (%)	Interest due		Amount of other assets items	Provisions			Total provisions
					Provisioning rate	Interest amount		By loans	By interest due	By other assets items	
1	2	3	4	5	6	7	8	9=(4x3)/100	10=(7x6)/100	11=(8x3)/100	12=(9+10+11)
1.	0	0%	339 365	89	0%	943	237	0	0	0	0
2.	1 – 15	2%	3 253	0.85	2%	41	0	65	1	0	66
3.	16 – 30	15%	6 687	1.75	100%	80	0	1 003	80	0	1 083
4.	31 – 60	50%	11 392	2.99	100%	201	0	5 696	201	0	5 897

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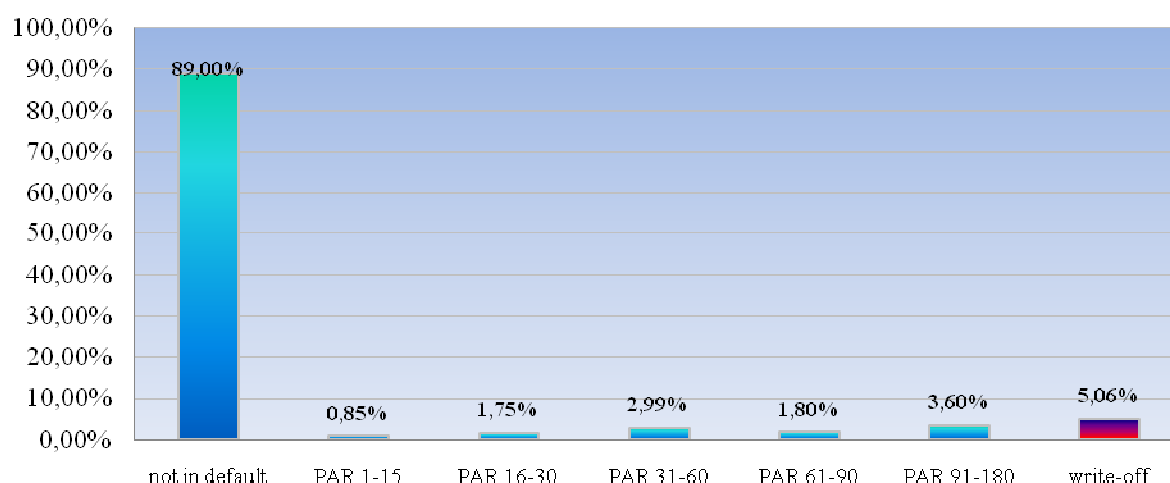
5.	61 – 90	80%	6 867	1.80	100%	209	0	5 494	209	0	5 703
6.	91 – 180	100%	13 742	3.60	100%	1 124	0	13 893	1 128	0	15 021
TOTAL			381.306	100		2 598	237	26 151	1 619	0	27 770
7.	More than 180	Write-off	6 827		100%	3 395					

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

The amount of defaulted loans for more than one day is KM 41.9 million. The default loan rate over one day as of 31.12.2014 was 11% and shows a deterioration compared to the end of the previous year by 8.04 percentage points. The biggest defaulted loan amount is with those of 91 to 180 days (KM 13.7 million or 3.60% of total loans). The total amount of interest due by current loans which are defaulted for more than one day is KM 1.7 million. The total amount of calculated reserves on all bases is KM 27.8 million and is up by KM 21.7 million or 357% compared to 31.12.2013. During the analysis of MCO reports, it was found that one MCO with a significant volume of operations has a 86% of share in the total reserve amount.

In 2014, the MCO write-off amounted to KM 19.7 million of principal and KM 8.7 million of interest.

Graph 12. Portfolio Quality of MCOs



2.3.1. Key Indicators of Loan Portfolio Quality

Compared to the end of the previous year, as of 31.12.2014, the microcredit portfolio recorded a drop of 4% (KM 15 million), as a result of a drop in the portfolio of one MCF with a significant volume of operations, which reduced the aforementioned by KM 25.8 million or 36% and thus shows a deterioration of active loan portfolio quality indicators. The majority of MCOs is exposed to the pressure of competition both from larger MCOs and from banks. Many smaller MCOs are thus faced with a lack of funds for financing the loan portfolio.

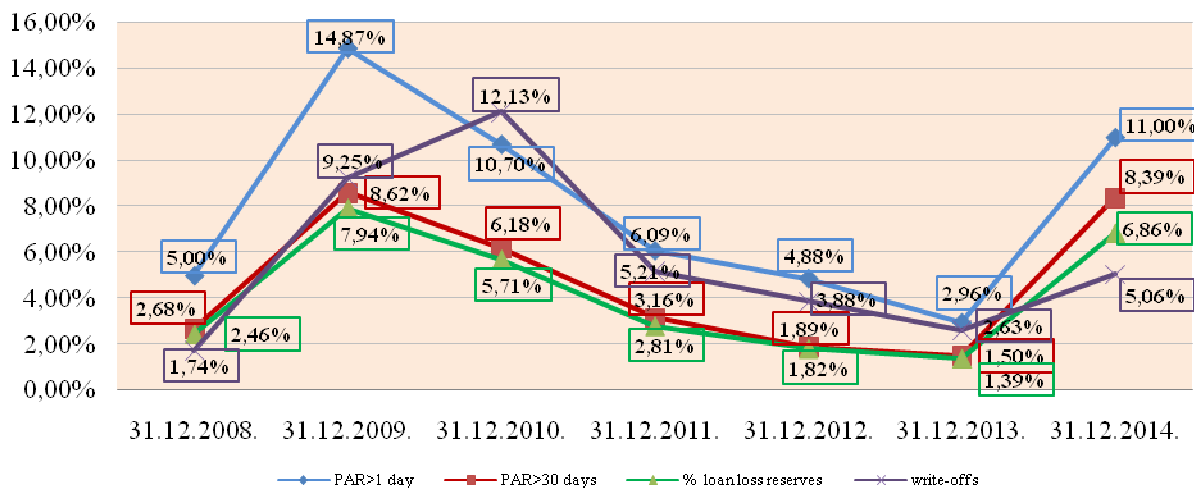
The deterioration in the quality of the active portfolio was rendered by the increase of the loan loss provisions rate from 1.39%, to which it amounted as of 31.12.2013, to 6.86%. The risk portfolio for more than 30 days past due also increased from 1.50% to 8.39%. The total sector result based on the risk portfolio is significantly outside the prescribed standards. Although 10 out of 13 MCOs operate within the prescribed limit, one MCF significantly violates the

standard with 60.57%, which affects the overall sector result in terms of the risk portfolio, which must be below 5%. The risk portfolio for more than one day past due also recorded a significant deterioration, increasing from 2.96%, to which it amounted as of the end of the previous year, to 11.00%.

The extraordinarily poor result of the business operations of one MCF with a significant volume of operations had the key impact on the deterioration of the quality indicators of the active loan portfolio of the microcredit sector in the Federation of B&H. In the case of this MCF, the loan loss provisioning rate amounted to 48.55% as of 31.12.2014 and recorded an increase of even 41.16 percentage points compared to 31.12.2013, when it amounted to 2.93%. Furthermore, the risk portfolio for more than 30 days past due amounted to 60.57% (the prescribed limit is up to 5%) and saw a significant increase of even 58.06 percentage points compared to the reporting period, when it amounted to 2.51%. In the same way, the write-off percentage was 25.38% as of 30.09.2014 (the prescribed limit is up to 3%) and also recorded an increase of 18.92 percentage points compared to 31.12.2013, when it amounted to 6.46%.

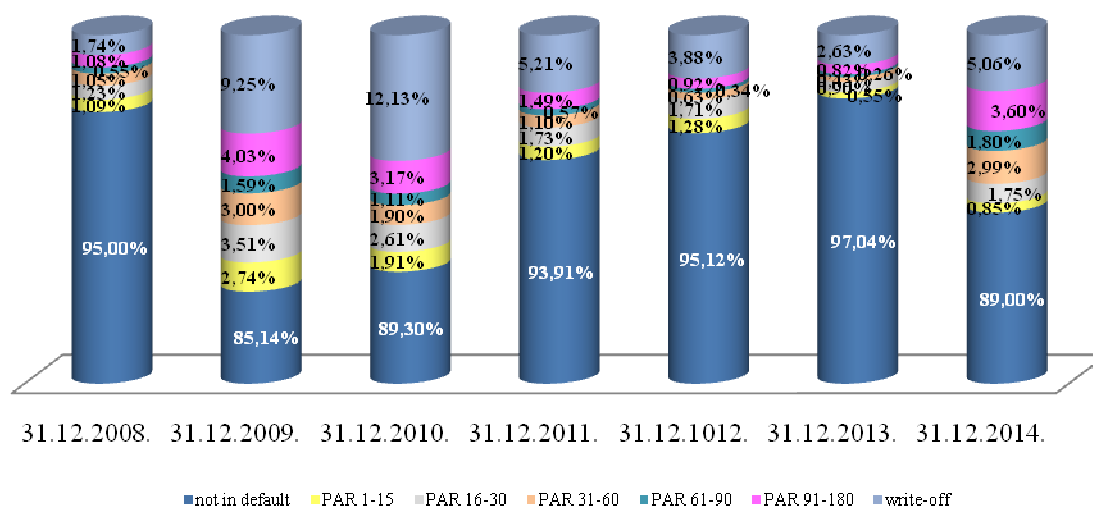
It can be concluded from the aforementioned that this MCF continuously and on multiple occasions violates the standards and prescribed limits and destabilises the microcredit sector of the Federation of B&H, which would, without the participation of the aforementioned in the MCO system, record a significant improvement in the prescribed standards for the loan portfolio and the active loan portfolio quality indicators of the microcredit sector would thus be as follows: risk portfolio exceeding 30 days past due 1.22% (the prescribed limit is up to 5%), write-off percentage 1.28% (the prescribed limit is up to 3%), and loan loss provisions rate 1.13%.

Graph 13. Active Portfolio Quality Indicators of MCOs



In terms of the indicators of loan portfolio quality and other business results of MCFs, the Agency has reservations regarding the accuracy of the data of one MCF with a significant volume of operations, which has a market share of 12% and which did not, given the temporary measure of the competent court, comply with the Agency's orders within the stipulated period of time.

Graph 14. Gross Portfolio Classification of MCOs by Year



During 2014, MCOs wrote off 13 318 loan accounts (13 260 write-offs relate to natural persons and 58 to legal entities) in the total amount of KM 28.4 million, of which KM 19.7 million relate to the written-off principal. Even 78% of written-off loan accounts and 76% of written-off principal out of the total number of written-off loan accounts and the total number of written-off principal in 2014 relate to one MCF with a significant volume of operations. During the examination of this MCF, the Agency found numerous irregularities in its business operations, especially regarding write-offs.

As of 31.12.2014, the percentage of write-offs at sector level amounted to 5.06% (the prescribed limit is up to 3%), and this indicator is up by 2.43 percentage points compared to the end of the previous year. Although 10 out of 13 MCOs operate within the prescribed limit, one MCF significantly violates this standard with 25.38%, which affects the overall sector result in terms of the write-off percentage, which must be below 3%.

Microcredit organisations continued with their efforts to collect receivables by write-offs and managed to collect KM 10.6 million of written-off principal and KM 1.1 million of written-off interest in 2014, while the permanent write-off in the same reporting period amounted to KM 117 thousand of principal and KM 30 thousand of interest. Regarding the efficiency of the collection of write-offs in 2014, one MCF had 43% of write-off collection compared to the total amount of receivables by write-offs, one MCF had 16%, three MCFs and one MCC ranged from 10-15%, while seven MCFs had a collection efficiency percentage below 10%. As of 31.12.2014, total receivables by write-offs, which are in the off-balance records, amount to as KM 182.2 million, which is 7% higher compared to the end of the previous year. One MCF with a significant volume of operations has KM 54.5 million of total receivables by write-offs, which makes up 30% of total receivables by write-offs at sector level.

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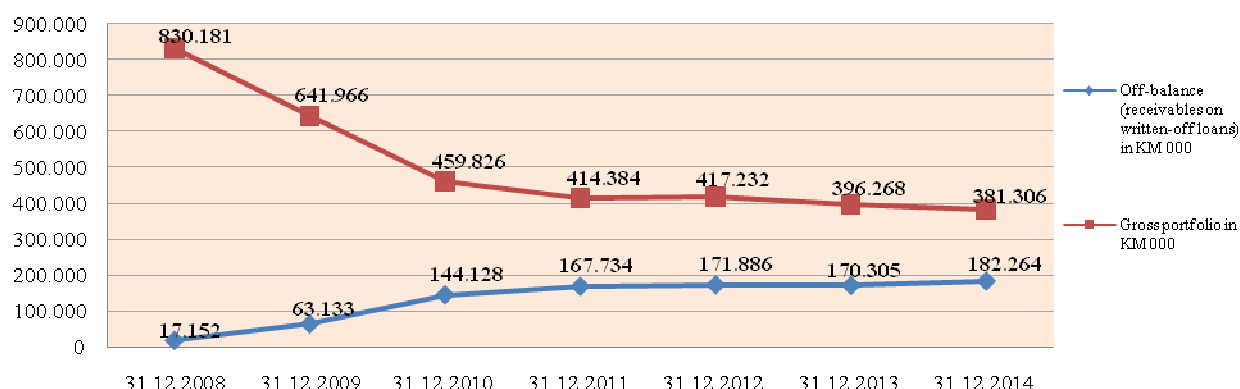
DESCRIPTION	NATURAL PERSONS		LEGAL ENTITIES		TOTAL	
	Written-off principal	Written-off interest	Written-off principal	Written-off interest	Written-off principal	Written-off interest
1	2	3	4	5	6	7
Initial balance as of 01.01.2014.	139.593	21.952	2.726	295	142.319	22.247
Changes in 2014:						
New write-off in the current year	19 491	8 699	170	16	19 661	8 715

Write-off in the period 01.01.-31.03.	2 436	907	35	4	2 471	911
Write-off in the period 01.04.-30.06.	1 893	476	63	6	1 956	482
Write-off in the period 01.07.-30.09.	8 386	3 926	21	1	8 407	3 927
Write-off in the period 01.10.-31.12.	6 776	3 390	51	5	6 827	3 395
Collected in the current year	10 504	1 065	145	15	10 649	1 080
Collection of write-offs in the period 01.01.-31.03.	2 582	294	37	4	2 619	298
Collection of write-offs in the period 01.04.-30.06.	2 513	263	36	4	2 549	267
Collection of write-offs in the period 01.07.-30.09.	2 565	232	25	3	2 590	235
Collection of write-offs in the period 01.10.-31.12.	2 844	276	47	4	2 891	280
Permanent write-off in the current year	117	30	0	0	117	30
Permanent write-off in the period 01.01.-31.03.	73	8	0	0	73	8
Permanent write-off in the period 01.04.-30.06.	32	8	0	0	32	8
Permanent write-off in the period 01.07.-30.09.	7	10	0	0	7	10
Permanent write-off in the period 01.10.-31.12.	5	4	0	0	5	4
Balance as of 31.12.2014	148 463	29 556	2 751	296	151 214	29 852

* Note: The data in Table 10 differs from total receivables by write-offs shown in the off-balance records in the amount of KM 1.2 million, which includes court expenses, penalty and process interest and a portion of off-court settlements in the case of two MCFs.

Compared to 2008, the gross portfolio of MCOs is lower by 54%, while receivables by write-offs are almost 10 times higher and make up 48% of the total loan portfolio as of 31.12.2014. There are significant deviations in the quality of the portfolio between different MCOs, which are evident from the data that four MCFs have over 70% of total write-offs compared to the total gross portfolio (total receivables by write-offs, which are in off-balance records, are higher than total gross loans by 19% and 18%, respectively, in the case of two MCFs), which is a direct consequence of past loan expansion. One MCF and one MCC showed total write-offs below 10% of the total gross portfolio.

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



MCOs are obligated to start court disputes for the collection of write-offs which fell due and have not been collected for more than 180 days. The on-site control at one MCF revealed that it has over 10 000 unsued loan accounts totaling over KM 15 million. Given that this MCF did not perform cash transactions regarding payment and collection of loans via bank accounts that would confirm the aforementioned transactions, avoiding court disputes for these cases left room for the unlawful handling of write-offs and other misuses detrimental to

the MCF's property.

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

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

According to the loan repayment reports of MCOs with guarantorship as a security instrument, as of 31.12.2014 in the Federation of B&H, the total number of loan accounts in the active loan portfolio of MCOs was 158 813, 1.44% of which were being repaid by guarantors, which is up by 0.33 percentage points compared to the percentage of loans being paid off by guarantors out of the total number of loans as of 31.12.2013 (2013: 1.11%). According to quarterly reports, the total gross loan portfolio in the MCO sector as of 31.12.2014 amounted to KM 381 306 thousand KM, with the share of the outstanding loan debt being paid off by guarantors amounting to 1.59%, up by 0.55 percentage points compared to the share of outstanding loan debt being paid off by guarantors out of the total gross loan portfolio at the end of 2013 (2013: 1.04%).

According to MCO reports and pursuant to the Decision on Manner of Customer Complaint Management of Banks, MCOs and Leasing Companies („Official Gazette of the Federation of B&H“, No. 23/14 and 62/14), in the period from 01.10. to 31.12.2014, a total of 86 complaints was filed against MCFs, while 1 complained was filed against the MCC. In the case of 5 MCFs, there is no evidence of complaints.

Co-debtors/guarantors have filed 25 complaints, debtors 36 complaints, while other stakeholders filed 26 complaints. The MCOs resolved 14 complaints positively, 58 complaints negatively, while 15 complaints are in the process of being handled.

2.4. Weighted Nominal and Effective Interest Rates on Microloans

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

No.	DESCRIPTION	Total amount of microloan payment in Q4 2014 (in KM 000)	Weighted nominal interest rate (average)	Weighted effective interest rate (average)
1.	Short-term microloans for:	16 369	23.05%	30.70%

1.1.	Service activities	2 664	24.31%	32.42%
1.2.	Trade	1 339	23.23%	31.42%
1.3.	Agriculture	2 504	22.52%	29.64%
1.4.	Production	354	23.93%	32.07%
1.5.	Housing needs	1 258	20.29%	25.25%
1.6.	Non-purpose – basic needs	676	24.63%	35.75%
1.7.	Other	7 574	23.02%	30.71%
2.	Long-term microloans for:	65 262	19.38%	22.84%
2.1.	Service activities	12 156	21.17%	25.27%
2.2.	Trade	3 820	20.95%	25.05%
2.3.	Agriculture	19 091	18.90%	22.17%
2.4.	Production	1 464	20.99%	25.42%
2.5.	Housing needs	14 459	15.48%	17.51%
2.6.	Non-purpose – basic needs	565	24.98%	31.99%
2.7.	Other	13 707	21.73%	25.95%
TOTAL		81.631	20.11 %	24.41 %

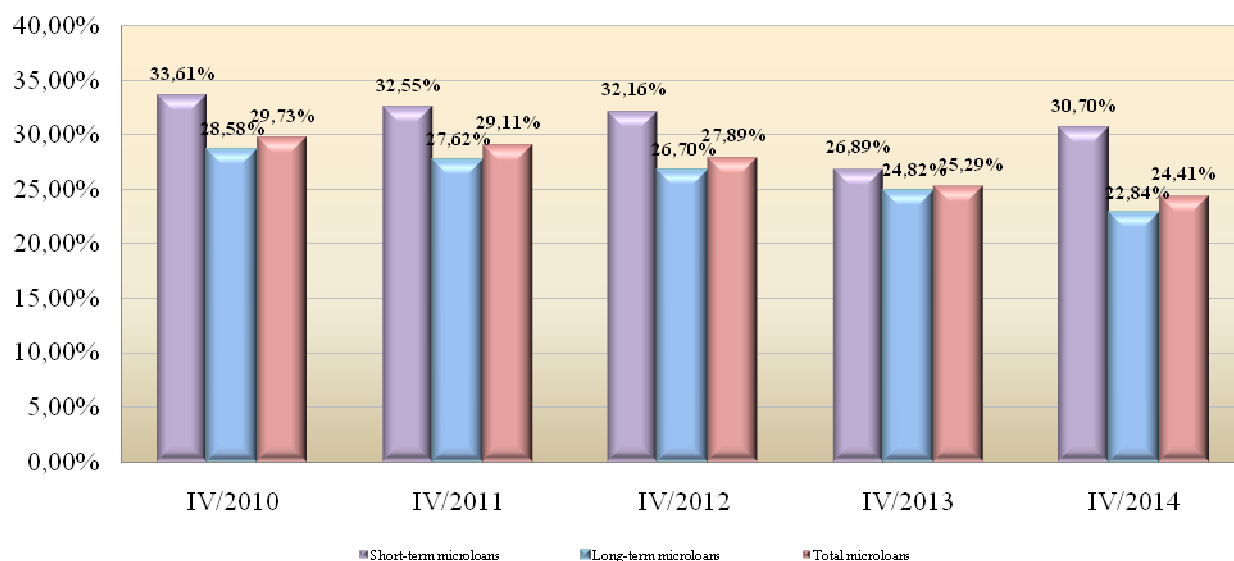
In accordance with monthly statements on weighted nominal and effective interest rates by loan, in the fourth quarter of 2014, MCOs placed microloans in the total amount of KM 81.6 million, which is lower by KM 4.3 million or 5% compared to the microloan amount placed in the same period of the previous year. This is mostly due to reduced placement of microloans of one MCF with a significant volume of operations. As of 31.12.2014, MCOs had 158 813 active loan accounts, which is lower by 22 932 loan accounts or 13% compared to the end of the previous year. As of 31.12.2014, the average amount of microloans at sector level was KM 2 401, the average amount of microloans in MCFs was KM 2 378 (31.12.2013 – KM 2 180), while the average amount of microloans in the MCC was KM 8 920.

The average weighted nominal interest rate on short-term loans ranges from 20.29% for housing loans up to 24.63% for non-purpose loans, and the effective interest rate ranges from 25.25% for housing loans up to 35.75% for non-purpose loans. The average weighted nominal interest rate on long-term loans ranges from 15.48% for housing loans up to 24.98% for non-purpose loans, and the effective interest rate ranges from 17.51% for housing loans up to 31.99% for non-purpose loans. By analysing the effective interest rates of MCOs by loan product, it can be concluded that the most favourable loans are placed for housing needs, while the most expensive loans are non-purpose loans, i.e. loans for basic needs.

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

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

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



Microcredit organisations decreased, although only slightly, effective interest rates on total microloans, so that, at the end of the fourth quarter of 2014, average weighted effective interest rates in the microcredit sector on total loans amounted to 24.41%, and recorded a drop of 0.88 percentage points compared to the fourth quarter of 2013. Compared to the same period, average weighted effective interest rates on short-term loans amounted to 30.70% and recorded an increase of 3.81 percentage points. Average weighted effective interest rates on long-term loans amounted to 22.84% at the end of the fourth quarter of 2014 and dropped by 1.98 percentage points compared to the fourth quarter of 2013.

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

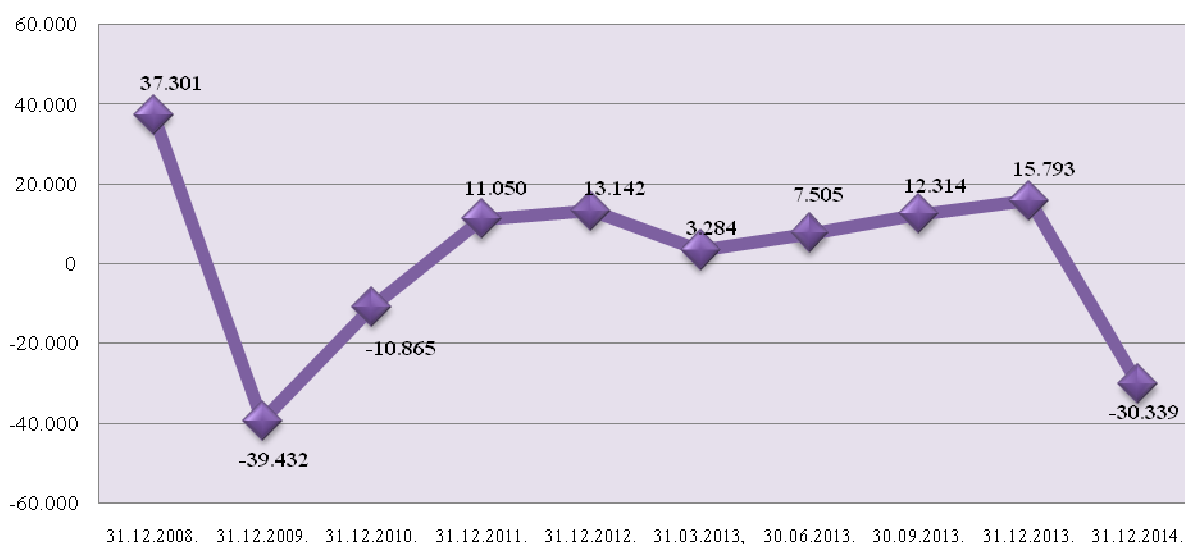
2.5. Income Statement

In the period from 01.01. to 31.12.2014, one MCC recorded a net loss in the amount of KM 387 thousand (01.01. to 31.12.2013: net loss of KM 106 thousand). In that period, MCFs had less income over expenses in the total amount of KM 29 952 thousand, while they recorded more income over expenses in the total amount of KM 15 899 thousand in the same period of the previous year.

In the period from 01.01. to 31.12.2014, out of a total of 12 MCFs, even 11 MCFs had more income over expenses in the total amount of KM 15 120 thousand, while only 1 MCF recorded less income over expenses in the total amount of KM 45 072 thousand.

Without the data of this MCF, which is contrary to the sector trend as of 31.12.2014 and which has completely destabilised the microcredit market as well as impacted the deterioration of sector results and performance indicators, the microcredit sector records a positive result in the amount of KM 14 733 thousand, which is reflected positively in the performance indicators as well.

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



At the level of the microcredit sector in the Federation of B&H, a negative financial result in the amount of KM 30 339 thousand has been recorded, which is down by KM 46 132 thousand compared to the same period of the previous year, when the sector recorded a positive result.

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

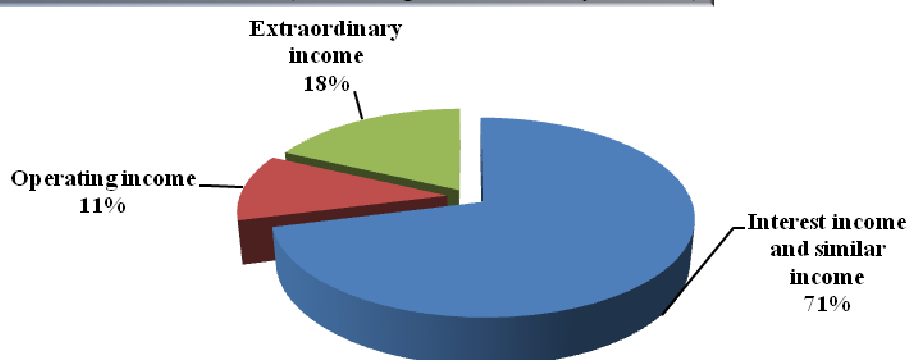
- KM 000 -

Table 13. Income Statement MCOs										
No.	DESCRIPTION	For the period 01.01. - 31.12.2013				For the period 01.01. - 31.12.2014				Index
		MCFs	MCCs	Total	%	MCFs	MCCs	Total	%	
1	2	1	2	3=(1+2)	4	5	6	7=(5+6)	8	9=(7/3)
1.	INCOME									
1.1.	Interest-based income and similar income	84 920	273	85 193	88	65 942	292	66 234	87	78
1.2.	Operating income	11 314	45	11 359	12	9 875	26	9 901	13	87
2.	TOTAL INCOME (1.1.+1.2.)	96 234	318	96 552	100	75 817	318	76 135	100	79
3.	EXPENSES									
3.1.	Interest-based expenses and similar expenses	16 716	65	16 781	18	15 807	126	15 933	13	95
3.2.	Operating expenses	68 165	363	68 528	73	62 933	561	63 494	52	93
3.3.	Expenses for loan loss provisions and other losses	8 695	-2	8 693	9	41 904	24	41 928	35	482
4.	TOTAL EXPENSES (3.1.+3.2.+3.3.)	93 576	426	94 002	100	120 644	711	121 355	100	129
5.	EXTRAORDINARY INCOME	15 388	3	15 391		16 583	11	16 594		108
6.	EXTRAORDINARY EXPENSES	2 147	1	2 148		1 708	5	1 713		80
7.	TOTAL INCOME - EXPENSES (2+5-4-6)	15 899	-106	15 793		-29 952	-387	-30 339		-192
8.	SURPLUS/DEFICIT OF INCOME OVER EXPENSES	15 899		15 899		-29 952		-29 952		-188

9.	PROFIT BEFORE TAXES		-106	-106			-387	-387		
10.	TAXES		0	0			0	0		
11.	NET PROFIT/LOSS		-106	-106			-387	-387		
12.	TOTAL FIN. RESULT			15 793				-30 339		

The total income of MCOs in the period from 01.01. to 31.12.2014 amounts to KM 76.1 million, which almost completely account for MCF income. The total income is lower by KM 20.4 million or 21% compared to the same period of the previous year. The biggest income portion is contributed by interest income, which amounts to KM 66.2 million or 87% of total income and is lower by KM 19 million or 22% compared to the same period of the previous year, while operating income amounts to KM 9.9 million or 13% of total income and is lower by KM 1.5 million or 13% compared to the same period of the previous year.

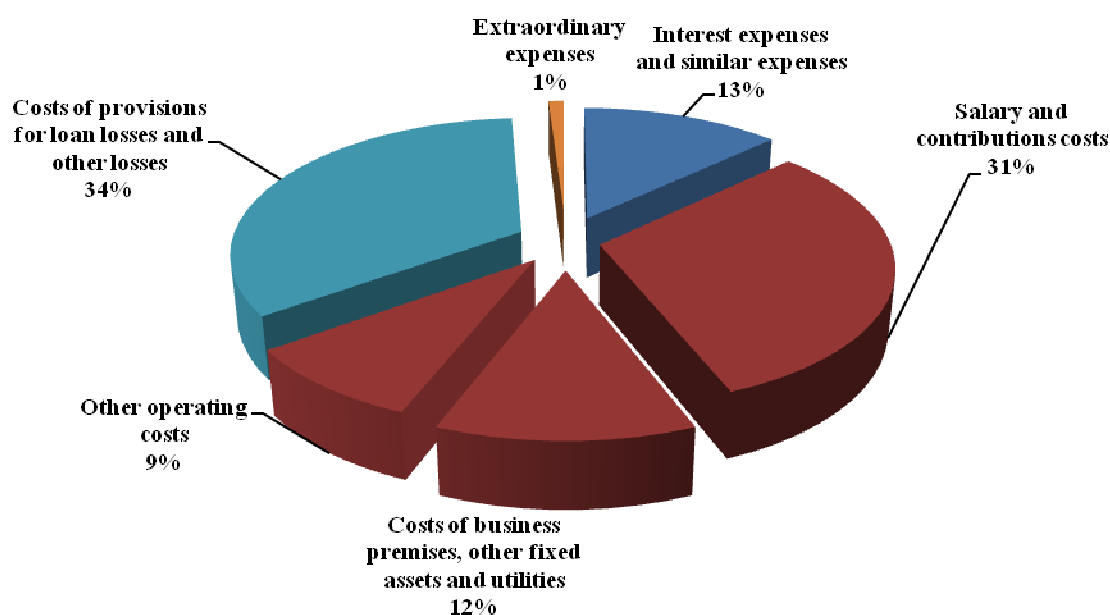
Graph 18. Income Structure (Including Extraordinary Income)



Extraordinary income of MCOs generated in the period from 01.01. to 31.12.2014 amounts to KM 16.6 million, which is up by KM 1.2 million or 8% compared to the same period of the previous year. In the previous period, one MCF incorrectly reported to the Agency in terms of the amount of extraordinary income, and thus the aforementioned increased by approximately KM 2 million compared to the previous quarter. Extraordinary income is dominated by the collection of receivables from write-offs. Extraordinary income of MCOs generated in 2014 amounts to KM 1.7 million and is down by KM 0.4 million or 20% compared to the same period of the previous year.

Total expenses amount to KM 121.4 million, 120.7 million or 99.4% of which account for the expenses of MCFs, and KM 0.7 million or 0.6% for the expenses of one MCC. Compared to the same period of the previous year, total expenses are higher by KM 27.3 million or 29%. In the expenses structure, KM 15.9 million or 13% of total expenses account for interest expenses on taken loans and other similar expenses, which are lower by KM 0.8 million or 5% compared to the same period of the previous year. Operating expenses amount to KM 62.5 million or 52% of total expenses and are lower by KM 5 million or 7% compared to the same period of the previous year. Operating expenses include salary and contributions' expenses in the amount of KM 38.6 million (01.01. to 31.12.2013: KM 39.5 million), business premises' expenses, other fixed assets and utility costs in the amount of KM 14.3 million (01.01. to 31.12.2013: KM 16.2 million) and other operating expenses in the amount of KM 10.6 million (01.01. to 31.12.2013: KM 12.9 million). Expenses for loan loss provisions and other losses amount to KM 41.9 million or 35% of total expenses and are higher by even KM 33.2 million or 382%. Even 88% of the total amount of loan loss provisions and other losses in the first nine months of 2014 is contributed by one MCF with a significant volume of operations.

Graph 19. Expenses Structure (Including Extraordinary Expenses)

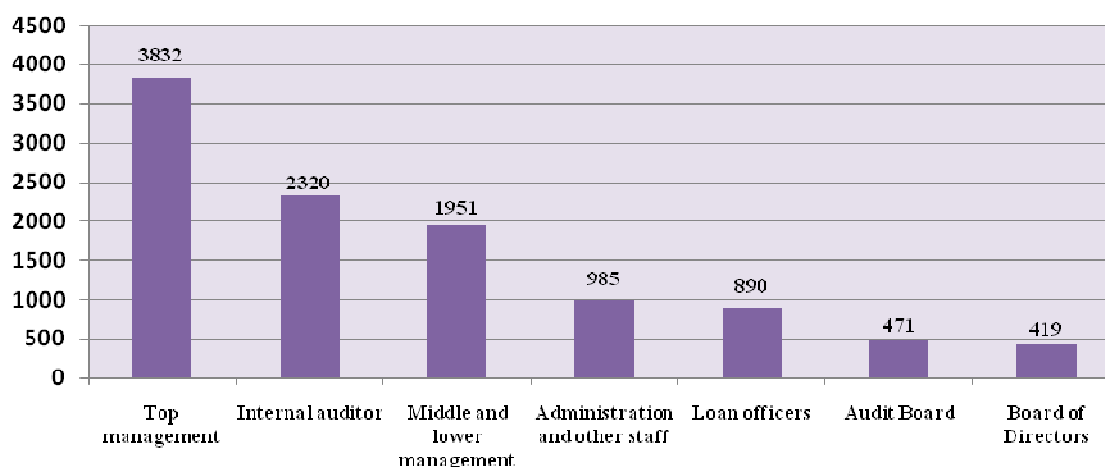


2.5.1. Standard Monthly Income in Microcredit Activities

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

Salary and contributions' expenses generated in the period 01.01. to 31.12.2014 are lower by 2% compared to the same period of the previous year. According to MCO reports, as of 31.12.2014, the average monthly net salary of MCO employees was KM 1 110 and the average monthly net amount of incentives, stimulations and bonuses was KM 50. This means that the average monthly net salary with bonuses was KM 1 160 in the microcredit sector. As of 31.12.2014, the average monthly net salary of a senior management member in the microcredit sector was KM 3 832, while average monthly net compensations paid to management board members in MCOs were KM 419 and to audit board members KM 471. As of the reporting date, the average monthly net salaries of internal auditors in MCOs were KM 2 320, of middle and low management KM 1 951, of loan officers KM 890 and of administration and other staff KM 985.

Graph 20. Average Monthly Salary/Compensation in Microcredit Activities (in KM)



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

In the case of one MCF, the average monthly net salary of the senior management is more than 2 times higher compared to the sector average. The average monthly compensation paid to members of the management board is six times higher than the sector average in the case of one MCF.

3. TRANSACTIONS WITH RELATED ENTITIES

Provisions of the Decision on Other General Conditions for Operations of Microcredit Organisation („Official Gazette of the Federation of B&H“, No.: 27/07) prescribe minimum standards for a business relation of MCOs with the entities considered its related entities under Article 4 of the Law on Microcredit Organisations. Article 6 of the Agency's Decision prescribes that an MCO may conduct business transactions with an entity considered its related entity only in compliance with the Law on Microcredit Organisations, the Agency's decision and special policies of MCOs for business relations with related entities, which are adopted and the implementation of which is monitored by the MCOs' managing bodies. A transaction with a related entity is also any transaction with a third party if the funds that were employed in the transaction were transferred to a related entity or were used so that a related entity would profit. With reference to this, all MCOs must establish a register of related entities, which is to be regularly updated.

Also, when conducting transactions with related entities, MCOs must act in accordance with the adopted policies that, among other things, prescribe the following:

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

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

When conducting transactions with related entities of an MCO, no such conditions may be offered that would be more favourable to any other entities, and MCOs shall report to the Agency through quarterly reports on all transactions conducted by the MCO with its related entities in the reporting quarter. During 2014, out of 13 MCOs, 6 MCFs and 1 MCC submitted reports, in the prescribed form, to the Agency on transactions conducted with related entities in the total amount of KM 4 278 494 million. Only one MCF has a share of even 96% in the total amount of transactions with related entities.

-in KM-

No.	Description of transaction	Transaction amount in the period 01.01.-31.12.2014	Share (%)
1.	Short-term loans from banks	3 830 000	89.52%
2.	Regular and penalty interest, management fees	204 104	4.77%
3.	Transactions with the founder and founder-related entities	82 790	1.94%
4.	Borrowings from legal entities and natural persons	46 758	1.09%
5.	Legal services	38 844	0.91%
6.	Payment by invoices for delivered goods/services	34 497	0.81%
7.	Refunding of expenses	13 365	0.31%
8.	Lease of business premises	12 462	0.29%
9.	Loan annuities	8 192	0.19%
10.	Payment of joint expenses of a related person	7 482	0.17%
11.	Short-term deposits to banks	0	0.00%
12.	Receivables based on lease	0	0.00%
TOTAL		4.278.494	100%

Table 14 provides a breakdown of transactions with related entities in the period from 01.01. to 31.12.2014, which shows that the majority transactions performed by MCOs are based on loans received from banks related to MCOs (89.52%) and based on the payment of regular and penalty interest (4.77%). In addition to the aforementioned transactions, MCOs also reported the transactions with related entities based on legal services, leases of business premises, the delivery of goods/services and other.

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

III COMPLIANCE OF MCO BUSINESS OPERATIONS WITH AML AND CTF STANDARDS

In the Information on Compliance of Business Operations of Banks, Microcredit Organisations and Leasing Companies with Prevention of Money Laundering and Terrorism Financing Standards for the year that ended on 31.1.12.2013, it is stated that: "The system of activities for the prevention of money laundering and terrorism financing is still not complete. Taking into account effectiveness and efficiency of taken activities, it must be ascertained that

there are still reasons for supervisory concern in the microcredit sector. The quality of AML/CTF risk management is marginally acceptable, while the quantity of risk is moderate.“

The assessment of microcredit organisations' (MCO) compliance with standards to prevent money laundering and terrorism financing is determined on the basis of: the state of MCOs in the previous period, the assessment of compliance determined in examinations of compliance carried out in the year that ended on 31.12.2014 and the analysis of reports that MCOs submit to the Agency.

From the aspect of the compliance assessment and related to the analysis of submitted reports, it should be noted that, MCOs reported 17 suspicious transactions in 2014 in the amount of KM 74 625.00, with the Financial Intelligence Department not having asked for additional information on 7 suspicious clients.

From the aspect of the compliance assessment related to the conducted examinations, it should be noted that MCOs had a total of 47 instances of non-compliance, for which the same number of orders was issued.

No.	Policy name	Number of orders	%	Average per MCO
1.	Client eligibility policy	8	17.00	0.70
2.	Policy on identification and monitoring client activity	21	44.70	1.90
3.	Risk management policy	18	38.30	1.60
TOTAL		47	100.00	4.20

The largest number of orders was related to the instances of non-compliance with respect to the policy on identification and monitoring client activities (44.70%), followed by instances of non-compliance with respect to the risk management policy (38.30%) and the client eligibility policy (17%).

Thus, taking into account the assessment of MCOs' compliance for 2013, individual assessments of MCOs' compliance determined in examinations in the year that ended on 31.12.2014 as well as the analysis of submitted reports, it can be concluded that the quantity of money laundering risk continues to be moderate, the quality of the management of this risk continued its upward trend and reached a satisfactory level and that there are no reasons for supervisory concern. When observing the compliance of the microcredit sector with the Law on Prevention of Money Laundering and Financing of Terrorist Activities, the Law on Microcredit Organisations, the Decision on Minimum Standards for Activities of Microcredit Organisations to Prevent Money Laundering and Financing Terrorist Activities, as well as other laws and regulations that regulate the obligations of microcredit organisations in terms of the prevention of money laundering and financing of terrorist activities, it can be concluded that the microcredit sector of the FB&H is compliant with the norms prescribed by these laws and regulations.

IV CONCLUSIONS AND RECOMMENDATIONS

By analysing MCO reports as of 31.12.2014, it can be concluded that the business operations of microcredit organisations in the Federation of B&H compared to the end of the previous year show a further drop in assets (by 5%) and loan portfolio (by 4%). Indicators of loan

portfolio quality also show deterioration as well as the drop in the number of employees (by 7%), as well as loan commitments (by 2%). The capital of MCFs recorded a drop of 10% compared to the end of the previous year due to the negative financial result of one MCF with a significant volume of operations.

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

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

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

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

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

- Fully implementing Article 2 of the LoMCO, which prescribes performing activities for the purpose of improving the material status of beneficiaries of microloans, increasing employment and providing support to the development of entrepreneurship;
- Reducing interest rates on microloans;
- Controlling interest rates and achieving objectives from the LoMCO through the active involvement of managing bodies in the process of approving policies on establishing prices of microloans;
- Cutting operating costs, the full implementation of the principles of due care for the assets of the foundation and the implementation of principles of good corporate practices, which should influence the reduction of interest rates;
- Establishing mechanisms to check the justification of projects and materially significant costs of operations, including salaries and bonuses of the management, and all other benefits of the management and members of the boards of directors, which the

aforementioned exercise at the expense of the assets of MCOs and which are directly compensated by high interest rates;

- Increasing the responsibilities of management boards, ensuring independence from the management and control of the management by management boards;
- Improving the system of internal controls, improving efficiency of business operations and optimising MCO resources as well as implementing the principles of responsible credit financing;
- Establishing an internal audit that is fully independent from the MCO management and will also supervise the management segment and regularly report to the management board;
- The mandatory exchange of information at the level of the sector and the Central Loan Registry;
- Taking all required actions in the interest of solving the problems of overindebted customers and guarantors;
- Improving institutional capacities,
- Fully implementing valid regulations and increasing the transparency of business operations; and
- Finding partners for mergers and acquisitions; MCOs with smaller amounts of capital and a high degree of written-off loans should adopt a clear strategy for merging with bigger and stronger MCOs to optimise resources, preserve donated funds, ensure support of foreign creditors and secure the future of MCO employees.

No.: U.O.-69-5/15

Sarajevo, 31.03.2015

V ANNEXES

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

Annex 2 Main data on MCOs

Annex 3 Balance sheet of MCFs

Annex 4 Balance sheet of MCCs

Annex 5 Income statement of MCFs

Annex 6 Income statement of MCCs

Annex 7 Overview of donated funds of MCFs

Annex 1.

**PODZAKONSKI AKTI AGENCIJE ZA POSLOVANJE MKO
KOJI SU BILI VAŽEĆI SA 31.12.2014. GODINE**

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

Instructions of the Banking Agency related to MCO Operations

1. Instructions for Implementation of the Decision on Uniform Manner of Calculation and Disclosure of Effective Interest Rate on Loans and Deposits;
2. Instructions for Calculation of Weighted Nominal and Effective Interest Rate;
3. Instructions for Calculation of Adjusted Return on Assets;
4. Instructions for Calculation of Efficiency Ratios and
5. Instructions for MCO Reporting.

Annex 2.

MAIN DATA ON MCOs

No	Name of microcredit organisation	Address and seat	Director	Tel/Fax	E-mail and Web	31.12.2014. godine			
						Assets amount in KM 000	Capital amount in KM 000	No. of employees	No. of org. units
1.	MKD "EKI" d.o.o. Sarajevo	ul. Džemala Bijedića bb 71 000 SARAJEVO	Sead Mucić	033/ 754-380, 754-388 fax	sead.mucic@eki.ba www.eki.ba	7 120	2 508	18	1
2.	MKF "EKI" Sarajevo	ul. Džemala Bijedića bb 71 000 SARAJEVO	Sadina Bina	033/ 754-380, 754-388 fax	sadina.bina@eki.ba www.eki.ba	111 774	52 876	265	68
3.	MKF "LIDER" Sarajevo	ul. Turhanija 2 71 000 SARAJEVO	Džavid Sejfović	033/ 250-580, 250-581 fax	dzavids@lider.ba www.lider.ba	14 618	10 630	52	11
4.	"LOK MKF" Sarajevo	ul. Skenderija 13 71 000 SARAJEVO	Elma Čardaklija - Bašić	033/ 564-200, 564-201 fax	central.office@lok.ba www.lok.ba	46 116	9 275	157	37
5.	MKF "MELAHA" Sarajevo	ul. Hamdije Kreševljakovića 59 71 000 SARAJEVO	Jakob Finci	033/ 205-737 tel/fax	info@melaha.ba www.melaha.ba	1 213	394	5	0
6.	MKF "MI-BOSPO" Tuzla	ul. Bosne srebrene bb 75 000 TUZLA	Nejira Nalić	035/ 270-283, 252-448 fax	mi-bospo@mi-bospo.org www.mi-bospo.org	44 528	17 392	142	24
7.	MKF "MIKRA" Sarajevo	ul. Marka Marulića 2/VI 71 000 SARAJEVO	Sanin Čampara	033/ 616-162, 717-141 fax	mikra@mikra.ba www.mikra.ba	20 767	5 427	95	20
8.	MKF "MIKRO ALDI" Goražde	ul. Panorama bb 73 000 GORAŽDE	Ferida Softić	038/ 226-456, 221-004 fax	info@mikroaldi.org www.mikroaldi.org	5 160	3 949	27	6
9.	"PARTNER MKF" Tuzla	ul. 15. maja bb 75 000 TUZLA	Senad Sinanović	035/ 300-250, 300-269 fax	partner@partner.ba www.partner.ba	132 118	61 131	297	57
10.	MKF "PRIZMA" Sarajevo	ul. Bistrik Medresa 43 71 000 SARAJEVO	Jure Žigo	033/ 573-320, 446-583 fax	hq@prizma.ba www.prizma.ba	35 735	-22 437	86	18
11.	"PRVA ISLAMSKA MKF" Sarajevo	ul. Jukićeva 75 71 000 SARAJEVO	Edina Hadžimurtezić	033/ 666-233, 666-224 fax	info@mfi.ba	1 790	1 648	8	0
12.	MKF "SANI" Zenica	ul. Mehmedalije Tarabara 10 72 000 ZENICA	Sulejman Haračić	032/ 405-606 tel/fax	mikrosanizenica@yahoo.com	394	294	4	0
13.	MKF "SUNRISE" Sarajevo	ul. Zagrebačka 50 71 000 SARAJEVO	Anis Aganović	033/ 727-350, 812-231 fax	sunrise@microsunrise.ba www.microsunrise.ba	30 993	18 019	152	40
TOTAL						452 326	161 106	1 308	282

Annex 3.

BALANCE SHEET OF MCFs

in KM 000

No.	DESCRIPTION	31.12.2013	%	31.12.2014	%	Index
1	2	3	4	5	6	7=5/3
ASSETS						
1.	Cash (1a+1b)	24 123	5	36 912	8	153
1a)	Cash and non-interest bearing deposit accounts	17 027	4	18 253	4	107
1b)	Interest-bearing deposit accounts	7 096	1	18 659	4	263
2.	Facilities to banks	4 054	1	3 523	1	87
3.	Loans	395 382		376 275		95
3a)	Loan loss reserves	5 507		26 140		475
3b)	Net loans (3-3a)	389 875	82	350 135	79	90
4.	Business premises and other fixed assets	42 596	9	39 373	9	92
5.	Long-term investments	761	0	3 061	0	402
6.	Other assets	14 018	3	13 820	3	99
7.	Minus: provisions for other assets items, except loans	549		1 618		295
8.	TOTAL ASSETS	474 878	100	445 206	100	94
LIABILITIES						
9.	Short-term loan commitments	81 258	17	78 848	18	97
10.	Long-term loan commitments	187 307	39	181 626	41	97
11.	Other liabilities	27 201	6	26 134	5	96
12.	TOTAL LIABILITIES	295 766	62	286 608	64	97
13.	Donated capital	49 640		67 521		136
14.	Core capital	8 291		3 820		46
15.	Surplus of income over expenses	175 440		187 612		107
15a)	For previous years	160 018		172 658		108
15b)	For current year	15 422		14 954		97
16.	Deficit of income over expenses	57 465		102 817		179
16a)	For previous years	57 439		57 745		101
16b)	For current year	26		45 072		173354
17.	Other reserves	3 206		2 462		77
18.	TOTAL CAPITAL	179 112	38	158 598	36	89
19.	TOTAL LIABILITIES	474 878	100	445 206	100	94
OFF-BALANCE RECORDS						
	- written-off loans	170 250		182 208		107
	- agent business	348		275		79

Annex 4.

BALANCE SHEET OF MCCs

in KM 000

No.	DESCRIPTION	31.12.2013	%	31.12.2014	%	Index
1	2	3	4	5	6	7=5/3
ASSETS						
1.	Cash (1a+1b)	88	8	2 001	28	2274
1a)	Cash and non-interest bearing deposit accounts	88	8	2 001	28	2274
1b)	Interest-bearing deposit accounts	0	0	0	0	n/a
2.	Facilities to banks	0	0	0	0	n/a
3.	Loans	886		5 031		568
3a)	Loan loss reserves	16		11		69
3b)	Net loans (3-3a)	870	84	5 020	71	577
4.	Business premises and other fixed assets	50	5	29	0	58
5.	Long-term investments	0	0	0	0	n/a
6.	Other assets	28	3	71	1	254
7.	Minus: provisions for other assets items, except loans	1		1		100
8.	TOTAL ASSETS	1 035	100	7.120	100	688
LIABILITIES						
9.	Short-term loan commitments	202	20	217	3	107
10.	Long-term loan commitments	146	14	4 086	58	2799
11.	Other liabilities	92	9	309	4	336
12.	TOTAL LIABILITIES	440	43	4 612	65	1048
13.	Donated capital	0		0		n/a
14.	Core capital	600		600		100
15.	Issue premiums	0		0		n/a
16.	Unallocated profit (16a+16b)	-106		-392		370
16a)	Of previous years	0		-5		n/a
16b)	Of current year	-106		-387		365
17.	Legal reserves	101		2 300		2277
18.	Other reserves	0		0		n/a
19.	TOTAL CAPITAL	595	57	2 508	35	422
20.	TOTAL LIABILITIES	1 035	100	7 120	100	688
OFF-BALANCE RECORDS						
	- written-off loans	55		56		102
	- agent business	0		0		n/a

Annex 5.

INCOME STATEMENT OF MCFs

in KM 000

No.	DESCRIPTION	For the period 01.01. - 31.12.2013	%	For the period 01.01. - 31.12.2014	%	Index
1	2	3	4	5	6	7=(5/3)
I	FINANCIAL INCOME AND EXPENSES					
1.	Interest income and similar income					
1.1.	Interest by interest-bearing deposit accounts with deposit institutions	9 0		137 0		1 522
1.2.	Interest on facilities to banks	217 0		170 0		78
1.3.	Loan interest	83 409 98		64 381 98		77
1.4.	Other financial income	1 285 2		1 254 2		98
1.5.	Total interest income and similar income (1.1. to 1.4.)	84 920 100		65 942 100		78
2.	Interest expenses and similar expenses					
2.1.	Interest on borrowed funds	16 084 96		14 798 94		92
2.2.	Other financial expenses	632 4		1 009 6		160
2.3.	Total interest expenses and similar expenses (2.1. to 2.2.)	16 716 100		15 807 100		95
3.	Net financial income (1.5. - 2.3.)	68 204		50 135		74
II	OPERATING INCOME AND EXPENSES					
4.	Operating income					
4.1.	Fees for services performed	10 233 90		8 940 91		87
4.2.	Other operating income	1 081 10		935 9		86
4.3.	Total operating income (4.1. do 4.2.)	11 314 100		9 875 100		87
5.	Operating expenses					
5.1.	Salary and contributions costs	39 272 57		38 114 60		97
5.2.	Costs of business premises, other fixed assets and utility costs	16 098 24		14 273 23		89
5.3.	Other operating expenses	12 795 19		10 546 17		82
5.4.	Total operating expenses (5.1. to 5.3.)	68 165 100		62 933 100		92
6.	Loan loss provisions and provisions for other losses	8 695		41 904		482
7.	Surplus/deficit of income over expenses from regular operations (3.+4.3.-5.4.-6.)	2 658		-44 827		-1 686
8.	Extraordinary income	15 388		16 583		108
9.	Extraordinary expenses	2 147		1 708		80
10.	Surplus/deficit of income over expenses (7.+8.-9.)	15 899		-29 952		-188

Annex 6.

INCOME STATEMENT OF MCCs

in KM 000

No.	DESCRIPTION	For the period 01.01. - 31.12.2013	%	For the period 01.01. - 31.12.2014	%	Index
1	2	3	4	5	6	7=(5/3)
I	FINANCIAL INCOME AND EXPENSES					
1.	Interest income and similar income					
1.1.	Interest by interest-bearing deposit accounts with deposit institutions	0	0	1	0	n/a
1.2.	Interest on facilities to banks	0	0	0	0	n/a
1.3.	Loan interest	264	97	287	98	109
1.4.	Other financial income	9	3	4	2	44
1.5.	Total interest income and similar income (1.1. to 1.4.)	273	100	292	100	107
2.	Interest expenses and similar expenses					
2.1.	Interest on borrowed funds	56	86	106	84	189
2.2.	Other financial expenses	9	14	20	16	222
2.3.	Total interest expenses and similar expenses (2.1. to 2.2.)	65	100	126	100	194
3.	Net financial income (1.5. - 2.3.)	208		166		80
II	OPERATING INCOME AND EXPENSES					
4.	Operating income					
4.1.	Fees for services performed	45	100	22	85	49
4.2.	Other operating income	0	0	4	15	n/a
4.3.	Total operating income (4.1. to 4.2.)	45	100	26	100	58
5.	Operating expenses					
5.1.	Salary and contributions costs	199	55	427	76	215
5.2.	Costs of business premises, other fixed assets and utility costs	86	24	52	9	60
5.3.	Other operating expenses	78	21	82	15	105
5.4.	Total operating expenses (5.1. to 5.3.)	363	100	561	100	155
6.	Loan loss provisions and provisions for other losses	-2		24		-1 200
7.	PROFIT/LOSS FROM REGULAR BUSINESS OPERATIONS (3.+4.3.-5.4.-6.)	-108		-393		364
8.	Extraordinary income	3		11		367
9.	Extraordinary expenses	1		5		500
10.	PROFIT/LOSS BEFORE TAXES	-106		-387		365
11.	TAXES	0		0		n/a
12.	NET PROFIT/LOSS	-106		-387		365

Annex 7.

OVERVIEW OF DONATED FUNDS OF MCFs
as of 31.12.2014

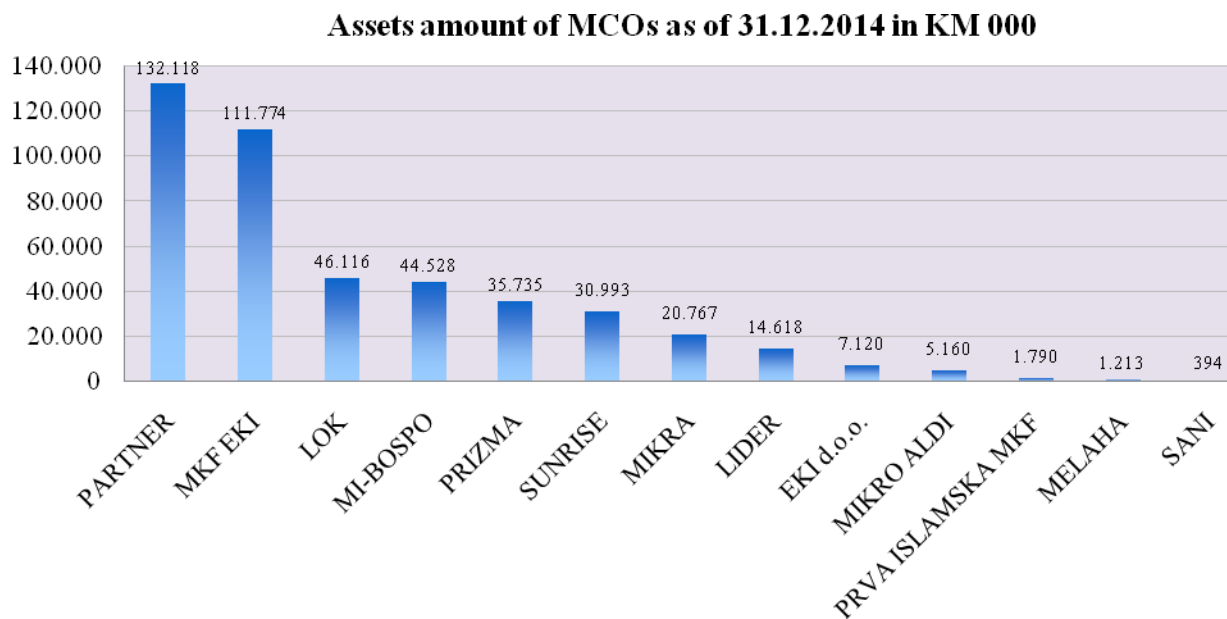
KM000

No.	Donor	MKF EKI Sarajevo	MKF LIDER Sarajevo	LOK MKF Sarajevo	MKF MELAHA Sarajevo	MKF MI-BOSPO Tuzla	MKF MIKRA Sarajevo	MKF MIKRO ALDI Goražde	PARTNER MKF Tuzla	MKF PRIZMA Sarajevo	PRVA ISLAMSK A MKF	MKF SUNRISE Sarajevo	TOTAL
Credit fund donations		6 326	5 891	4 639	0	3 354	4 070	804	16 561	7 490	3 519	1 942	54 596
1.	Mercy Corps								10 091				10 091
2.	USAID	3 046		543					3 046	3 046			9 681
3.	CHF-(SIDA, MEDI, HILP)		5 891										5 891
4.	UNHCR			1 198		479		200	1 229	992		614	4 712
5.	LIP			1 479		947			675			1.214	4 315
6.	CRS						4 070						4 070
7.	Islamic Relief WW, Predstavništvo Sarajevo										3 519		3 519
8.	UNDP	1 932		153					59	672			2 816
9.	PRM/USA State Department			577						2 006			2 583
10.	UMCOR			637		377			317	774			2 105
11.	IRC					371			805				1 176
12.	SIDA Housing	1 080											1 080
13.	Women's World Banking					1 034							1 034
14.	OXSfam							500					500
15.	ECE, Njemačka								339				339
16.	USDA Know-How Project	237											237
17.	Church World Service					146							146
18.	Ostalo	31		52				104				114	301
Fixed assets donations		8	0	286	0	12	65	0	229	61	0	10	671
19.	Mercy Corps								229				229
20.	Nedžad Beglerović			102									102
21.	CRS						65						65
22.	ICMC									53			53
23.	Ostalo	8		184		12				8		10	222
Operating expenses donations		1 004	874	2 810	500	1 344	0	0	1 871	3 088	54	709	12 254
24.	LIP			1 515					201			709	2 425
25.	PRM									2 047			2 047
26.	USAID					1.344			442				1 786
27.	UNHCR								176	840			1 016
28.	CHF		874										874
29.	Mercy Corps								808				808
30.	SIDA Housing	748											748
31.	PM			556									556
32.	BCT			519									519
33.	JKPHD La Benevolencija				500								500
34.	NBR			220									220
35.	CGAP								45	150			195
36.	EBRD	105							1				106
37.	IFC	104											104
38.	Ostalo	47							198	51	54		350
TOTAL DONATED CAPITAL		7 338	6 765	7 735	500	4 710	4 135	804	18 661	10 639	3 573	2 661	67 521

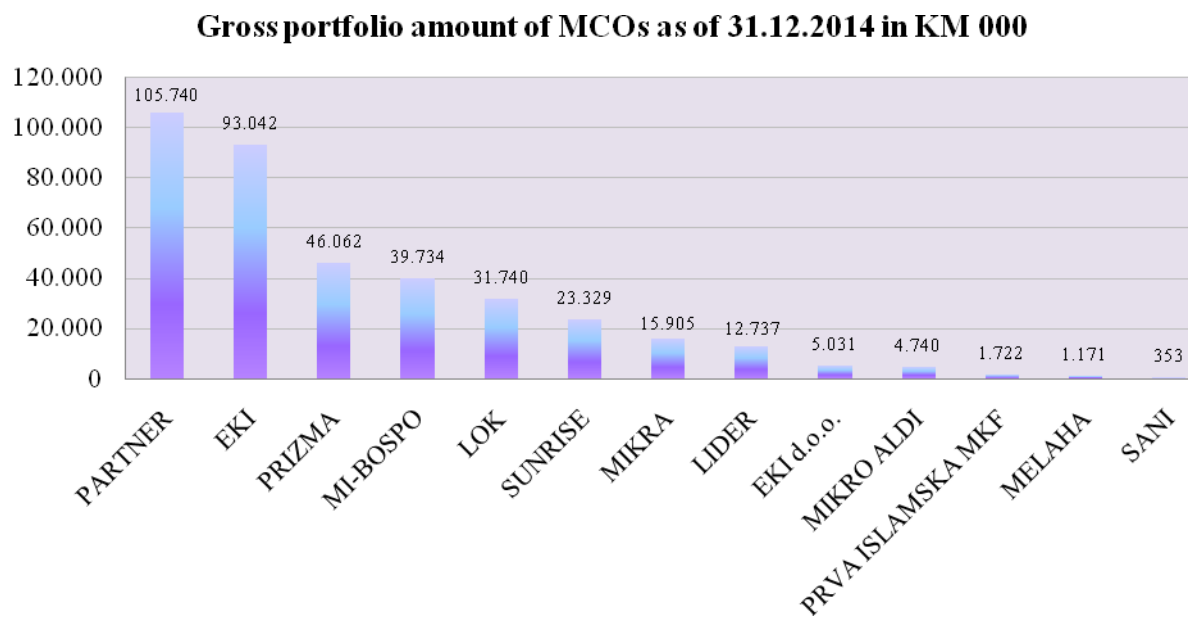
GRAPHS

- Graph 1 Assets amount of MCOs as of 31.12.2014 in KM 000
- Graph 2 Gross portfolio amount of MCOs as of 31.12.2014 in KM 000
- Graph 3 Loan commitments amount of MCOs as of 31.12.2014 in KM 000
- Graph 4 Capital amount of MCOs as of 31.12.2014 in KM 000
- Graph 5 Donated capital amount (by reports) of MCOs as of 31.12.2014 in KM 000
- Graph 6 Surplus/deficit of income over expenses of MCFs, i.e. net profit/loss of MCCs for the period 01.01.- 31.12.2014 in KM 000
- Graph 7 Operational sustainability of MCO sin the period 01.01. – 31.12.2014
- Graph 8 Number of employees of MCOs as of 31.12.2014
- Graph 9 Number of organisational units of MCOs seated in the Federation of B&H as of 31.12.2014
- Graph 10 Number of active loan accounts of MCOs with the balance as of 31.12.2014
- Graph 11 Number of written-off loans in the off-balance records as of 31.12.2014
- Graph 12 Loan amount in KM 000 written-off in the period 01.01.-31.12.2014
- Graph 13 Collection amount by written-off loans in KM 000 in the period 01.01.- 31.12.2014
- Graph 14 Total receivables amount by written-off loans of MCOs in KM 000 with balance as of 31.12.2014
- Graph 15 Total receivables by written-off loans vs. total gross portfolio of MCOs as of 31.12.2014
- Graph 16 Risk portfolio over 30 days past due as of 31.12.2014
- Graph 17 Fixed assets and capital vs. total assets as of 31.12.2014
- Graph 18 Average monthly compensations to members of management/supervisory board of MCOs for the period 01.01.-31.12.2014
- Graph 19 Average monthly salaries of senior management in MCOs for the period 01.01.- 31.12.2014
- Graph 20 Average monthly salaries of loan officers of MCOs for the period 01.01.- 31.12.2014
- Graph 21 Total microloans disbursed in Q4 2014 in 000 KM
- Graph 22 Average weighted EIR on total loans as per MCO reports of in Q4 2014
- Graph 23 Average weighted EIR on short-term loans as per MCO reports in Q4 2014
- Graph 24 Average weighted EIR on long-term loans as per MCO reports in Q4 2014

Graph 1.

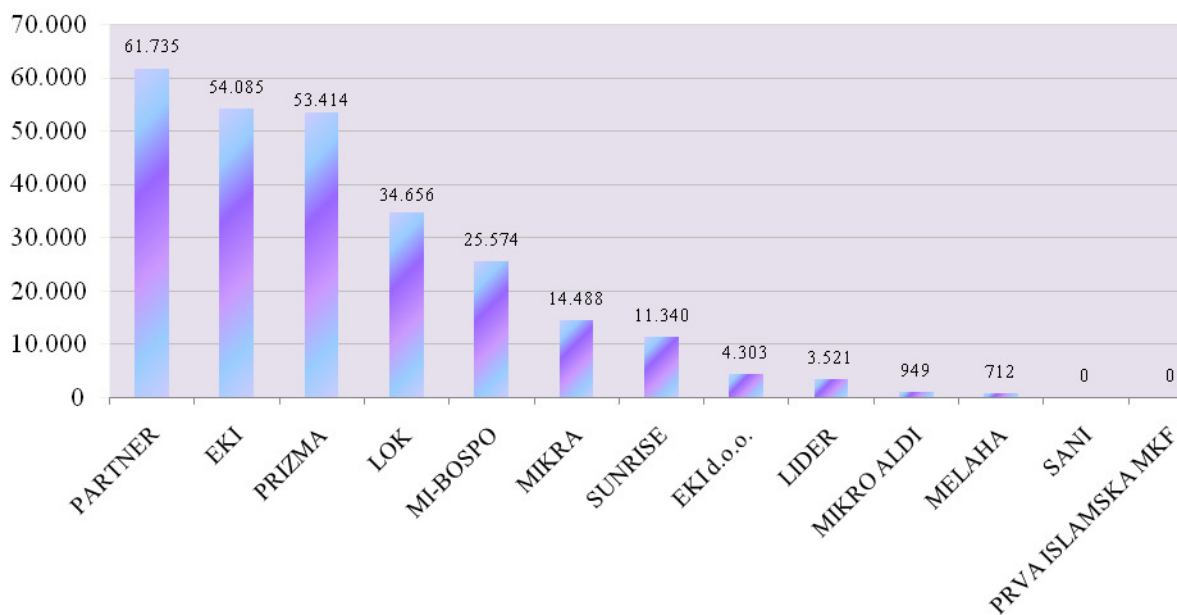


Graph 2.



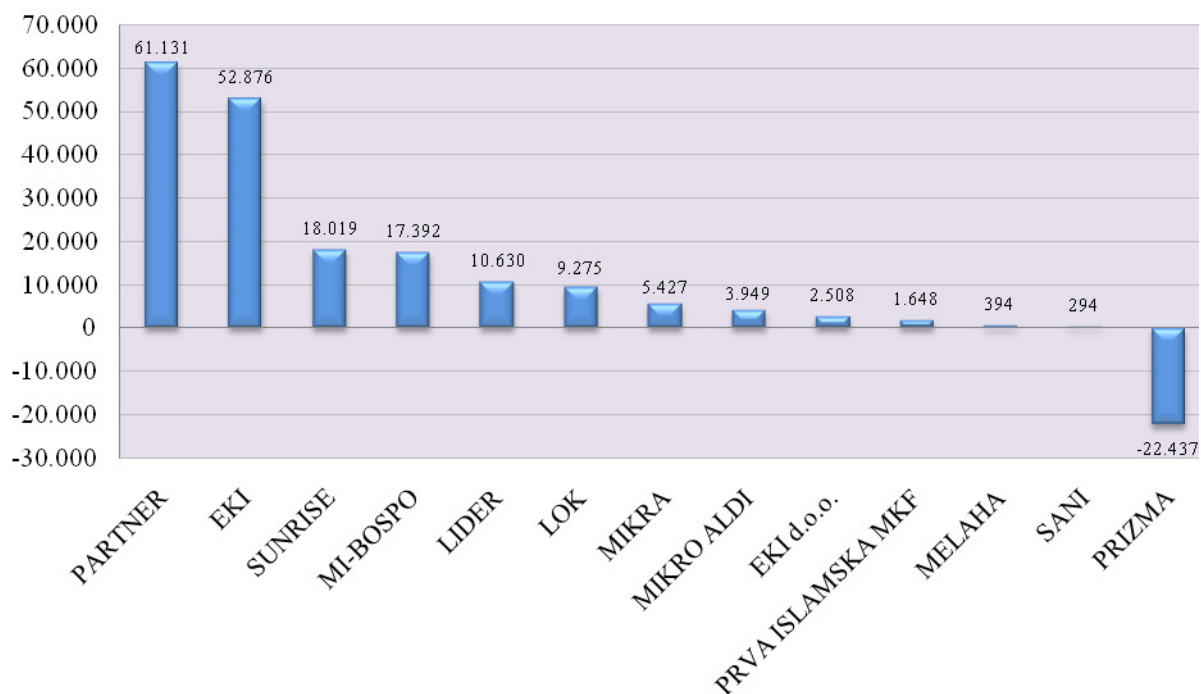
Graph 3.

Loan commitments amount of MCOs as of 31.12.2014 in KM 000



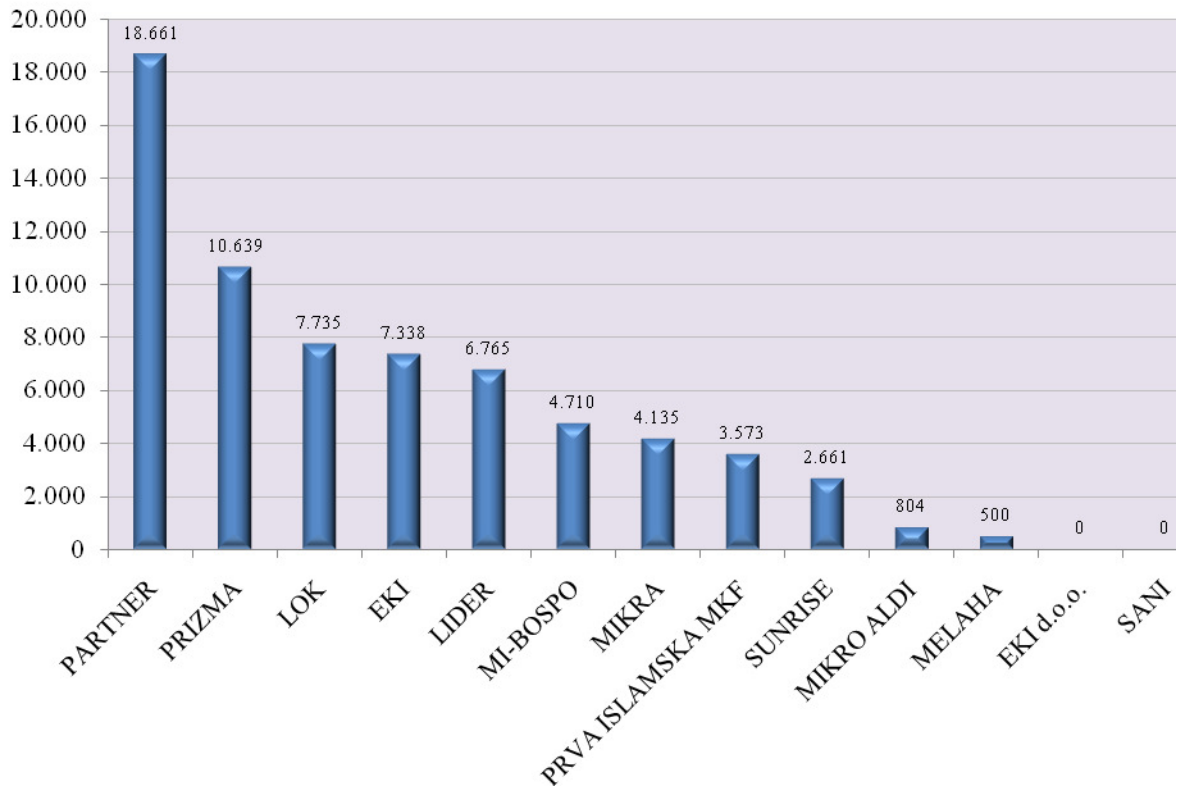
Graph 4.

Capital amount of MCOs as of 31.12.2014 in KM 000



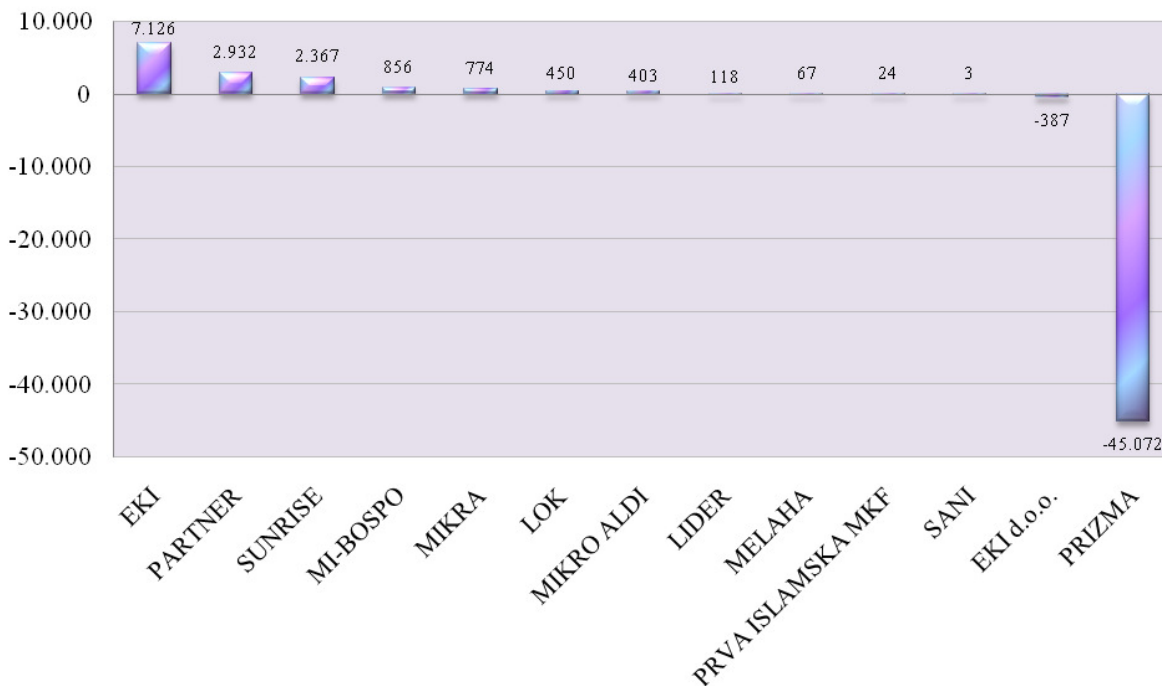
Graph 5.

Donated capital amount (by reports) of MCOs as of 31.12.2014 in KM 000



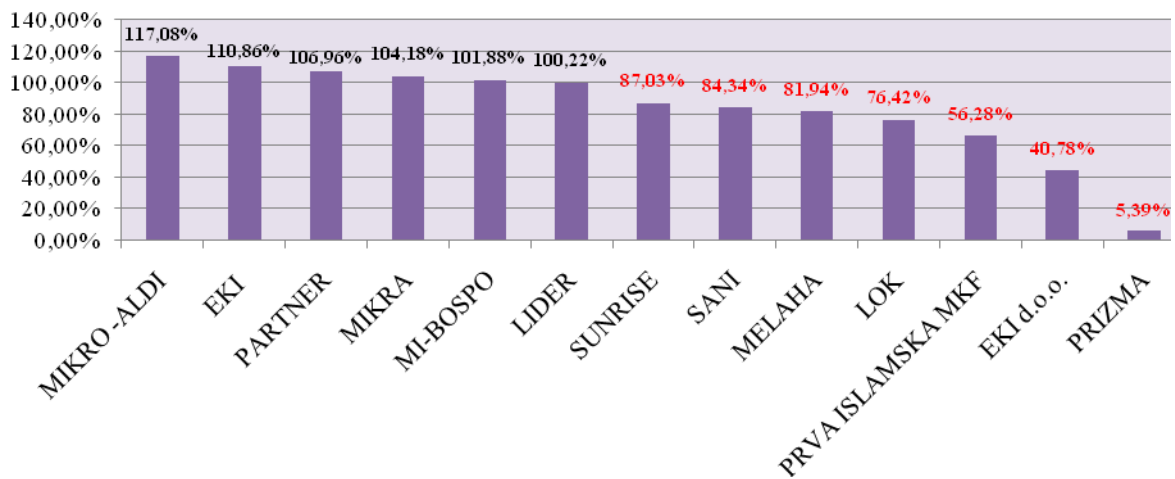
Graph 6.

Surplus/deficit of income over expenses of MCFs, i.e. net profit/loss of MCCs for the period 01.01.- 31.12.2014 in KM 000



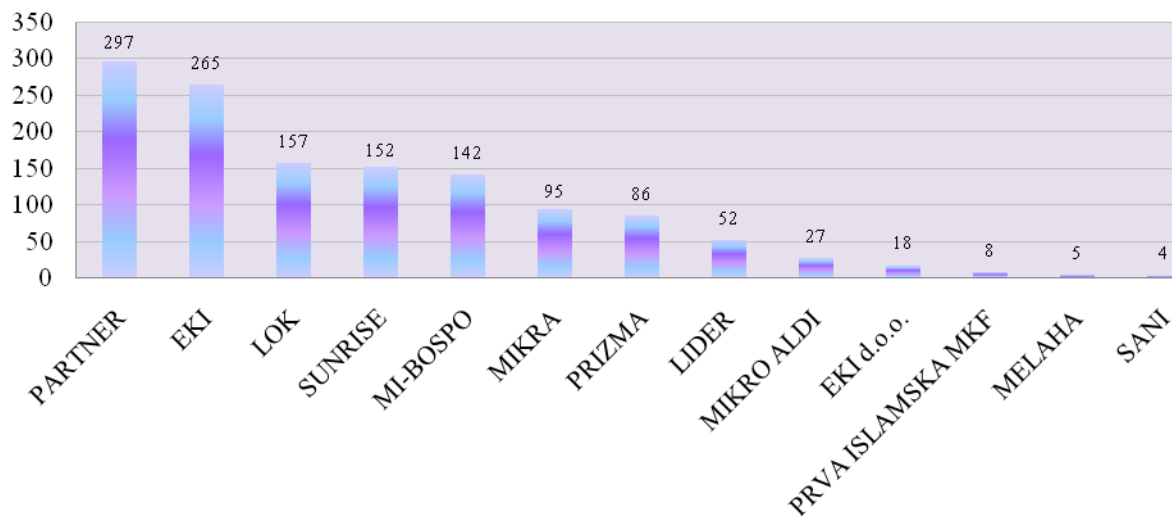
Graph 7.

Operational sustainability of MCOs in the period 01.01.-31.12.2014



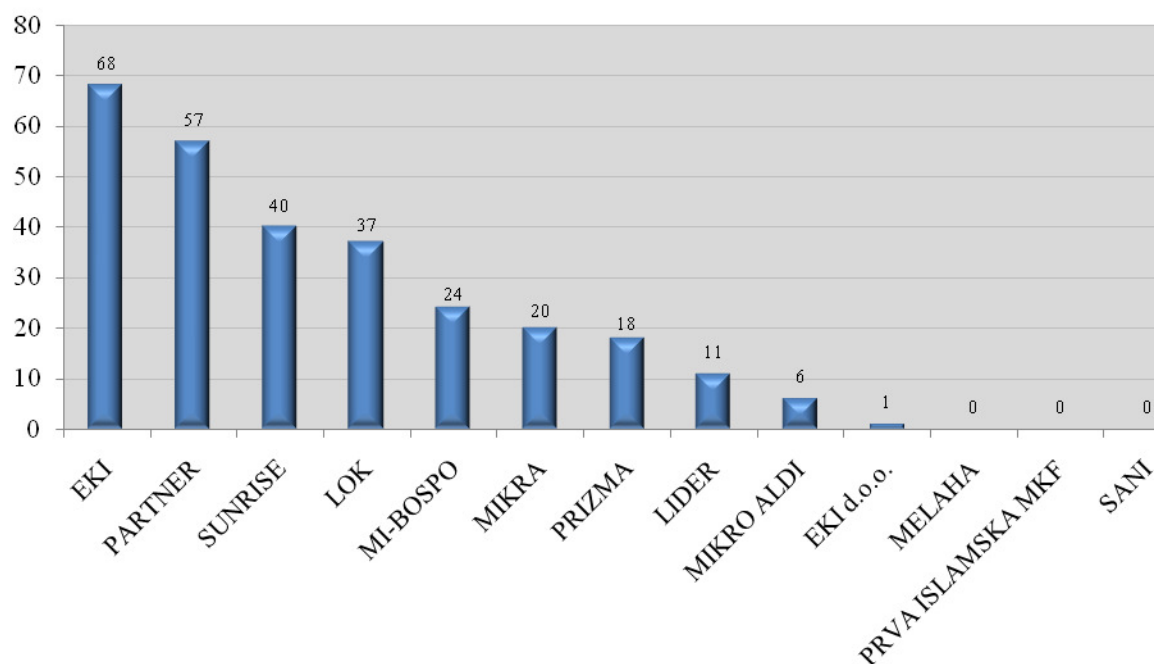
Graph 8.

Number of employees of MCOs as of 31.12.2014



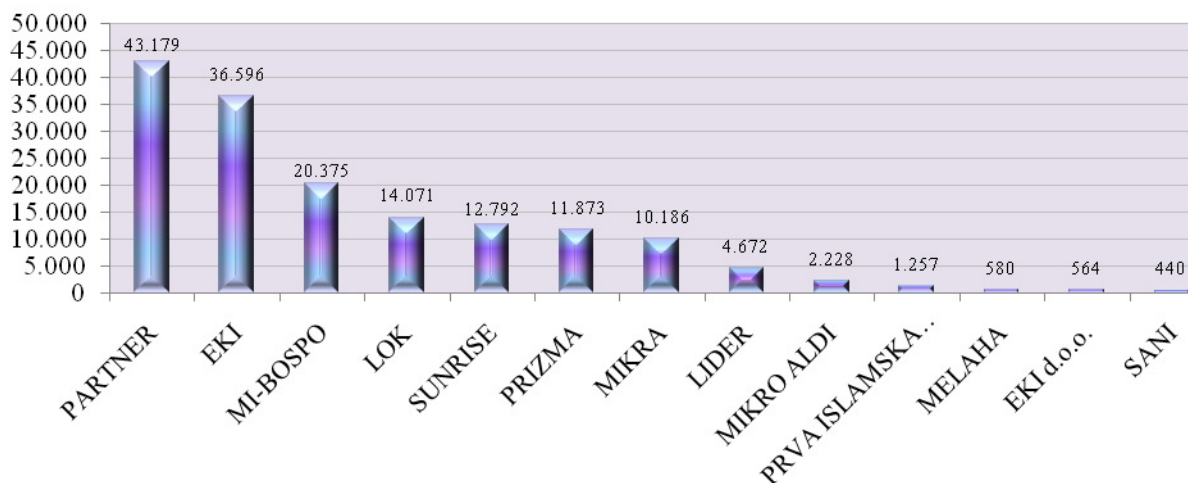
Graph 9.

Number of organisational units of MCOs seated in the Federation of B&H as of 31.12.2014

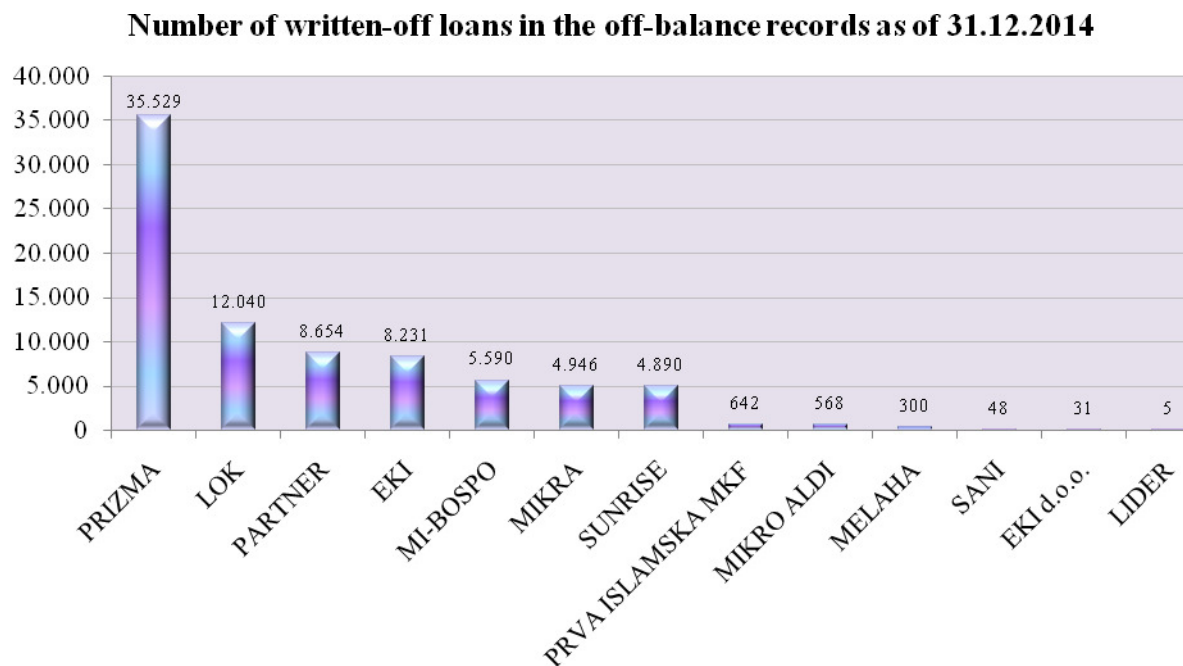


Graph 10.

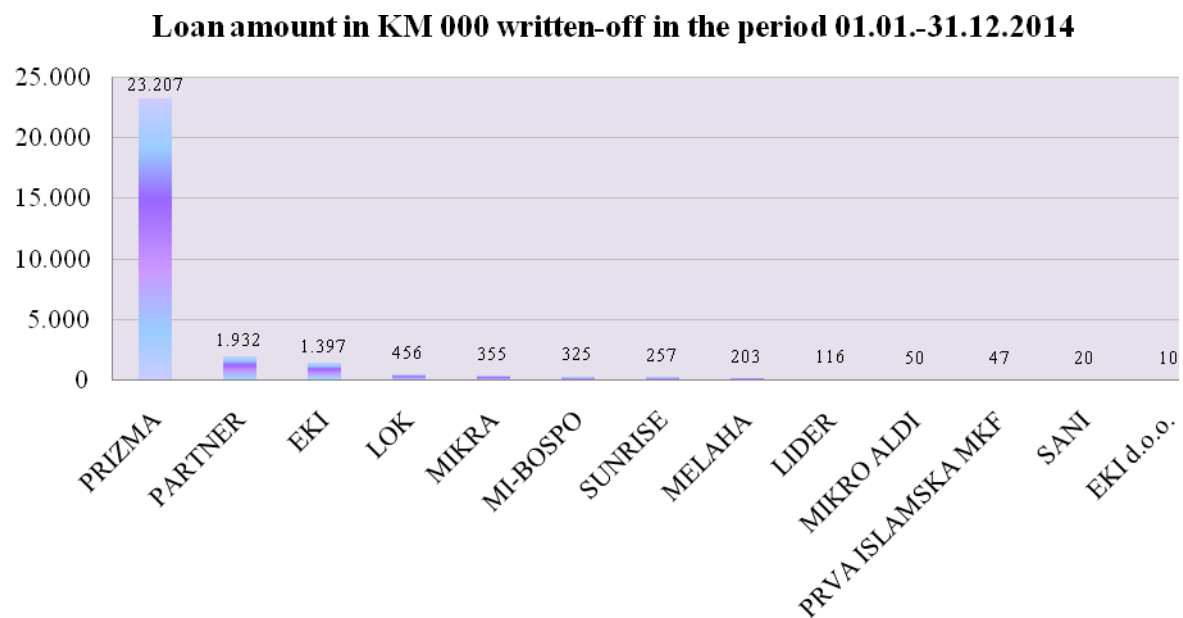
Number of active loan accounts of MCOs with the balance as of 31.12.2014



Graph 11.

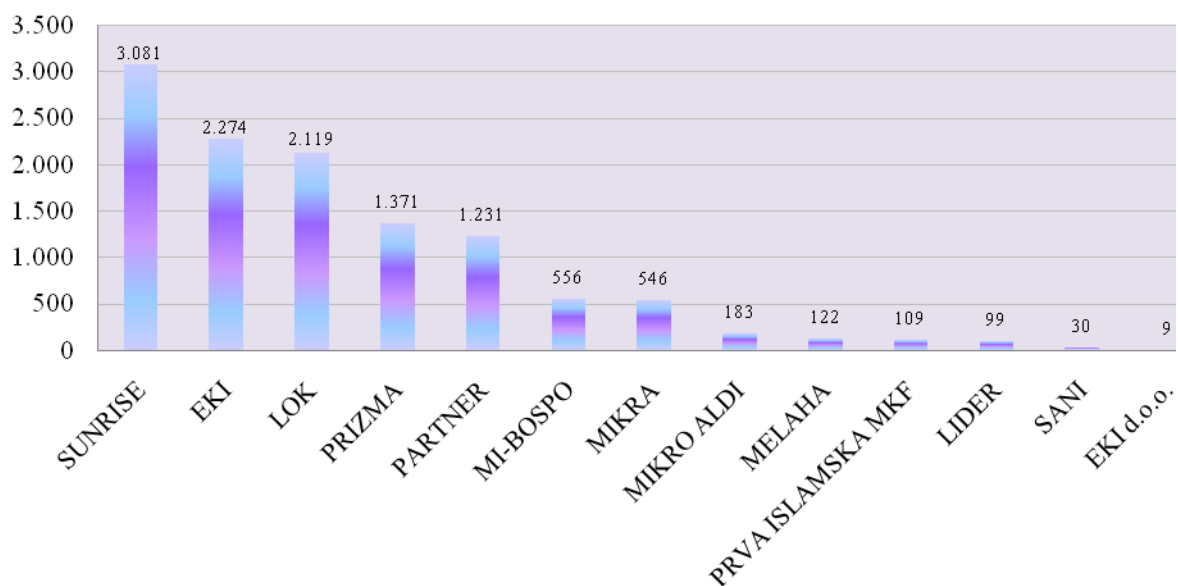


Graph 12.



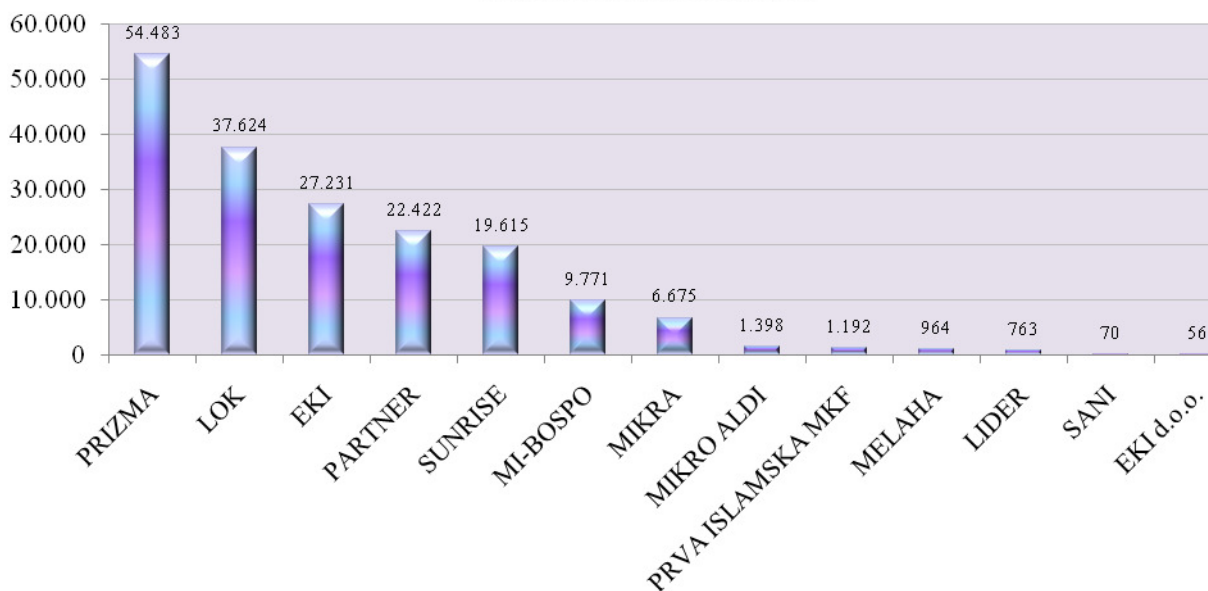
Graph 13.

Collection amount by written-off loans in KM 000 in the period 01.01.-31.12.2014



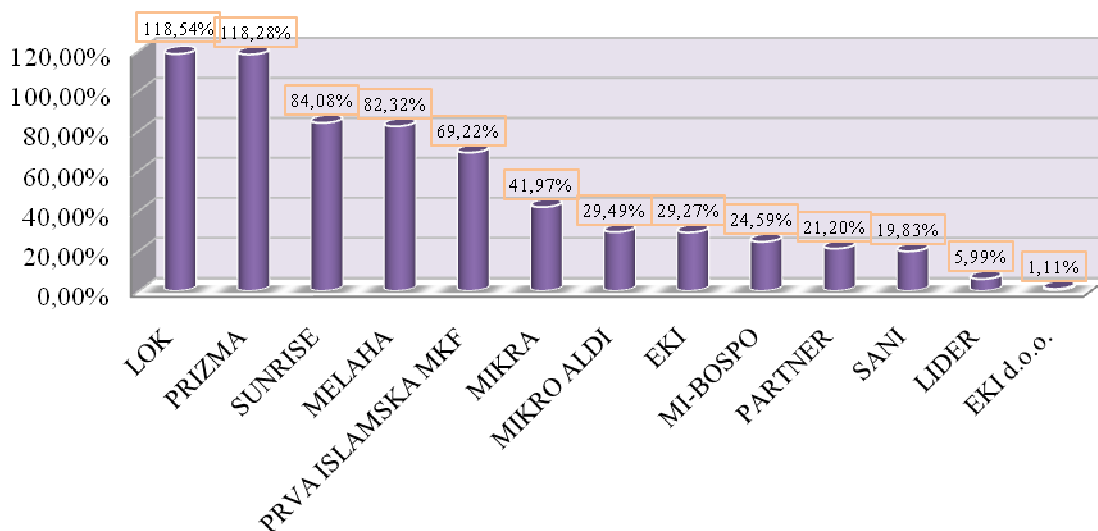
Graph 14.

Total receivables amount by written-off loans of MCOs in KM 000 with balance as of 31.12.2014



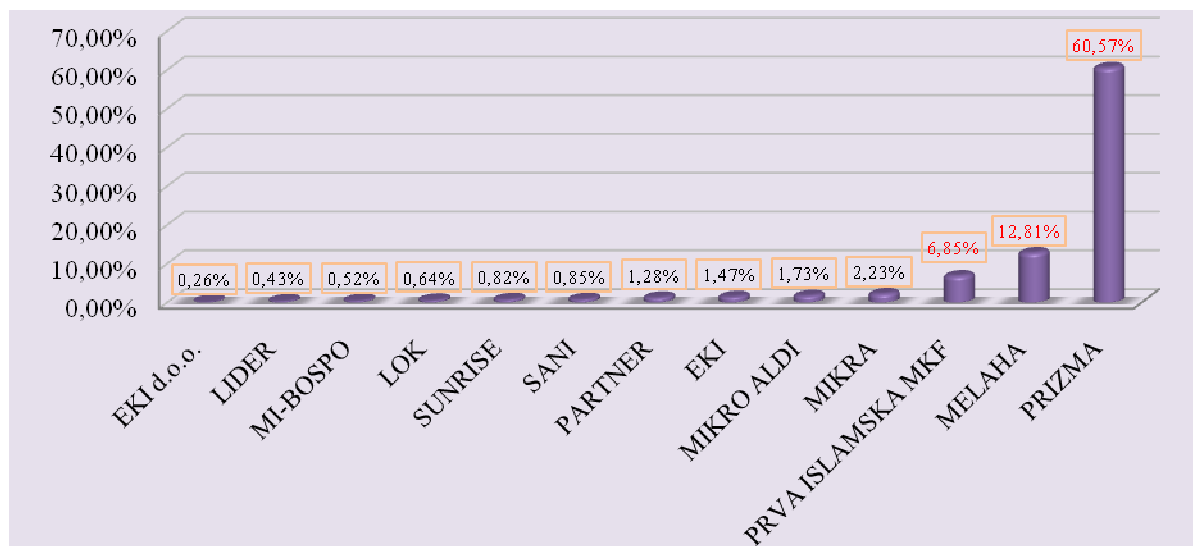
Graph 15.

Total receivables by written-off loans vs. total gross portfolio of MCOs as of 31.12.2014



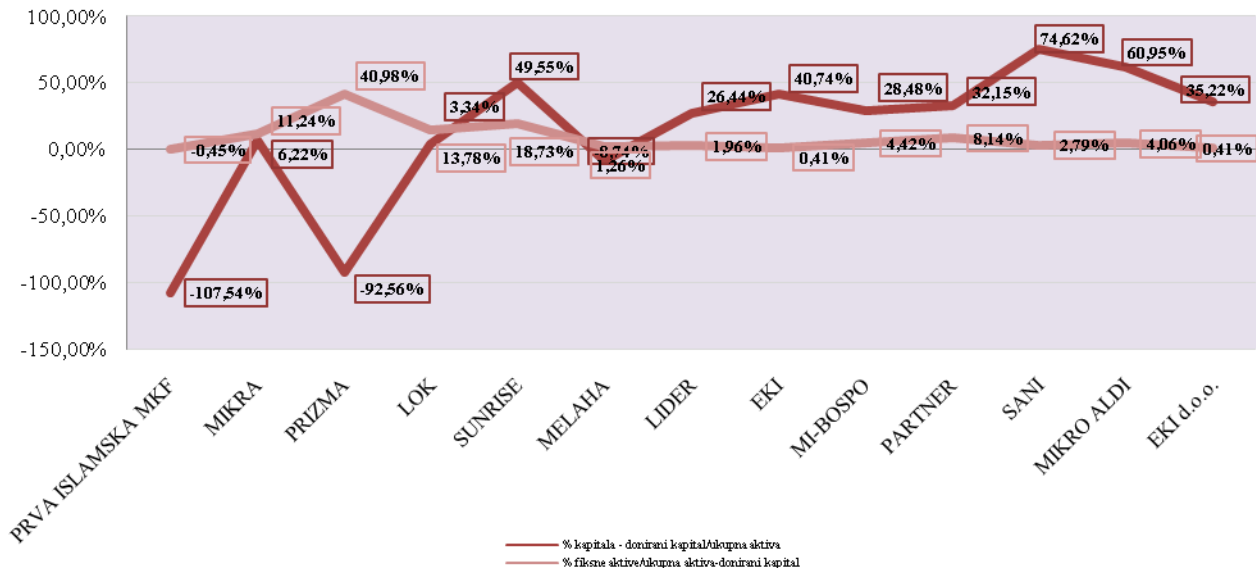
Graph 16.

Risk portfolio over 30 days past due as of 31.12.2014



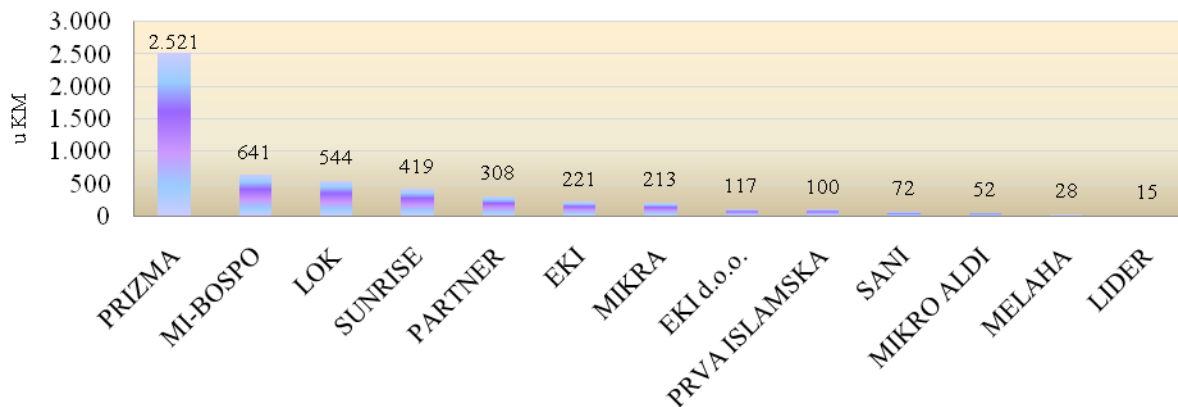
Graph 17.

Fixed assets and capital vs. total assets as of 31.12.2014



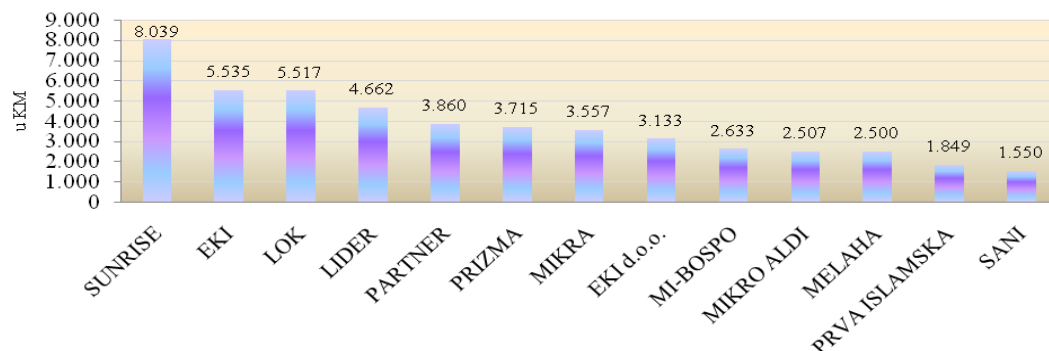
Graph 18.

Average monthly compensations to members of management/supervisory board of MCOs for the period 01.01.-31.12.2014



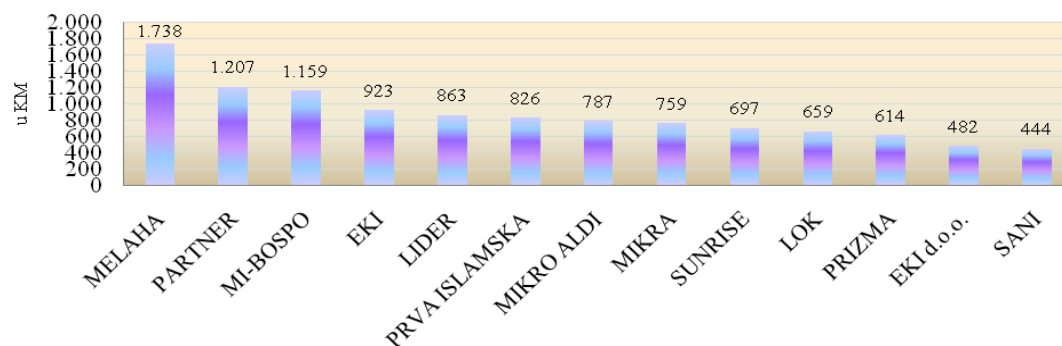
Graph 19.

Average monthly salaries of senior management in MCOs for the period 01.01.-31.12.2014



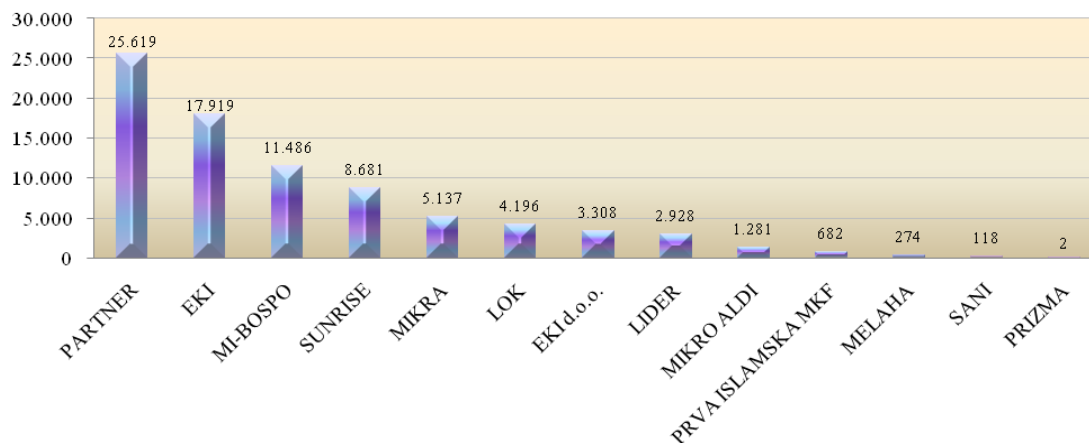
Graph 20.

Average monthly salaries of loan officers of MCOs for the period 01.01.-31.12.2014

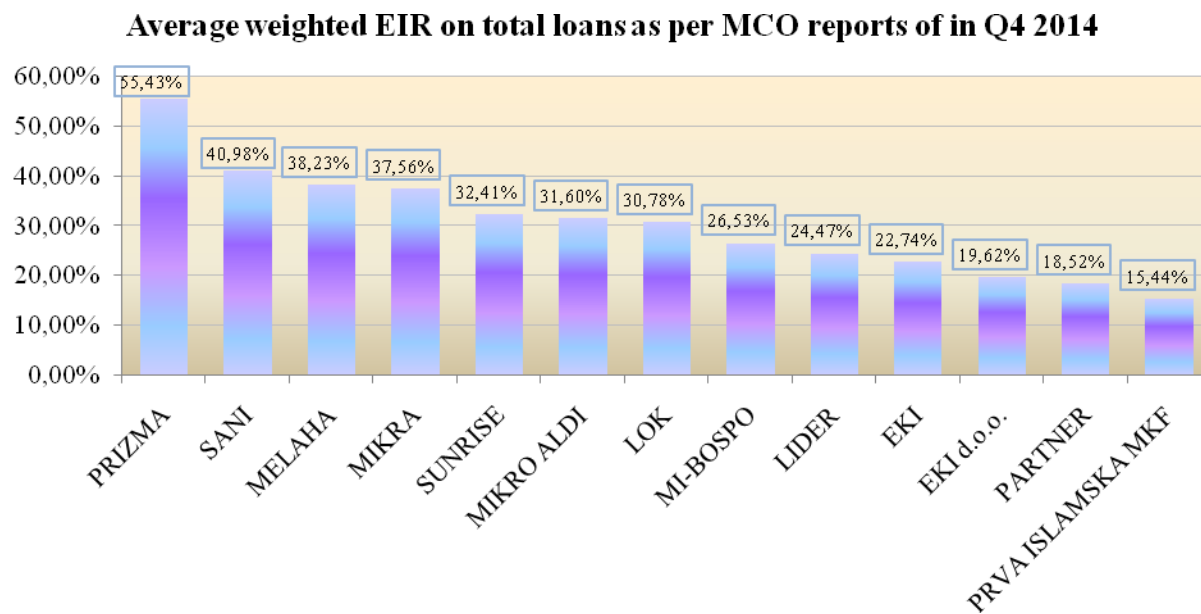


Graph 21.

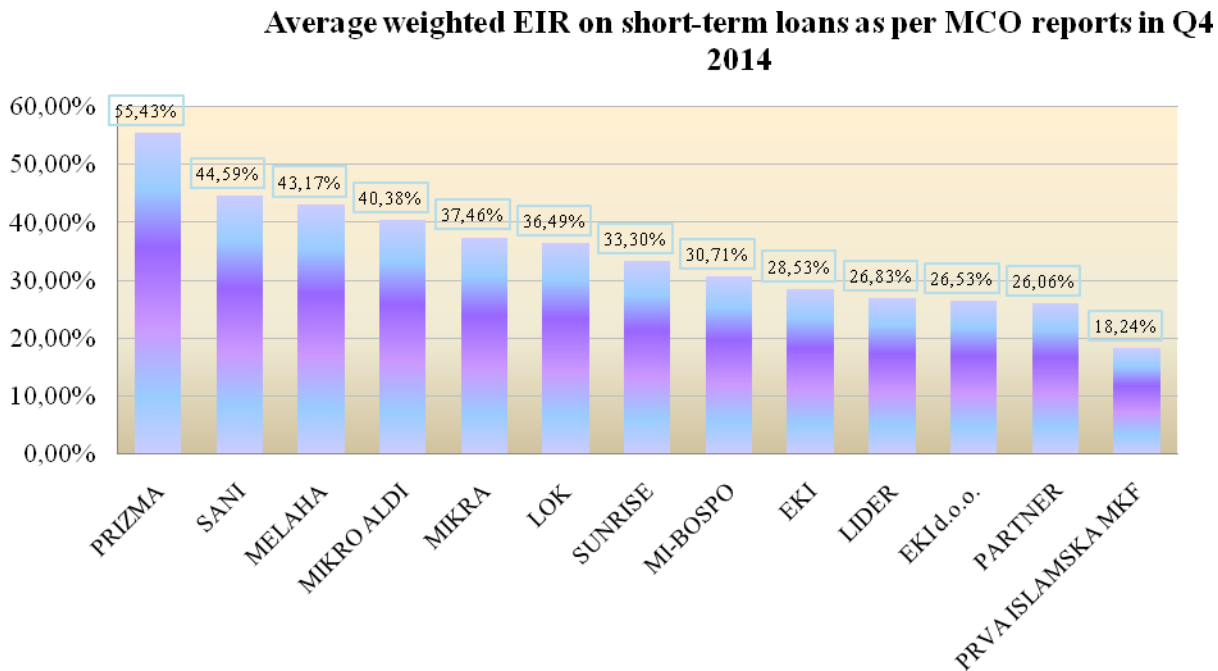
Total microloans disbursed in Q4 2014 in 000 KM



Graph 22.



Graph 23.



Graph 24.

Average weighted EIR on long-term loans as per MCO reports in Q4 2014

