



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

**INFORMATION
ON THE MICROCREDIT SYSTEM
OF THE FEDERATION OF BOSNIA AND HERZEGOVINA
AS OF 31.12.2011.**

Sarajevo, March 2012.

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1. INTRODUCTION

The law on micro-credit organizations („Official Gazette of the Federation of BiH“, number: 59/06) (Law on MCOs) regulates the establishment, registration, activities, form of organization, business operations, manner of management, termination of operations and supervision of micro-credit organization performance (MCO), that is micro credit foundation (MCF) and micro-credit companies (MCC) in the Federation of BiH. The authorities of the Banking Agency of the Federation of BiH (Agency) over these activities are regulated by the Law on the Banking Agency of Federation of Bosnia and Herzegovina („Official Gazette of the Federation of BiH“, number: 9/96, 27/98, 20/00, 45/00, 58/02, 13/03, 19/03, 47/06, 59/06 and 48/08) and internal acts of the Agency, furthermore all the listed activities are performed within the Department for supervision of micro-credit organizations. The function of supervision of the MCOs, the Agency performs through on site examinations and analyses of the reports that the MCOs submit to the Agency (*off-site*), in accordance with the Law on MCOs and regulations of the Agency. The reporting base is made of quarterly reports on balance sheet, capital, loans, loan loss reserves, performance results and other reports about individual performance segments, as well as a monthly report on interest rates.

During 2011, the Agency continued the regular supervision of the MCOs, and in on-site examinations controlled 40% of the assets of the entire microcredit system in the Federation of BiH. On site examinations were performed in accordance with the determined examination plan and priority, in the cases of the significantly irregular performance of MCOs. The Agency had in place a special control of the significantly irregular performance of a MCO. The Agency especially supervised the performance of the bodies of governance and management of the MCO, credit risk management and liquidity risk, capital and treatment of the donated funds of MCOs, as well as the compliance with the standards in performance defined by the decision on other general conditions of performance, compliance with the Law on the micro credit organizations, Law on the organizations and foundations (ZUF) and other regulations.

The focus of the examinations was also discovering and eliminating the weaknesses and irregularities with an aim to create a reliable system in which the clients of MCOs will be informed in transparent manner about the accrual methods and the amount of the effective rates for micro credits, in which the guarantors will not be exposed to a higher risk of lack of payment of loans by the debtors then it is imminent in the function itself that was taken in compliance with the law, and in which a stable system will be provided which will primarily serve for the purpose defined in the Article 2 of the Law on Micro credit organizations.

The irregularities noticed in the on-site examination of the MCO performed in 2011 are mainly in reference to the lack of compliance with the provisions of the Law on Micro credit organizations, especially Articles. 4 and 39 of the law on micro credit organizations and implemented provisions of the Agency, especially in regard to establishment and maintenance of the reserves for loan losses, and especially in the cases of a repeated loan agreement. Additional irregularities determined in the on-site examinations of MCOs, referred to violations of the Decision on other general conditions for performance of MCOs in regard to the prescribed standards of the Agency for performance of MCOs, covering of losses on the expense of the donated capital for loan portfolio, and transactions with related entities on the account of MCFs, as well as violations of the provisions of the ZUF, especially Article 41 in regard to the inappropriate disposal with property of MCF in some cases.

Other irregularities in the MCOs performance determined in the examination referred to inadequate reporting of MCOs which was not in compliance with the Instructions of the Agency for development of the MCOs reports, operations of the bodies of MCOs and internal audit, weaknesses in the system of internal controls, work of the department for complaints of clients and guarantors, inadequate reporting and publishing of effective interest rates in the public information or offices etc. In reference to that the Agency issued numerous orders which implementation is being continuously monitored.

During 2011, the Agency revoked two licenses for operations, one due to termination of operations, and the other due to performed changes in the status, merger to another MCF. one due to termination of operations and the other due to changes in the status, merger to another MCF. With that, since 2008 when MCOs initiated their operations with registration in the authorized bodies, the Agency revoked a total of 4 licenses for operations. Therefore, the number of licenses issued for operations for MCOs from 20 decreased to 16, current active licenses for operations, which percents a decline of 20%.

The micro credit organizations adopted policies and procedures which define the liabilities and activities for prevention of money laundering and terrorism financing activities. Also, they appointed authorized individuals for coordinating all the activities which are needed in order to prevent money laundering and terrorism financing activities. Based on this, it can be concluded that in the micro credit sector taken are actions needed to eliminate the risk from money laundering and terrorism financing activities which may occur in MCOs performance.

1.1. Agency's regulations regarding business operations of MCOs

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

<i>Agency's decisions regarding the business operations of MCOs</i>	Official Gazette of the Federation of BiH
1. Decision on conditions and the procedure for issuing the business operation license to micro-credit foundation established through the change of micro-credit organization form;	27/07
2. Decision on conditions and the procedure for issuing and revoking the business operation license and other approvals to micro-credit organizations;	27/07 and 46/11
3. Decision on conditions and procedure for issuing the business operation license and approval for acquisition of ownership participation through investments and transfer of property of the micro-credit foundation;	27/07
4. Decision on supervision of the business operations of the micro-credit organizations;	27/07
5. Decision on the form and content of reports that the micro-credit organizations submit to the Banking Agency of Federation of Bosnia and Herzegovina and the reporting deadlines;	27/07
6. Decision on the amount and manner for allocating and maintaining reserves for covering the loan losses of micro-credit organizations;	27/07
7. Decision on unified manner of accrual and recording of effective interest rates on loans and deposits;	27/07, 46/09 and 46/11
8. Decision on other general conditions for business operations of the macro-credit organizations;	27/07

9. Decision on conditions and the manner of micro credit organization's acting on client's complaints;	32/10
10. Decision on fees that the micro-credit organizations pay to the Banking Agency of the Federation of BiH.	46/11

Agency's instructions for the business operations of MCOs

1. Instructions for implementation of the Decision on unified manner of accrual and recording of effective interest rates on loans and deposits;
2. Instruction for accrual of the risk weighed nominal and effective interest rates;
3. Instruction for accrual of the adjusted return on assets;
4. Instruction for accrual of the operational efficiency indicators and
5. Instruction for development of the micro-credit organization reports.

1.2. 1.2. Performance trend of MCOs in BiH Federation in 2011.

There is a continuation of decline of the gross portfolio of MCCs during 2011. Many MCOs are faced with a decreased demand from the clients, due to an increased competition from the banks which offer more convenient exchange loans to the clients of micro credit organizations. Also, the significant MCOs institutional creditors express a higher degree of caution in lending to MCOs, which leads to further decline of the macro-credit portfolio, especially in certain MCOs.

The funds offered by the creditors for micro lending are increasingly declining, and at the end of 2011, the long term sources of funding declined by 22% in comparison to the previous year. During 2011 written off were 21,6 million KM in principal, which is 5,21% of total gross loans, and it puts the annual rate of the write offs for the entire sector beyond the standard prescribed by the Agency. Micro credit organizations are investing more efforts in collecting the receivables from written off loans, which is evident from the reported extraordinary income at the end of 2011, which increased by 16% in comparison to the end of the previous year.

in 000 KM

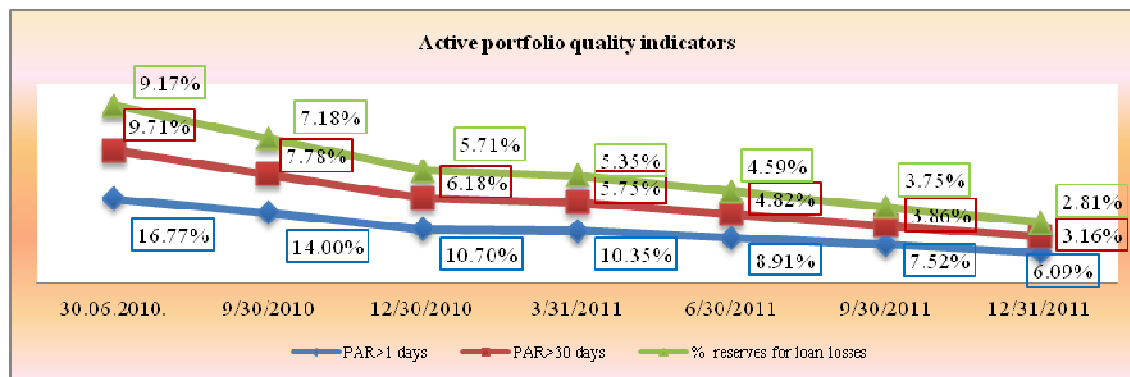
Off balance sheet records: receivables from written off principal and interest						
DESCRIPTION	INDIVIDUALS		LEGAL ENTITIES		TOTAL	
	Principal written off	Interest written off	Principal written off	Interest written off	Principal written off	Interest written off
1	2	3	4	5	6=2+4	7=3+5
<i>Initial balance as of 01.01.2011.</i>	127.621	22.241	2.531	414	130.153	22.655
<i>Changes in 2011.:</i>						
<i>New write off (in the current year)</i>	21.207	5.208	382	42	21.589	5.250
<i>Collected in the current year</i>	10.191	3.851	212	45	10.402	3.895
<i>Permanent write off</i>	51	13	10	0	61	13
Balance as of 31.12.2011.	138.586	23.585	2.692	411	141.279	23.996

The decline of the credit portfolio, the loss of the market segment, the dialogue of the investors as well as the lack of reaching the prescribed standards promotes the need for

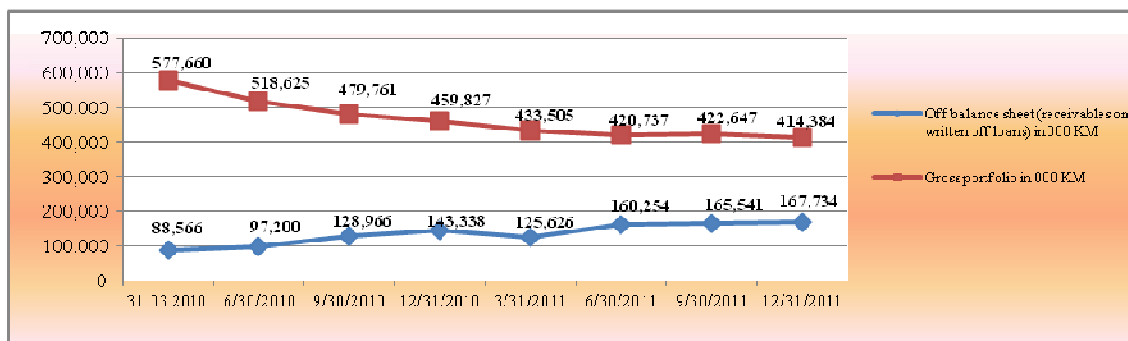
consolidation in the micro credit sector, and accelerated negotiations are being held to merge smaller and mid size micro credit organizations, which presents an important step in the protection of the sector.

The consequences of the loan expansion in the past, current economic atmosphere, significant debt of clients and congestion of the local markets in which there are several microcredit organizations, as well as general opinion of the public about the sector requires urgent consolidation at the level of the microcredit foundations in the Federation through a joint establishment of microcredit companies by two or more micro credit foundations. That would make the investment process in the microcredit companies easier, and improve the segment of the corporate management, which presents the weakest link in most of the industries.

With an aim to prevent and overcome the excessive debt problem, the Agency ordered to the MCOs a full implementation of the regulations in the obligatory exchange of information at the level of the sector and Central loan registry of the CBBiH. During 2011, most of MCOs invested additional efforts to implement the practice of responsible lending and realization of the mission and aims of the micro credit sector.



In spite of the decline of the micro credit portfolio by 10% in comparison to the previous year, or by 2% in comparison to the end of the previous quarter, the results of the larger MCOs, based on the reports about the reserves show improvement of the quality of the active credit portfolio in comparison to the same period last year. The improvement of the active portfolio quality is reflected in the decrease of the rate for the loan loss reserves from 5,71% to 2,81%. Portfolio in risk over one day of delinquency decreased from 10,7% to 6,09%. Portfolio in the risk over 30 days of delinquency declined from 6,18% to 3,16%, which brought the total result of the sector in regard to the risk in the portfolio within the standards prescribed by the Agency. Of 16 MCOs, 5 MCFs do not fulfill the standard of the Agency in regard to the risk in the portfolio which should be under 5%.



However, of concern is the increase in the level of restructured loans, which is the fact that certain MCOs systemically perform the restructuring/refinancing of loans from the period 2008/2009, and the fact that the off balance sheet records of the total written off loans in the period of one year increased by 16%. Since in the 4th quarter recorded is again a decline of the credit portfolio and a growth of the total receivables from the written off loans of MCOs, as of 31.12.2011 40% of the loan portfolio is in the off balance sheet records.

There are significant differences in portfolio quality among the different MCOs, which is evident in the data that four MCOs have over 80% of total written off loans in relation to the total gross portfolio (in one MCO the total amount of receivables from written off loans is by 14% higher than the amount of assets), which is a direct consequence of the credit expansion in the past, while three MCOs reported a total write off under 15% of total gross portfolio.

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

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

The expected changes to the Law on micro credit organizations would enable space for additional improvements of the Agency's regulations with an aim to protect donated funds which directly provide for lending to a large number of clients which do not have access to traditional sources of financing. The strategy of the micro credit sector also should be directed towards the improvement of the cooperation with the financial and credit consulting (CFKS), which as an independent body could offer a solution for restructuring of loans of clients who have too much debt, and negotiate about that with the relevant institutions in order to try to assist the clients which are faced with financial difficulties.

2. THE STRUCTURE OF MICRO-CREDIT ORGANIZATIONS

As of 30.09.2011., there are 16 MCOs in the Federation of Bosnia and Herzegovina, of that 15 MCF (nonprofit organizations) and 1 MCF's (profit organization), as well as 28 MCCs organization units which head offices are in Republic Srpska. At the end of the third quarter of 2011, the Agency revoked license from one MCF for performing the operations of issuing micro credit loans due it its merger to another MCO (which data are included in the Information), while for one MCF in process is the performance termination procedure. All MCFs that received the Agency's operating license performed the registration in compliance with the Law on MCOs, that is they were created through the change of MCOs form established in accordance with the Law on micro-credit organizations („Official Gazette of the Federation of BiH, number: 24/00) (Law on MCOs from 2000.). Therefore, all the MCOs are legal successors of the property, rights and obligations of MCOs established in accordance with the Law on MCOs from 2000. In the Attachment 1., there are basic data on MCFs and MCCs to which the Agency issued the operating license for operations regarding the micro-credit lending.

In the Federation of BiH, as of 31.12.2011, there are 16 MCOs that have a license for operations from the Agency, of that 15 MCFs (nonprofit organizations) and 1 MCC (profit organization), and 28 organizational units of MCCs which head office is in Republic Srpska. The Agency is managing a performance termination process for one MCF. All MCFs which received a license for operations from the Agency, performed a preregistration in compliance with the Law on the micro credit organizations, that is based on the change of the form of MCOs in reference to the Law on micro credit organization („Official Gazette of the Federation of BiH, number: 24/00). Therefore, all MCFs based on the law legally inherit the property, rights and obligations of the MCOs established in compliance with the Law on the macro credit organizations from 2000. In the Attachment 1 there are the basic data about the MCF and MCC to which the Agency issued a license for macro credit operations.

As a result of rationalization of MCCs expenses, and foremost of MCFs, the trend of closing of the organizational units with head offices in the Federation continued as of 31.12.2011, so in comparison to the end of the previous year, the total number of organizational units with the head offices in the Federation declined by 38 organizational units or 10%. MCFs with head office in the Federation of BiH have a total of 341 organizational units, of which in the Federation of BiH 225, Republic Srpska 113 and District Brčko 3. A total of 188 organizational units of MCFs with head offices in the Federation of BiH have authorization to grant micro-credits, and as such are registered in the Registry of micro-credit foundations in the Federation of BiH. The Agency issued 4 consents for establishment of organizational units, of which two are consents issued for a change of form, and 25 consents for a change of address of organizational parts and 42 consents for opening organizational units of MCOs. There are 9 MCFs that have organizational units outside of the Federation of BiH

Agency issued licenses for operations of organizational units of one MCC which has a head office in republic Srpska, and which operates in federation through 28 branches and field offices.

2.1. Personnel

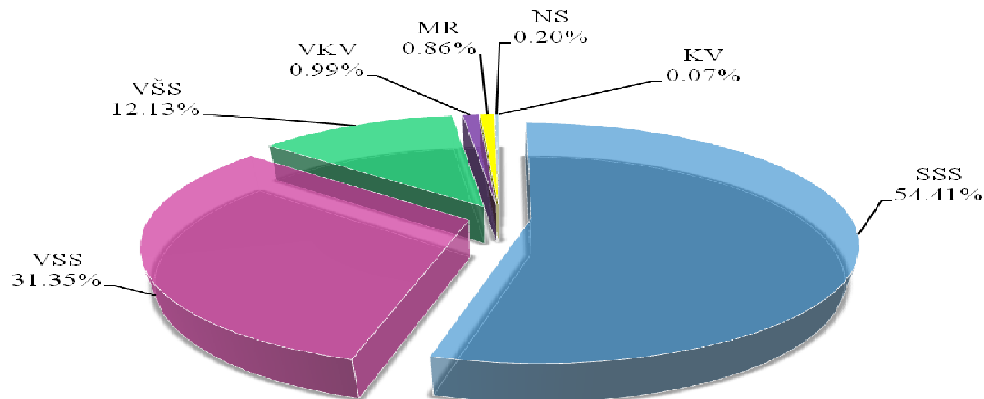
Table 1. Qualification structure of employees

No.	Qualification ¹	31.12.2010.		Total	Participation	31.12.2011.		Total	Participation	Ratio
		MCF	MCC			MCF	MCC			
1	2	3	4	5=(3+4)	6	7	8	9=(7+8)	10	11=9/5
1.	NS	3	0	3	0	3	0	3	0,20	100
2.	KV	2	0	2	0	1	0	1	0,07	50
3.	VKV	21	0	21	1	15	0	15	0,99	71
4.	SSS	876	3	879	58	817	4	821	54,41	93
5.	VŠS	232	0	232	15	183	0	183	12,13	79
6.	VSS	378	3	381	25	469	4	473	31,35	124
7.	MR	10	0	10	1	13	0	13	0,86	130
TOTAL		1522	6	1528	100	1501	8	1509	100,00	99

As of 31.12.2011., micro-credit sector employed a total of 1.509 employees, which is by 19 employees or 1% less than as of 31.12.2010. MCFs employ 1.501 employees or 99,5%, and MCCs 8 employees or 0,5%. In the structure of employees the largest participation is of SSS of 54,41%, VSS of 31,35% and VŠS of 12,13%.

The percentage of employees with higher education is increasing (by 24%) and masters of art (by 30%), while the number of employees with VSS and NS is decreasing in relation to 31.12.2010

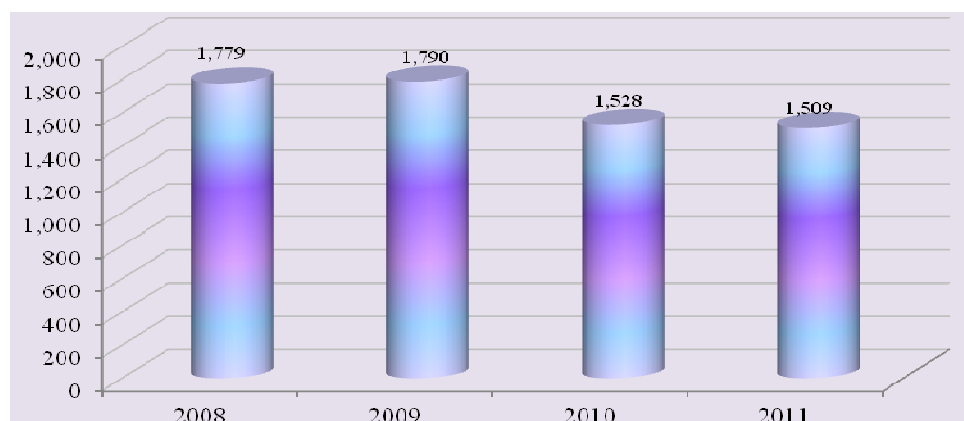
Qualification structure of employees in MCOs as of 31.12.2011.



Reviewing the number of employees over the years of performance of MCOs, it can be concluded that the largest number of employees was reported at the end of 2009, when MCOs were employing 1.790 employees, which when compared with the data as of 31.12.2011 presents a decline of 16%. Comparing these two periods, in individual MCOs, two MCFs reported the largest decline of the number of employees, in which it declined by 37%, and 31%.

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

Number of employees in MCOs



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

As of 31.12.2011., the MCOs balance sheet amount is 502,6 million KM and it decreased by 73,6 million KM or 13% in relation to 31.12.2010. The balance sheet growth, in comparison to the end of previous year, was recorded by 5 MCF and 1 MCC, the decline by 10 MCFs. The decline of the balance sheet level higher than 10% in relation to the end of 2010 is recorded by 4 MCFs, decline over 20% by 2 MCFs and decline over 30% was recorded by 4 MCFs. The highest participation in the total MCOs balance sheet is by six MCFs with assets in the amount of 469 million KM or 92%.

3.1. Balance Sheet

Table 2. Balance Sheet of MCCs

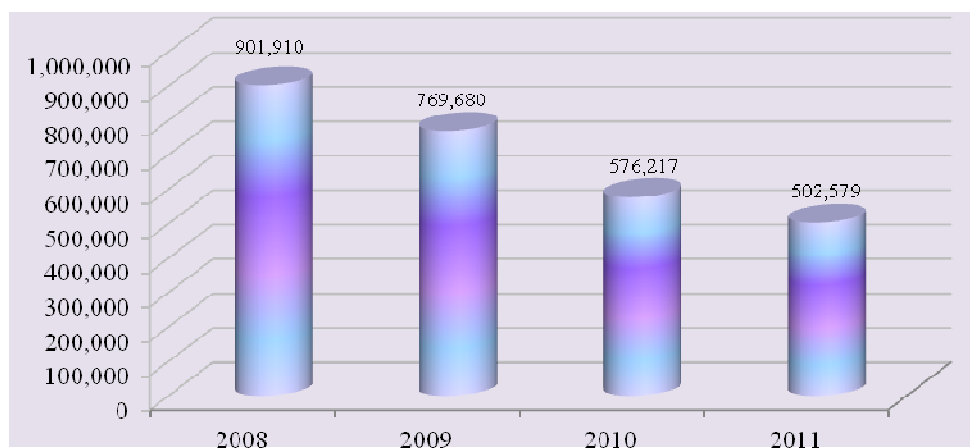
in 000 KM

DESCRIPTION	31.12.2010.					31.12.2011.					Ratio
	For MCF	%	For MCC	%	TOTAL	For MCF	%	For MCC	%	TOTAL	
1	2	3	4	5	6=(2+4)	7	8	9	10	11=(7+9)	12
ASSETS											
1. Cash	47.527	8	36	3	47.563	28.973	6	270	14	29.243	61
2. Placements to banks	28.751	5	0	0	28.751	14.975	3	0	0	14.975	52
3. Loans	458.551		1.276		459.826	412.802		1.582		414.384	90
4. Less: reserves for loan losses	26.214		36		26.250	11.647		11		11.658	44
5. Net loans	432.337	75	1.240	91	433.576	401.155	80	1.572	80	402.727	93
6. Business premises and other fixed assets	49.115	9	84	6	49.200	47.838	10	75	4	47.913	97
7. Long term investments	3.500	1	0	0	3.500	15	0	0	0	15	0
8. Other assets	14.319	2	9	1	14.328	9.048	2	57	3	9.105	64
9. Less: reserves for other assets, except loans	701	0	0	0	701	1.398	0	2	0	1.400	200
TOTAL ASSETS	574.848	100	1.369	100	576.217	500.606	100	1.973	100	502.579	87

LIABILITIES											
10. Liabilities for loans taken	409.898	71	598	44	410.496	330.981	66	1.175	60	332.156	81
11. Other liabilities	23.025	4	71	5	23.096	20.054	4	69	3	20.122	87
12. Capital	141.924	25	700	51	142.625	149.571	30	729	37	150.301	105
TOTAL LIABILITIES	574.848	100	1.369	100	576.217	500.606	100	1.973	100	502.579	87
Off balance sheet	144.521		88		144.609	168.222		60		168.282	116

Reviewing the aggregate balance sheet of MCOs over the years, the largest amount was reported at the end of 2008, when it was 902 million KM, which in comparison to the balance as of 31.12.2011, presents a decline of 44%. Comparing these two periods, in individual MCOs, two MCFs reported the largest decline of the balance sheet, in which it declined by a high 73% and 64% .

Amount of assets of MCOs in 000 KM



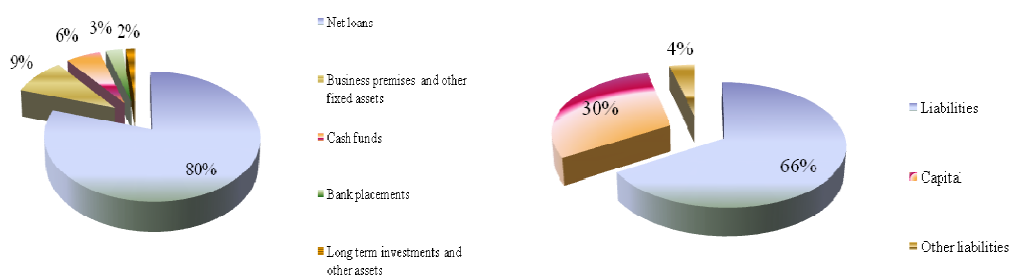
In the asset structure of MCOs, the cash funds are 29,2 million KM or 6% with a decline rate of 39% in comparison to 31.12.2010., and mainly relate to cash funds of MCF. In comparison, the cash funds balance as of 30.06.2011 (after which date the participation of cash funds in the total assets started decreasing) declined by 15,5 million KM that is 35%. Placements to banks are 15 million KM or 3%. Some MCFs can face with the liquidity risk, the investors are generally showing a higher degree of caution due to expressed business results that is the trend shown by the sector, which limit the access that the foundations might have to new loans that could cover for the short term liabilities, and that along with the poor collection of loans can lead to insolvency.

Net loans, that is, the gross loans deducted for the loan loss reserves, are 402,7 million KM or 80% of the total assets and are by 30,8 million KM or 7% in decline in comparison to 31.12.2010. The decline of net loans in comparison to the previous year as recorded by 10 MCFs, while the growth is reported by 5 MCFs and 1 MCC. In comparison to 31.12.2010, the decline of the net loans up to 10% is recorded by 3 MCFs, decline over 10% is recorded by 3 MCF, decline over 20% is recorded also by 3 MCFs, while 1 MCF recorded a decline of net loans over 50%.

The business premises and other fixed assets are 48 million KM or 10% of total assets and have declined by 3% in comparison to the end of the previous year. Seven MCFs have a

percentage of fixed assets in the total assets (deducted for the amount of the donated capital) higher than the prescribed amount.

The amount of 7,7 million KM or 1% are long term investment (15 thousand KM) and other assets (7,705 thousand KM deducted for the provisioning for other items of assets apart from loans), and are composed of accrued interest, advance payments, active time reconciliation assets and other. Long term investments refer to one MCF, which in comparison to the previous quarter declined by 2,7 million KM, which is a direct result of reclassification of the balance sheet positions in one MCF which overall examination of the performance was completed in the IV quarter of 2011, when it was determined that the reporting on this item was not complied with the Agency's Instructions for development of the MCOs reports. The amount of 2,7 million KM, which was reported for the position of long term investments, the examination reclassified to the banks' placements position and interest bearing deposit accounts, which was included in the reports of this MCF as of 31.12.2011. The percentage of other assets in 14 MCFs and 1 MCC declined by 10% in comparison to the total assets, and only in one MCF that percentage is 11,82%.



In the liability structure of MCOs, the liabilities on acquired loans are the basic source of funds and amount to 332,2 million KM or 66% of total liabilities and decreased by 19% in comparison to 31.12.2010.

Table 3. Maturity structure of loans taken

in 000 KM

DESCRIPTION	31.12.2010.				31.12.2011.				Ratio
	MCF	MCC	TOTAL	%	MCF	MCC	TOTAL	%	
1	2	3	4=(2+3)	5	6	7	8=(6+7)	9	10=8/4
1. Liabilities from short term loans taken	88.871	513	89.384	22	82.347	723	83.070	25	93
2. Liabilities from long term loans taken	321.027	86	321.113	78	248.634	452	249.086	75	78
TOTAL	409.898	598	410.496	100	330.981	1.175	332.156	100	81

Of total liabilities on loans taken 269,3 million KM or 78% are long term loans, with a decline rate of 16% in relation to the end of last year. Of total liabilities on loans taken 76 million KM or 22% are short term loans, with a decline rate of 15% in comparison to the end of previous year. The liabilities from taken loans of MCFs amount to 344,5 million KM or 99,8% of total liabilities on loans taken.

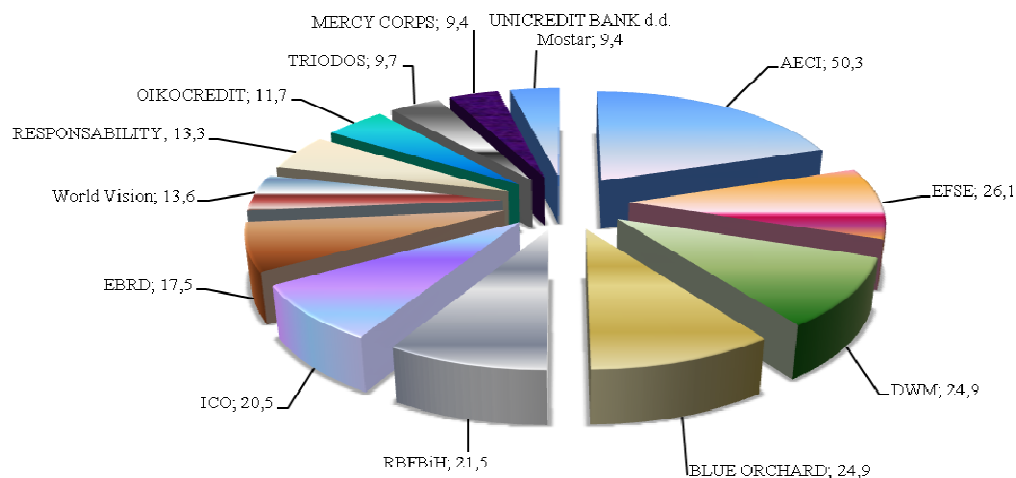
The most significant MCO creditors, with 82% of the credit liabilities, are²:

² Of 45 recorded MCOs creditors, the Information lists only the most significant ones.
Banking Agency of the Federation of BiH
Department for supervision of the business operations of Micro credit organizations

- 1.) AECI – Agency for international cooperation Kingdom of Spain (50,3 million KM);
- 2.) EFSE – European Fund for the southeast Europe, Luxemburg (26,1 million KM)
- 3.) DWM – Developing World Markets, USA (24,9 million KM);
- 4.) Blue Orchard Finance S.A., Switzerland (24,9 million KM);
- 5.) Development bank of the Federation of BiH³ (21,5 million KM);
- 6.) ICO – Instituto de Credito Oficial, Spain (20,5 million KM);
- 7.) EBRD – European bank for reconstruction and development, Great Britain (17,5 million KM);
- 8.) World Vision International, USA (13,6 million KM);
- 10) Responsibility SICAV, Switzerland (13,3 million KM);
- 11) Oikokredit, Netherlands (11,7 million KM);
- 12) Triodos – Doen, Netherlands (9,7 million KM);
- 13) Mercy Corps, USA (9,4 million KM) and
- 14) UniCredit Bank d.d. Mostar, BiH (9,4 million KM).

Of total liabilities from loans taken, the long term loans (that 3 MCFs do not have) are 249,1 million KM or 75% and have a declining rate of 22% in comparison to the end of the previous year. Of total liabilities from loans taken, short term loans (which 5 MCFs do not have) are 83,1 million KM or 25% and have a declining rate of 7% in comparison to the end of the previous year. In regard to the liabilities from loans taken 331 million KM refer to MCFs or 99,6% of the total liabilities from loans taken.

Funding sources for MCCs as of 31.12.2011. in mil. KM



Other liabilities are 20,1 million KM or 4% of total liabilities, and they consist of liabilities towards employees, suppliers, passive time reconcilements and other. A total of 4 MCF have a percentage of other liabilities higher than 10% in relation to the total liabilities.

³ The funds are granted under the Project of local initiatives LIP I and LIP II which management by the Decision of the Government of the Federation of BiH („Official Gazette of the Federation of BiH“, number: 78/06 and 34/07) has been transferred to the Development bank of the Federation of BiH.

The off-balance sheet is 168,2 million KM, and it consists of charged off credit receivables (167,7 million KM) and agent contracts (one MCF has 0,5 million KM), and it increased by 16% in comparison to 31.12.2010.

3.2. Capital

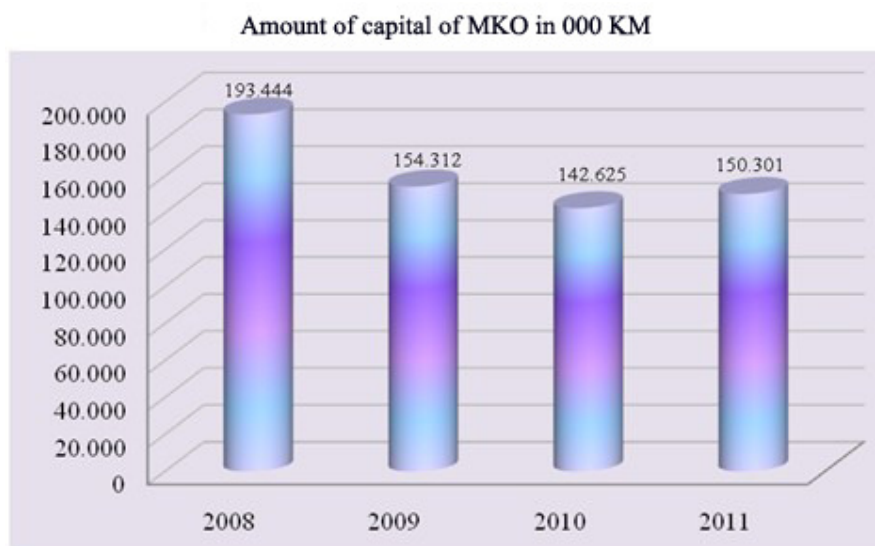
The total capital of MCOs as of 31.12.2011., was 150,3 million KM, or 30% of total liabilities and it increased by 7,7 million KM or 5% in comparison to the end of 2010. Capital of MCFs is 149,6 million MCF or 99,5%, and the capital of one MCC is 0,7 million KM or 0,5%. Two MCFs have a percentage of the ratio of the amount of capital (deducted for the donated capital) to total assets lower than allowed.

Table 4. Structure of capital of MCOs

in 000 KM

DESCRIPTION	31.12.2010.					31.12.2011.					Ratio
	For MCF	%	For MCC	%	TOTAL	For MCF	%	For MCC	%	TOTAL	
1	2	3	4	5	6=2+4	7	8	9	10	11=7+9	12=11/6
Donated capital	42.619	30	0	0	42.619	43.061	29	0	0	43.061	101
Core Capital	9.957	7	600	86	10.557	10.157	7	600	82	10.757	102
Surplus/deficit of income over expenses	84.856	60	0	0	84.856	93.411	62	0	0	93.411	110
Issue premium	0	0	0	0	0	0	0	0	0	0	0
Undistributed income	0	0	3	0	3	0	0	29	4	29	963
Regulatory provisions	0	0	98	14	98	0	0	100	14	100	102
Other reserves	4.493	3	0	0	4.493	2.942	2	0	0	2.942	65
TOTAL CAPITAL	141.924	100	700	100	142.625	149.571	100	729	100	150.301	105

Reviewing the amount of capital over the years of the MCOs performance, it can be concluded that the highest amount was reported at the end of 2008 when it was 193,4 million KM, which in comparison to the balance as of 31.12.2011 presents a decline of 22%. Reviewing these two periods, in individual MCOs, we can conclude that two MCFs reported the largest decline in the amount of capital, which was by a high 87% and 75%.



In the capital structure the most significant is the surplus of income over expenses which is 93,4 million KM, and constitutes 62% of total capital of MCFs, and is in incline by 10% in comparison to the end of the last year. The deficit of income over expenses for the period of 01.01. to 31.12.2011 realized by 6 MCFs, and surplus of income over expenses 9 MCF, while one MCC realized a net profit.

Undivided profit of one MCC is 129 thousand KM or 18% of the total capital of MCC. Only two MCF realized a surplus of income over expenses in regular operations, while 13 MCFs and one MCC realized deficit of income over expenses, which is loss, in regular operations. At the end of the third quarter. Of those 13 MCFs, seven have, owing to extraordinary income that is higher than the realized deficit in regular operations, at the end of 2011, realized a positive result.

Also, one MCC at the end of 2011, owing to extraordinary income, realized a net profit. The extraordinary income is a direct result of the increased collection of the receivables from written off loans

The significant source of capital of MCF is the donated capital which is 43,1 million KM or 29% of the total capital, whereas one MCC does not have any donated capital. Five MCFs had an increase of donated capital in the amount of 657 thousand KM, while one MCF decreased its donated capital by 215 thousand KM due incorrect bookkeeping of foreign exchange differences, which was determined during the overall on-site examination of that MCF which was performed in the 4th quarter of 2011. With that, the donated capital, in comparison to the end of the previous year increased by 442 thousand KM, that is 1%.

Core capital of MCOs, as of 31.12.2011, was 10,7 million KM or 7% of total capital. Other reserves are 3 million KM, or 2% of total capital and refer to 3 MCF.

3.3. *Loan portfolio*

The core activity of MCOs is the micro-crediting that refers to the amount of 414,4 million KM or 82% of the total assets of the micro credit sector. The level of the total loans of sectors depends on the condition of loans of MCFs referring to 412,8 million KM or 99,6% of total loans, whereas MCCs relate to 1,6 million KM or 0,4% of total loans.

Net loans, total loans minus the reserves for loan losses, are presented in the Table 5.

Table 5. *Net loans*

in 000 KM

No.	DESCRIPTION	31.12.2010.			31.12.2011.			Ratio
		MCF	MCC	Total	MCF	MCC	Total	
1	2	3	4	5=(3+4)	6	7	8=(6+7)	9=8/5
1.	Loans	458.551	1.276	459.826	412.802	1.582	414.384	90
2.	Loan loss reserves	26.214	36	26.250	11.647	11	11.658	44
3.	Net loans (1.-2.)	432.337	1.240	433.576	401.155	1.572	402.727	93

Net loans are 402,7 million KM and decreased by 7% in comparison to 31.12.2010 while loans on gross basis decreased by 10% in relation to the same period last year. Loan loss reserves are 11,7 million KM and have decreased by 56% in relation to 31.12.2010. The ratio of the loan loss reserves and the loan portfolio is 2,81%, and has improved by 2,9% in relation to the ratio as of 31.12.2010

Reviewing the gross portfolio of the MCOs, over the years of MCOs performance, it can be concluded that the largest amount was recorded at the end of 2008 when it was 830,2 million KM, which in comparison to the balance as of 31.12.2011 presents a decline of a high 50%. Comparing these two periods, in individual MCOs, it can be concluded that two MCFs reported the largest gross portfolio, in which it declined by a high 73% and 69%.

Amount of gross portfolio of MCOs in 000 KM

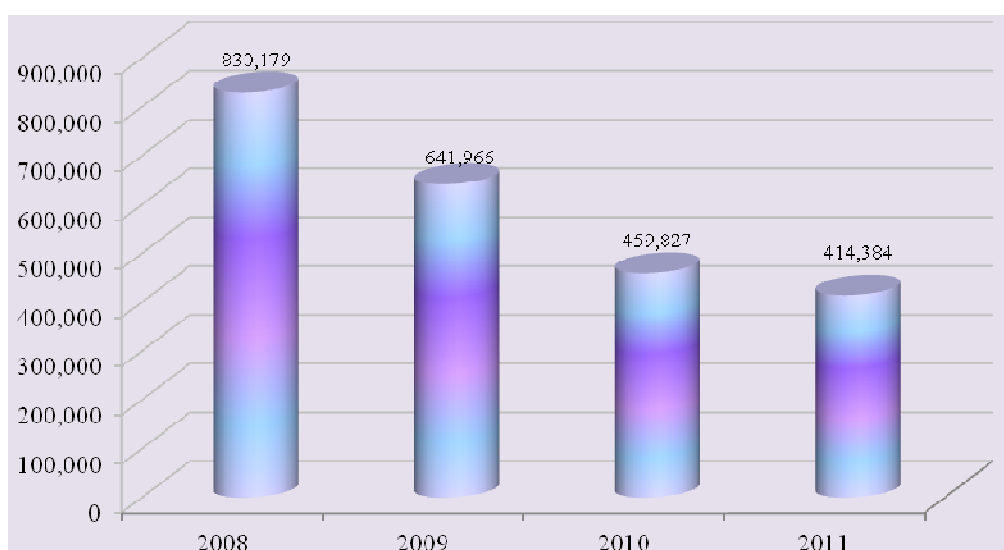


Table 6. Department and maturity structure of micro-credit MCOs as of 31.12.2011.

in 000 KM

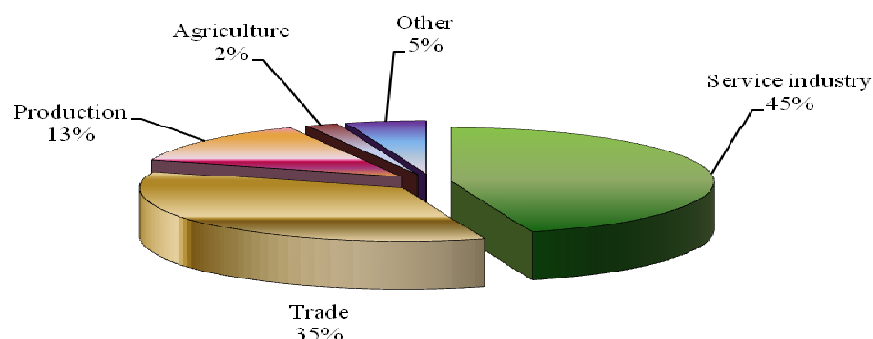
No.	Micro-credits	Short term loans	Long term loans	Past due receivables	TOTAL	%
1	2	3	4	5	6=(3+4+5)	7
1.	Legal entities					
a.)	Service industry	1.248	3.609	30	4.887	45%
b.)	Trade	1.171	2.550	47	3.768	35%
c.)	Agriculture	63	121	0	184	2%
d.)	Production	505	882	12	1.398	13%
e.)	Other	114	434	2	550	5%
	TOTAL 1:	3.101	7.595	92	10.787	100%
2.	Individuals					
a.)	Service industry	7.341	62.041	816	70.198	18%
b.)	Trade	6.703	42.543	682	49.928	12%
c.)	Agriculture	8.122	127.086	1.222	136.431	34%

d.)	Production	7.032	12.435	279	19.746	5%
e.)	Housing needs	5.100	59.994	517	65.611	16%
f.)	Other	12.414	48.682	587	61.683	15%
TOTAL 2:		46.712	352.781	4.103	403.597	100%
TOTAL (1+2):		49.813	360.377	4.195	414.384	

According to the department structure of the micro-credits, 403,6 million KM or 97% of total loans are granted to the individuals, and 10,8 million or 3% to legal entities.

In the maturity structure of the micro-credits, short term loans, which include the past due receivables, are 54 million KM or 13%, and long term loans are 360,4 million KM or 87%. The total past due receivables are 4,2 million KM or 1% of the total loans and almost entirely refer to loans to individuals. In comparison to the previous quarter, there is a decrease of the short term loans by 18%, and increase in the long term loans for the same per cent, which are a result of an increase in restructuring/ refinancing of short term loans.

Sector structure of micro credits granted to legal entities



According to the sector structure the largest amount of total amount of micro-credits to **legal entities** has been allocated in the trade and service sector – service industry 4,9 million, or 45%, and trade 3,8 million KM or 35%. For production allocated is 1,4 million KM or 13% of the total amount of micro-credits granted to legal entities, then 0,2 million KM for agriculture or 2%, and 0,5 million or 5% for other purposes.

In regard to loans to **individuals**, 136,4 million KM or 34% was granted to agriculture, then 70,2 million KM or 18% for service industry, whereas 50 million KM or 12% was granted the sector of trade, for housing needs 65,6 million KM or 16%, and for production 19,7 million KM or 5%, and for other 61,7 million KM or 15%.

Based on the analyses of the sector structure it is concluded that the micro-credit lending is in most part directed to lending to agriculture and service industry and mainly relates to long term loans to individuals, which leads to loans being granted to individuals that do not have access to traditional financing sources, partly due to the risk in the business they perform and partly due to the lack of adequate collateral. The percentage of loans given to housing needs is

also increasing, although it is a question of smaller loans which are used for improving the housing conditions.

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

The base for accrual of the amount of the reserves is the amount of unpaid loans, accrued interest and fees and all other items where MCO is exposed to risk of payment default, which is business failure. The following table shows the amounts of receivables distributed through the given groups and accrued interests in those groups as of 31.12.2011:

Table 7. Report on amount and manner of establishing the reserves for loan losses as of 31.12.2011.

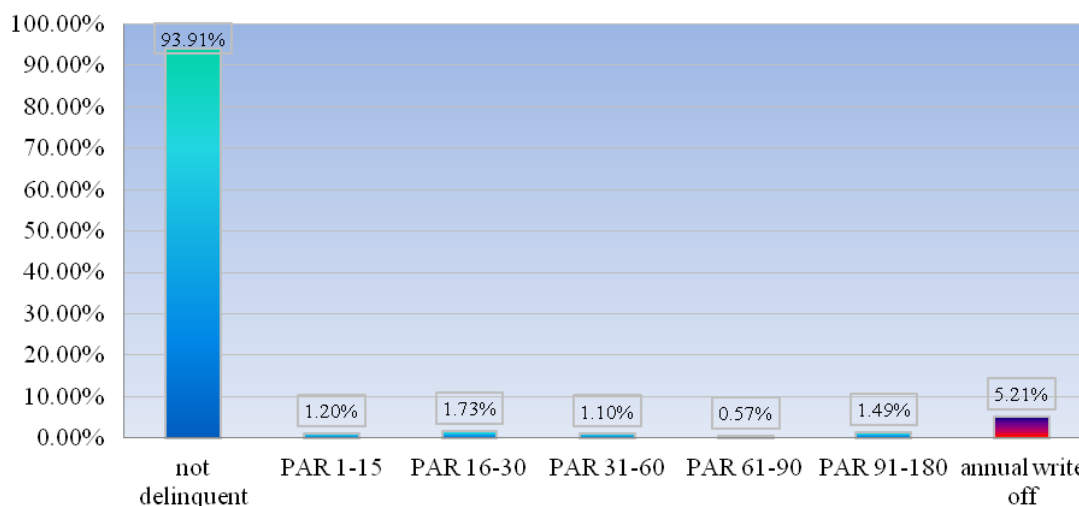
in 000 KM

No.	Days of default	Reserve rates	Loan amount	Past due interest		Amount of other assets items	Provisioning			Total provisioning
				Reserve rates	Amount of interest		For loans	For past due interest	For other items of assets	
1	2	3	4	5	6	7	8=(4x3)/100	9=(5x6)/100	10=(7x3)/100	11=(8+9+10)
1.	0	0%	389.149	0%	697	0	0	0	0	0
2.	1 – 15	2%	4.955	2%	103	333	98	3	6	107
3.	16 – 30	15%	7.187	100%	115	0	1.220	115	0	1.335
4.	31 – 60	50%	4.572	100%	166	0	2.286	165	0	2.452
5.	61 – 90	80%	2.355	100%	132	0	1.883	132	0	2.014
6.	91 – 180	100%	6.167	100%	982	0	6.171	980	0	7.150
TOTAL			414.384		2.195	333	11.658	1.394	6	13.058

7.	over 180	Write off	3.673	100%	1.023					
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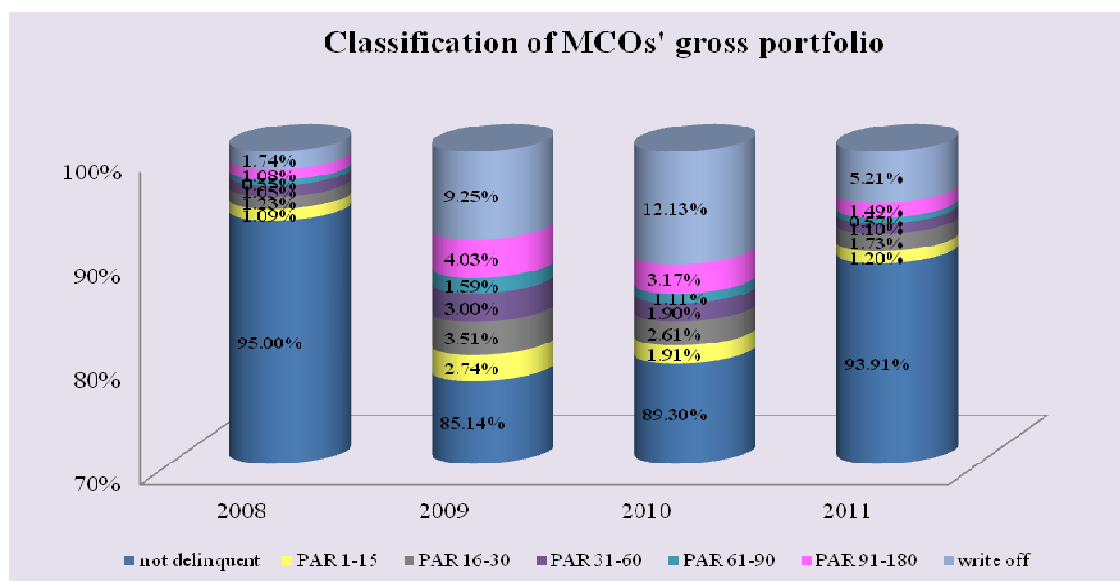
Defaults in payment of longer than one day have loans in the amount of 25,2 million KM. The rate for the loans in default of more than one day, at the end of 2011, is 6,09%, and continued declining, it is lower than in relation to the end of previous year by 4,61%. The total amount of past due interests on active loans that have a default longer than one day is 1,5 million KM. Total amount of accrued reserves on all bases is 13 million KM and have declined by 18% in comparison to the previous quarter, while the write off in the 4th quarter of 2011 was 3,7 million KM in principal and 1 million KM in interest.

MCOs quality portfolio as of 31.12.2011.



In comparing the last four years of the MCOs performance, in spite the microcredit portfolio declined by 10% in comparison to 2010, or 35% in comparison to 2009 or a high 50% in comparison to 2008, it can be concluded that the micro credit sector since 2009 is showing an improvement in the quality of the active credit portfolio. The improvement of the active credit portfolio quality is reflected in the decrease of the loan loss reserves rate from 7,94%, at the end of 2009, to 2,81% as it was realized as of 31.12.2011. The portfolio in the risk of over one day being past due decreased from 14,87%, in 2009 to 6,09%, while the portfolio in the risk (over 30 days of delinquency) decreased from 8,62% at the end of 2009 to 3,16%, so the total result of the sector in regard to the risk portfolio, as of 31.12.2011 is within the standards prescribed by the Agency. Of 16 MCOs, 5 MCF do not fulfill the standard the Agency set for the risk in the portfolio which should be below 5%. In 2011 MCOs wrote off 21,6 million KM of principal, which makes 5,21% of total gross loans. Although the rate of the annual write off decreased from 12,13%, at the end of the previous year (in 2010, MCOs wrote off 55,7 million KM of principal) to 5,21%, the rate of the annual write off of the entire sector is still not within the standard prescribed by the Agency.

Classification of MCOs' gross portfolio



The negative impact and the consequences of the global economic crises on the financial sector are especially present in the segment of lending and credit portfolio quality of MCOs operations. Due to the trend of increase of delinquent receivables, that is the delay of clients in paying their obligations, there were activated guarantor obligations in a number of delinquent loans, which had such a security, so the repayment obligation passed on to the guarantors. With an aim to collect, monitor and analyze the data on the loans that are being paid by the guarantors, as of 31.12.2009, the Agency issues a new reporting form OKJ – repayment of loans by the guarantor.

As of 30.09.2011, according to the reports of the MCOs in the Federation of BiH, 8.553 guarantors repaid 4,18 million KM of the total granted amount of loans of 45,6 million KM (7.805 credit units), which is by 33% less guarantors who repay loans of others in comparison to 31.12.2010. (4,21 million KM, paid by 12.734 guarantors, while the amount of the total granted loans was 52,6 million KM – 9.036 credit units). Of the total number of loan units, paid by the guarantor are 3,62% of credit units, and in comparison to the end of 2010, the number of loans paid by the guarantors has a slight decline, of 0,31%. As of 30.09.2011., the balance of the remaining debt paid by the guarantors is 11,9 million KM, that is 2,8% of gross loans of MCOs in comparison to 31.12.2010, the participation of the remaining debt in the gross portfolio declined by 1,2% . (as of 31.12.2010., the balance of the remaining debt on the loans repaid by the guarantors was: 18,5 million KM in comparison to 459,8 million KM of gross portfolio).

According to the reports of the MCOs, and in reference with the Decision on conditions and manner of performance of the micro credit organizations in reference to the client's complaints („Official Gazette of the Federation of BiH“, number: 32/10), in the period from 01.01.-31.12.2011, the clients of the MCOs submitted a total of 348 complaints, of which 345 was in reference to complaints against MCFs, while the clients of one MCC submitted a total of three complaints. Of 15 MCFs with a license for operations from the Agency, for 4 there are no recorded complaints. The largest number of complaints is based on the category „other“, a total of 293, and in most refer to complaints based on the unapproved application for a loan or restructuring of a loan, then complaints in regard to guarantee's disputes, complaints in reference to guarantees in the collection process, and in reference to employees behavior. Guarantors submitted 138 complaints. MCFs resolved in a positive manner 155 complaints, negative 184, while 9 complaints are in the processing or resolution phase.

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

Effective interest rate on micro-credit loans is the actual market price of those loans, and is accrued and recorded in compliance with the Decision on the unified manner of accrual and recording of the effective interest rate on loans and deposits („Official Gazette of the Federation of BiH“, number: 27/07, 46/09 and 46/11). The accrual of the effective interest rate includes the data on the amount of the nominal interest rate on loans, the amount of reimbursements and fees that MCOs calculate for the client in the loan approval process and the amount of reimbursements and fees known on the day of the calculation, that MCOs calculate for the client during the implementation of the loan agreement.

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

Table 8. Average nominal and effective interest rates for microcredit loans for the 4th quarter of 2011 – through products

No.	DESCRIPTION	Weighted nominal interest rate (average)	Weighted effective interest rate (average)
1.	Short term loans for:		
1.1.	Service industry	24,99%	31,83%
1.2.	Trade	24,60%	31,72%
1.3.	Agriculture	24,05%	30,86%
1.4.	Production	24,49%	30,07%
1.5.	Housing needs	21,05%	25,48%
1.6.	General purpose – basic needs	34,15%	41,27%
1.7.	Other	20,92%	28,56%
2.	Long term loans for:		
2.1.	Service industry	24,37%	29,10%
2.2.	Trade	24,84%	29,22%
2.3.	Agriculture	21,16%	25,07%
2.4.	Production	23,45%	27,03%
2.5.	Housing needs	21,69%	24,71%
2.6.	General purpose - basic needs	29,35%	35,06%
2.7.	Other	24,59%	30,05%

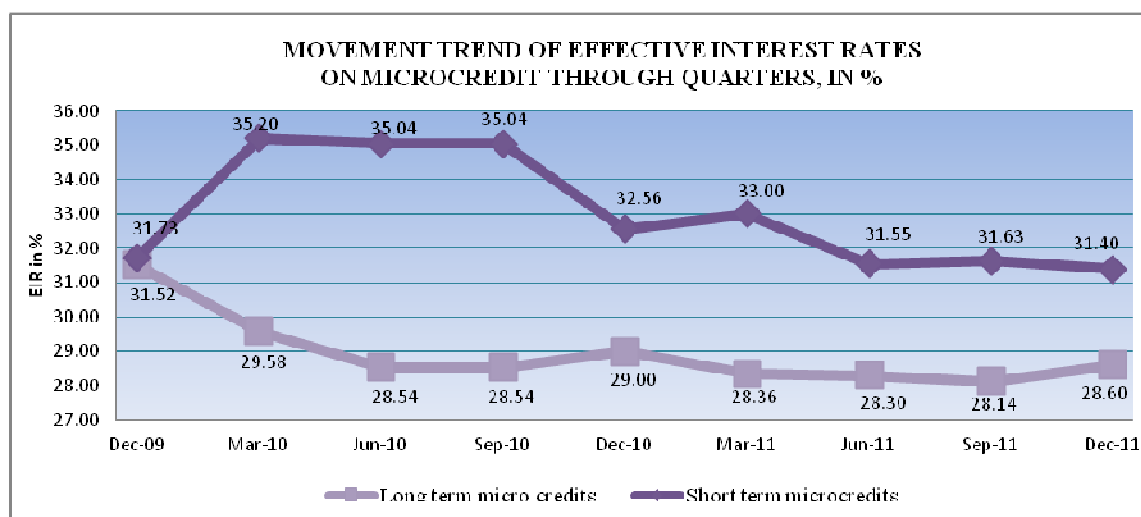
For short term loans, average nominal interest rates are in the range between 20,92% for other to 34,15% for general purpose loans, and for the effective interest rate in the range of 25,48% for housing needs to 31,27% for general purpose loans.

For long term loans, the average nominal interest rates are in the range between 20,16% for agriculture to 29,35% for general purpose loans, and effective interest rate in the range of 24,71% for housing needs to 35,06% for general purpose loans.

The average effective interest rates on short term and long term micro-credits in the Federation of BiH through quarters are presented in the Table 9.

Table 9. Trend of average effective interest rates (EIR) on micro-credit through quarters

AVERAGE EIR in % for	2009.	2010.				2011.			
	31.12.	31.03.	30.06.	30.09.	31.12.	31.03.	30.06.	30.09.	31.12.
Short term micro-credits	31,73	35,20	35,04	35,04	32,56	33,00	31,55	31,63	31,40
Long term micro-credits	31,52	29,58	28,54	28,54	29,00	28,36	28,30	28,14	28,60



In the fourth quarter of 2011, the average effective interest rates in the microcredit sector on the long term loans recorded a slight incline (by 0,46%), while the average effective interest rates on the short term loans are slightly decreasing (by 0,23%) which is a result of more long term loans approved.

With an aim to increase the transparency in lending and protect clients of the micro credit organizations, the Agency prevented the reporting of interest rates on the monthly bases even when reported are effective interest rates on loans, so that MCOs clients are not deceived. The Agency expects that the implementation of the above mentioned regulation will result in additional decline of the interest rates in micro credit organizations, as the clients will be better informed about the unified reporting on interest rates for micro-credit loans in public media, advertising, as well as in the loan contracts.

The most significant item in the establishment of the interest rates for the micro-credits is the high administrative expense of the micro credit organizations. The Agency pays special attention during the examinations of MCOs to the justification of individual expenses in compliance with the Article 38 of the Law on the MCOs, which at the end influence the establishment of the interest rates for the micro credit organizations, sustainability of the organization and protection of the donated funds.

3.5. *Income Statement*

The structure of the income statement of the micro-credit sector in the Federation of BiH is presented in the Table 10.

Table 10. Income Statement MCOs

in 000 KM

No.	DESCRIPTION	For the period 01.01. - 31.12.2010.				For the period 01.01. - 31.12.2011.				Ratio
		MCF	MCC	Total	%	MCF	MCC	Total	%	
1	2	1	2	3=(1+2)	4	5	6	7=(5+6)	8	9=(7/3)
1.	INTEREST INCOME AND SIMILAR TYPES OF INCOME									
1.1.	Interest income and similar types of income	114.522	292	114.814	94	91.348	318	91.666	92	80
1.2.	Operating income	7.305	46	7.351	6	8.414	76	8.490	8	115
2.	TOTAL INCOME (1.1.+1.2.)	121.827	338	122.165	100	99.762	394	100.156	100	82
3.	EXPENSES									
3.1.	Income expenses and similar expenses	32.754	57	32.811	23	22.273	74	22.347	22	68
3.2.	Operating expenses	71.580	259	71.839	51	69.309	328	69.637	68	97
3.3.	Expenses for reserves for loan and other losses	36.085	33	36.118	26	10.904	5	10.909	10	30
4.	TOTAL EXPENSES (3.1.+3.2.+3.3.)	140.419	349	140.768	100	102.486	407	102.893	100	73
5.	EXTRAORDINARY INCOME	13.057	14	13.071		15.128	46	15.174		116
6.	EXTRAORDINARY EXPENSES	5.333	0	5.333		1.384	0	1.384		26
7.	TOTAL INCOME -EXPENSES (2+5-4-6)	-10.868	3	-10.865		11.021	32	11.053		-102
8.	SURPLUS/DEFICIT OF INCOME OVER EXPENSES	-10.868		-10.868		11.021		11.021		-101
9.	INCOME BEFORE TAXES		3	3			32	32		
10.	TAXES		0	0			3	3		
11.	NET INCOME/LOSS		3	3			29	29		
12.	TOTAL FINANCIAL RESULT			-10.865				11.050		

The total income of MCOs for the period of 01.01. - 31.12.2011., is 100,1 million KM, of which 99,7 million KM or 99,6% refers to income of MCFs, and 0,4 million KM or 0,4% on income of one MCC. In comparison to the same period of last year, total income of MCCs is in decline by 22 million KM, or 18%.

The core income is interest income and it is 91,6 million KM or 92 % of total income and in relation to the same period of previous year the interest income is in decline by 23,2 million KM or 20% while operating expenses are 8,5 million KM or 8% of total income and in relation to the same period last year increased by 1,1 million KM, or 15%.

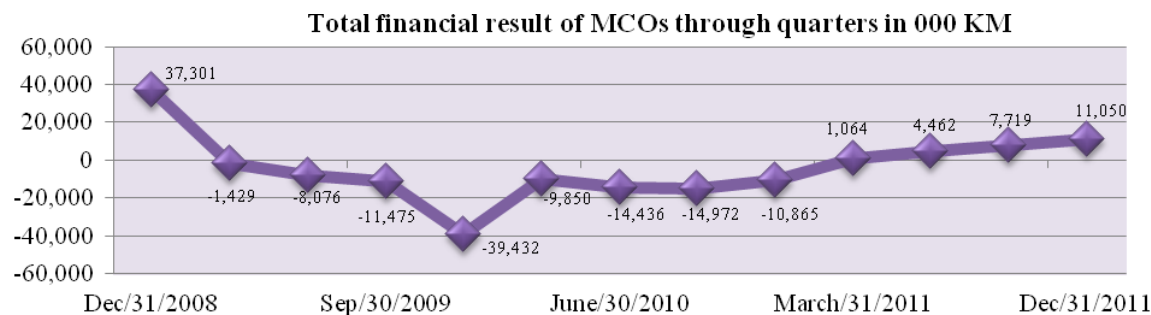
The total expenses are 102,9 million KM, of which 102,5 million or 99,6% relates to expenses of MCF, and 0,4 million KM or 0,4% to expenses of one MCC. In relation to the same period of last year the total expenses have declined by 37,9 million KM or 27%.

In the structure of expenses, 22,3 million KM or 22% of total expenses are expenses related to interests on acquired loans and other similar expenses, and have decreased by 10,4 million KM or 32% in regard to the same period of last year. Operational expenses are 69,6 million KM or 68% of total expenses and in relation to the same period of last year decreased by 2,2 million KM or 3%. The operating expenses refer to expenses of salaries and contributions 37,7 million KM (01.01. – 31.12.2010: 38,5 million KM), expenses related to the business premises, other fixed assets and utilities 17,7 million KM (01.01.-31.12.2010: 18 million

KM), and other operating expenses 14,2 million KM. (01.01.-31.12.2010.: 15,3 million KM). The expenses related to the reserves for loan losses and other losses are 11 million or 10% of total expenses, and in comparison to the same period last year declined by 25,2 million KM or 70%. Two MCFs had provisioning expenses for loan and other losses that are negative, which means that the income from terminated reserves was higher than the reserves' expenses.

In the period from 01.01 to 31.12.2011, the extraordinary income of MCOs was 15,2 million KM and in comparison to the same period last year was higher by 2,1 million KM, which is by 16%. Over 90% of extraordinary income, refers to the collection of receivables from written off loans. The extraordinary expenses of MCOs, realized during 2011, were 1,4 million KM, and in comparison to the same period last year they declined by 3,9 million KM that is 74%.

For the period of 01.01.-31.12.2011., the net income of one MCC was 29 thousand KM (01.01. – 31.12.2010.: 3 thousand KM). In the same period MCF realized a surplus of income over expenses in a total amount of 11,021 thousand KM, while in the same period of last year the MCFs realized a deficit of income over expenses in a total amount of 10,868 thousand KM. In the period from 01.01 to 31.12.2011, of total 15 MCFs, 6 MCFs had a deficit of income over expenses in a total amount of 906 thousand KM, and 9 MCF realized an income surplus in the total amount of 11,927 million KM.



On the level of the microcredit sector in the Federation of BiH, there is realized a positive financial result in the amount of 11,050 thousand KM which indicates to a gradual recovery of the sector, during 2011, since the sector, in the first quarter of 2011, for the first time since 2008, recorded a financial result, and the trend continued to the end of 2011.

4. CONCLUSION AND RECOMMENDATIONS

Analyzing the reports of MCOs as of 31.12.2011., we can conclude the following:

- Aggregate balance sheet of MCOs as of 31.12.2011. is 502,6 million KM, of which 500,6 million KM refers to MCFs or 99,6%, and 2 million KM to MCCs or 0,4% of the total balance sheet of MCOs;
- At the end 2011, the aggregate balance sheet of MCOs decreased by 73,6 million KM or 13% in comparison to 31.12.2010;

- The total gross loans of MCOs as of 31.12.2011. are 414,4 and are 82% of total assets of MCOs, and net loans are 402,7 million KM. The loans on gross base decreased by 10% in comparison to 31.12.2010;
- The basic source of funds for MCOs are liabilities on acquired loans that, as of 31.12.2011., are 332,2 million KM or 66% of total liabilities of MCOs and decreased by 19% in comparison to 31.12.2010;
- The total capital of MCOs as of 31.12.2011., is 150,3 million KM, of which the capital of MCF is 149,6 million KM, and capital of one MCC is 0,7 million KM. The most significant items of capital of MCFs are the surplus of income over expenses in the amount of 93,4 million KM, which constitutes 62% of the total capital of MCF. The undivided profit and reserves of one MCC are 129 thousand KM or 18% of total capital of MCCs, while the core capital is 600 thousand KM or 82% of total capital of MCCs.
- In the period from 01.01. to 31.12.2011, the 9 MCFs realized a surplus in income over expenses in the amount of 11,927 thousand KM, while the deficit of income over expenses was realized by 6 MCFs in the amount of 906 thousand KM, which means that MCFs as of 31.12.2011., performed with a surplus income over expenses in the total amount of 11,021 thousand KM. As of 31.12.2011, one MCC realized a net profit in the amount of 29 thousand KM, which means that a positive financial result in the amount of 11,050 thousand KM was realized on the level of the micro credit sector in the Federation of BiH.

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

- Finding partners for consolidation, the MCF which have smaller amounts of capital, and high amounts of written off loans, should adopt clear strategies for merger with larger and stronger MCFs in order to optimize resources, preserving the donated funds, provide for support from foreign creditors, as well as provide future for the employees in the MCOs;
- Decrease the performance expenses, implement the principles of good economic performance with the funds of the foundation and application of the principles of good cooperative practices;
- Further improvement of the internal audit and internal control system, improvement of the performance efficiency and optimization of the resources of MCOs through mergers with the similar MCOs with an aim to decrease interest rates;
- Adoption and full implementation of the responsible lending principles;
- Full implementation of the Article 2 of the Law on MCOs which implies performance with an aim to improve the material position of the user of microcredit, increase of the employment and providing the support for the entrepreneurship;
- Obligatory exchange of information on the level of department and the Central credit registry;
- Improving the cooperation with the Center for financial consulting with an aim to solve problems of clients and creditors with too much debt;
- Improving the institutional capacity including the improvement of the management function and governance;
- Complete implementation of the regulations that are in effect and increase of the transparency in performance.

ATTACHMENTS

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

Attachment 1

BASIC DATA ON MCOs

N o.	Micro-credit organization name	Address and main office	Director	Tel/Fax	E-mail and Web	31.12.2011.		
						Amount of assets in 000 KM	Amount of assets in 000 KM	Number of employees
1.	MCC "ADRIA mikro" d.o.o. Mostar	ul. Kneza Višeslava 14 88 000 MOSTAR	Sena Martina Topić	036/ 348-891, 348-890 fax	adria.mikro@tel.net.ba	1.973	729	8
2.	MCF "EKI" Sarajevo	ul. Džemala Bijedića bb 71 000 SARAJEVO	Sadina Bina	033/ 754-370, 754-388 fax	sbina@mkoeki.com www.mkoeki.com	106.160	34.755	271
3.	MCF "LIDER" Sarajevo	ul. Skenderija 68 71 000 SARAJEVO	Zijad Hasović	033/ 250-580, 250-581 fax	zijadh@lider.ba www.lider.ba	12.030	10.364	53
4.	"LOK MCF" Sarajevo	ul. Skenderija 13 71 000 SARAJEVO	Nusret Čaušević	033/ 564-200, 564-201 fax	central.office@lok.ba www.lok.ba	66.706	4.096	193
5.	MCF "MELAHA" Sarajevo	ul. Hamdije Kreševljakovića 59 71 000 SARAJEVO	Iso Abinun	033/ 205-737 tel/fax	iso@melaha.ba	1.010	245	3
6.	MCF "MIBA" Tuzla	ul. Đorđa Mihajlovića 4/III 75 000 TUZLA	Mirsad Bahić	035/ 277-455 tel/fax	miba@vesta.ba www.miba.ba	392	378	3
7.	MCF "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	31.761	15.490	136
8.	MCF "MIKRA" Sarajevo	ul. Marka Marulića 2/VI 71 000 SARAJEVO	Sanin Čampara	033/ 616-162, 717-141 fax	mikra@mikra.ba www.mikra.ba	16.042	4.390	92
9.	MCF "MIKRO ALDI" Goražde	ul. Panorama bb 73 000 GORAŽDE	Ferida Softić	038/ 226-456, 221-004 fax	mka.aldi@bih.net.ba www.mikroaldi.org	3.165	2.737	23
10.	"PARTNER MCF" Tuzla	ul. 15. maja bb 75 000 TUZLA	Senad Sinanović	035/ 300-250, 300-269 fax	partner@partner.ba www.partner.ba	109.010	42.129	256
11.	MCF "PRIZMA" Sarajevo	ul. Bistrik Medresa 43 71 000 SARAJEVO	Jure Žigo	033/ 573-320, 446-583 fax	hq@prizma.ba www.prizma.ba	108.909	22.292	250
12.	"PRVA ISLAMSKA MCF" Sarajevo	ul. Jukićeva 75 71 000 SARAJEVO	Edina Hadžimurtezić	033/ 666-233, 666-224 fax	info@mfi.ba	1.540	310	11
13.	MCF "SANI" Zenica	ul. Mehmedalije Tarabara 10 72 000 ZENICA	Sulejman Haračić	032/ 405-606 tel/fax	mikrosanizenica@yahoo.com	386	266	3
14.	MCF "SUNRISE" Sarajevo	ul. Hamdije Kreševljakovića 51 71 000 SARAJEVO	Zoran Dučić	033/ 278-020, 278-032 fax	sunrise@microsunrise.ba www.microsunrise.ba	38.111	9.157	147
15.	MCF "VORTT-INVEST" Sarajevo	ul. Azize Šaćirbegović 128 71 000 SARAJEVO	Mustafa Kapić	033/720-949, 720-941 fax	vorttdoo@yahoo.com	335	184	3
16.	MCF "ŽENE ZA ŽENE International" Sarajevo	ul. Džemala Bijedića 130 71 000 SARAJEVO	Seida Sarić	033/ 770-010, 770-012 fax	general@zenezazene.ba www.womenforwomen.org	5.048	2.778	57
TOTAL:						502.579	150.301	1.509

Attachment 2.

BALANCE SHEET OF MCF

In 000 KM

No.	DESCRIPTION	31.12.2010.	%	31.12.2011.	%	Ratio
1	2	3	4	5	6	7=5/3
ASSETS						
1.	Cash (1a+1b)	47.527	8	28.973	6	61
1a)	Cash and noninterest –bearing deposit accounts	18.252	3	20.935	4	115
1b)	Interest-bearing deposit accounts	29.275	5	8.038	2	27
2.	Placement to banks	28.751	5	14.975	3	52
3.	Loans	458.551		412.802		90
3a)	Reserves for loan losses	26.214		11.647		44
3b)	Net loans (3-3a)	432.337	75	401.155	80	93
4.	Premises and other fixed assets	49.115	9	47.838	10	97
5.	Long term investments	3.500	0	15	0	0
6.	Other assets	14.319	2	9.048	2	63
7.	Less: reserves for other items of the assets, except loans	701		1.398		199
8.	TOTAL ASSETS	574.848	100	500.606	100	87
LIABILITIES						
9.	Liabilities on taken short term loans	88.871	15	82.347	16	93
10.	Liabilities on taken long term loans	321.027	56	248.634	50	77
11.	Other liabilities	23.025	4	20.054	4	87
12.	TOTAL LIABILITIES	432.923	75	351.035	70	81
13.	Donated capital	42.619		43.061		101
14.	Core capital	9.957		10.157		102
15.	Surplus of income over expenses	110.607		114.647		104
15a)	For previous years	109.640		102.577		94
15b)	For current year	967		12.070		1248
16.	Deficit of income over expenses	25.751		21.236		82
16a)	For previous years	13.997		20.330		0
16b)	For current year	11.754		906		8
17.	Other reserves	4.493		2.942		65
18.	TOTAL CAPITAL	141.925	25	149.571	30	105
19.	TOTAL LIABILITIES	574.848	100	500.606	100	87
OFF BALANCE SHEET						
	- charged-off loans	79.269		167.674		212
	- agent contracts	1.272		548		43

Attachment 3.

BALANCE SHEET OF MCD

In 000 KM

No.	DESCRIPTION	31.12.2010.	%	31.12.2011.	%	Ratio
1	2	3	4	5	6	7=5/3
ASSETS						
1.	Cash (1a+1b)	36	3	270	14	751
1a)	Cash and noninterest –bearing deposit accounts	36	3	270	14	751
1b)	Interest-bearing deposit accounts	0	0	0	0	0
2.	Placements to banks	0	0	0	0	0
3.	Loans	1.276		1.582		124
3a)	Reserves for loan losses	36		11		29
3b)	Net loans (3-3a)	1.240	90	1.572	80	127
4.	Premises and other fixed assets	84	6	75	4	90
5.	Long term investments	0	0	0	0	0
6.	Other assets	9	1	57	3	0
7.	Less: reserves for other items of the assets, except loans	0		2		0
8.	TOTAL ASSETS	1.369	100	1.973	100	144
LIABILITIES						
9.	Liabilities on taken short term loans	513	38	723	37	141
10.	Liabilities on taken long term loans	86	6	452	23	
11.	Other liabilities	71	5	69	3	97
12.	TOTAL LIABILITIES	669	49	1.244	63	186
13.	Donated capital	0		0		0
14.	Core capital	600		600		100
15.	Issue premium	0		0		0
16.	Undistributed profit (16a+16b)	3		29		963
16a)	Previous years	0		0		0
16b)	Current year	3		29		963
17.	Regulatory reserves	98		100		
18.	Other reserves	0		0		0
19.	Liabilities on taken short term loans	700	51	729	37	104
20.	TOTAL LIABILITIES	1.369	100	1.973	100	144
OFF BALANCE SHEET						
	- charged-off loans	88		60		69
	- agent contracts	0		0		0

Attachment 4.

INCOME STATEMENT OF MCF

In 000 KM

No.	DESCRIPTION	For the period 01.01. - 31.12.2010.	%	For the period 01.01. - 31.12.2011.	%	Ratio
1	2	3	4	5	6	7=(5/3)
I	FINANCIAL INCOME AND EXPENSES					
1.	Interest income and similar income					
1.1.	Interest from interest bearing deposit accounts with depositary institutions	788	1	485	1	62
1.2.	Interest from placements to banks	1.275	1	706	1	55
1.3.	Loan interest	111.727	98	89.281	98	80
1.4.	Other financial income	732	1	876	1	120
1.5.	Total interest income and similar income (1.1. to 1.4.)	114.522	100	91.348	100	80
2.	Interest expenses and similar expenses					
2.1.	Interest on borrowings	30.263	92	21.567	97	71
2.2.	Other financial expenses	2.491	8	706	3	28
2.3.	Total interest expenses and similar expenses (2.1. to 2.2.)	32.754	100	22.273	100	68
3.	Net financial income (1.5. - 2.3.)	81.768		69.075		84
II	OPERATING INCOME AND EXPENSES					
4.	Operating income					
4.1.	Fees for completed services	6.692	92	7.600	90	114
4.2.	Other operating income	613	8	814	10	133
4.3.	Total operating income (4.1. to 4.2.)	7.305	100	8.414	100	115
5.	Operating expenses					
5.1.	Cost of salaries and benefits	38.428	54	37.628	54	98
5.2.	Costs of business premises, other fixed assets and utilities	17.960	25	17.605	25	98
5.3.	Other operating expenses	15.192	21	14.076	20	93
5.4.	Total operating expenses (5.1.to 5.3.)	71.580	100	69.309	100	97
6.	Cost of provisioning for loan and other losses	36.085		10.904		30
7.	Surplus/deficit of income over expenses from direct business operations (3.+4.3.-5.4.-6.)	-18.592		-2.724		15
8.	Extraordinary income	13.057		15.128		116
9.	Extraordinary expenses	5.333		1.384		26
10.	Surplus/deficit of income over expenses (7.+8.-9.)	-10.868		11.021		-101

Attachment 5.

INCOME STATEMENT OF MCD

in 000 KM

No.	DESCRIPTION	For the period 01.01. - 31.12.2010.	%	For the period 01.01. - 31.12.2011.	%	Ratio
1	2	3	4	5	6	7=(5/3)
I	FINANCIAL INCOME AND EXPENSES					
1.	Interest income and similar income					
1.1.	Interest from interest bearing deposit accounts with depositary institutions	0	0	0	0	n/a
1.2.	Interest from placements to banks	0	0	0	0	n/a
1.3.	Interest from loans	290	99	315	99	109
1.4.	Other financial income	2	1	3	1	135
1.5.	Total interest income and similar income (1.1. to 1.4.)	292	100	318	100	109
2.	Interest expenses and similar expenses					
2.1.	Interest on borrowings	56	98	71	96	127
2.2.	Other financial expenses	1	2	3	4	280
2.3.	Total interest expenses and similar expenses (2.1. to 2.2.)	57	100	74	100	130
3.	Net financial income (1.5. - 2.3.)	235		244		104
II	OPERATING INCOME AND EXPENSES					
4.	Operating income					
4.1.	Fees for completed services	32	70	40	53	126
4.2.	Other operating income	14	30	36	47	254
4.3.	Total operating income (4.1. to 4.2.)	46	100	76	100	165
5.	Operating expenses					
5.1.	Costs of salaries and benefits	88	34	123	37	140
5.2.	Costs of business premises, other fixed assets and utilities	72	28	103	31	142
5.3.	Other operating expenses	99	38	103	31	104
5.4.	Total operating expenses (5.1. to 5.3.)	259	100	328	100	127
6.	Cost of provisioning for loan and other losses	33		5		15
7.	PROFIT/LOSS FROM DIRECT BUSINESS OPERATIONS (3.+4.3.-5.4.-6.)	-11		-14		130
8.	Extraordinary income	14		46		326
9.	Extraordinary expenses	0		0		n/a
10.	INCOME/LOSS BEFORE TAXES	3		32		1.070
11.	TAXES	0		3		1.070
12.	NET PROFIT/LOSS	3		29		1.070

Attachment 6.

REVIEW OF THE DONATED CAPITAL OF MCFs
As of 31.12.2011.

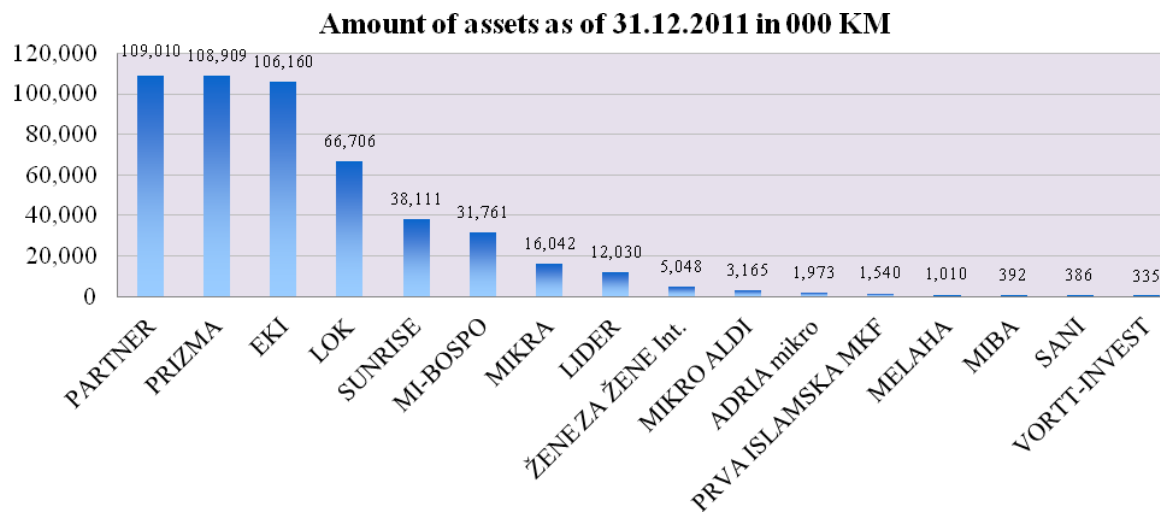
in 000 KM

No	Name of the Donator	MCF EKI Sarajevo	MCF LIDER Sarajevo	MCF MIBA Tuzla	MCF MI-BOSPO Tuzla	MCF MIKRA Sarajevo	MCF MIKRO ALDI Gorazde	PARTNER MCF Tuzla	MCF PRIZMA Sarajevo	MCF SUNRISE Sarajevo	MCF ŽENE ZA ŽENE Sarajevo	TOTAL
Donations for the credit fund		5.246	5.891	298	2.911	3.412	804	6.828	7.490	1.942	2.259	37.081
1.	USAID	3.046						3.046	3.046		543	9.681
2.	CHF-(SIDA, MEDI, HILP)		5.891									5.891
3.	UNHCR				479		200	1.229	992	614	450	3.964
4.	CRS					3.412						3.412
5.	LIP (funds of FBiH Government)				947			675		1.214		2.836
6.	PRM/USA State Department								2.006		577	2.583
7.	UNDP	1.932						59	672			2.663
8.	UMCOR			298	79			316	774		637	2.104
9.	Women's World Banking				1.034							1.034
10.	IRC				226			805				1.031
11.	Mercy Corps							697				697
12.	OXSfam						500					500
13.	USDA Know-How Project	237										237
14.	Church World Service				146							146
15.	Citizens' association "ALDI"						104					104
16.	DK merger with "LORI" Orašje									98		98
17.	Women for Women Int.										52	52
18.	CRIC	31										31
19.	SOLIDARITES									16		16
Donations for fixed assets		8	0	0	0	65	0	228	61	10	0	373
20.	Mercy Corps							228				228
21.	CRS					65						65
22.	ICMC								53			53
23.	SOLIDARITES									10		10
24.	WORLD Vision Int.	8										8
25.	PHARE								8			8
Donations for operating expenses		2.039	831	0	0	0	0	1.363	3.087	709	0	8.030
26.	SIDA Housing	1.828										5.891
27.	IFC	104										5.891
28.	PRM								2.047			2.047
29.	UNHCR							129	840			969
30.	LIP (funds of FBiH government)							201		709		910
31.	CHF		831									831
32.	Mercy Corps							725				725
33.	CGAP							45	150			195
34.	EBRD	105										105
35.	WORLD BANK							65				65
36.	USAID							96				96
37.	MFC							12	34			46
38.	UNDP							43				43
39.	ADA ASBL (RATING)							21				21
40.	Other	2						28	17			47
TOTAL DONATED CAPITAL		7.293	6.722	298	2.911	3.477	804	8.420	10.639	2.661	2.259	45.484

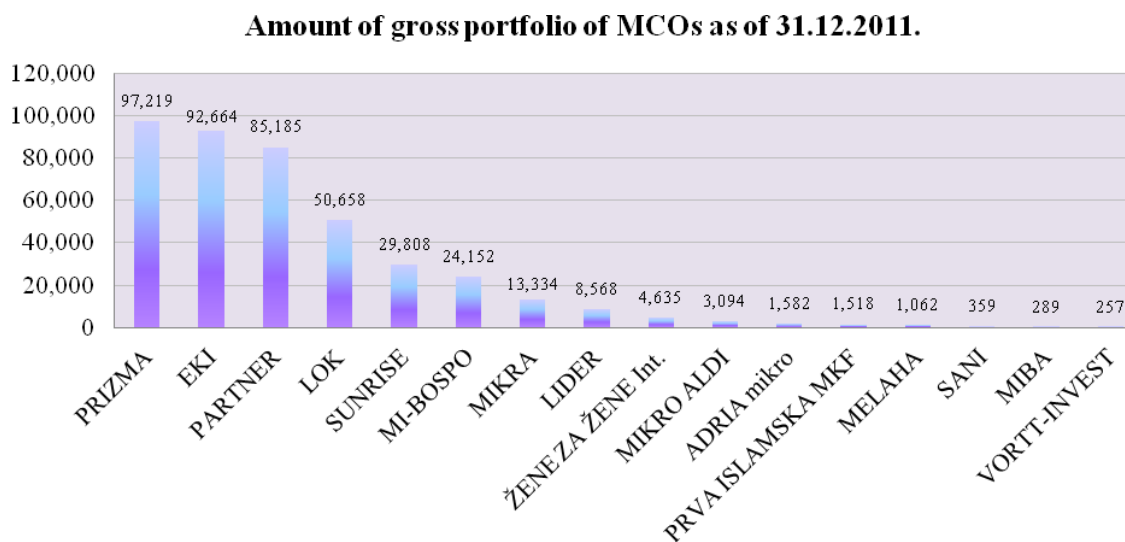
GRAPHS:

- Graph 1. Amount of MCOs assets as of 31.12.2011 in 000 KM.
- Graph 2. Amount of MCOs gross portfolio as of 31.12.2011. in 000 KM
- Graph 3. Amount of MCOs capital as of 31.12.2011.
- Graph 4. Income surplus/deficit over the expenses of MCFs, that is net profit/loss of MCCs as of 31.12.2011. in 000 KM
- Graph 5. Average risk weighted EIR on short term loans according to reports of MCOs in the fourth quarter of 2011.
- Graph 6. Average risk weighted EIR on long term loans according to reports of MCOs in the fourth quarter of 2011.
- Graph 7. Number of MCOs employees as of 31.12.2011.
- Graph 8. Total receivables on written off loans in relation to the gross portfolio of MCOs as of 31.12.2011.
- Graph 9. Risk portfolio over 30 days as of 31.12.2011.
- Graph 10. Fixed assets and capital in relation to the total assets as of 31.12.2011.

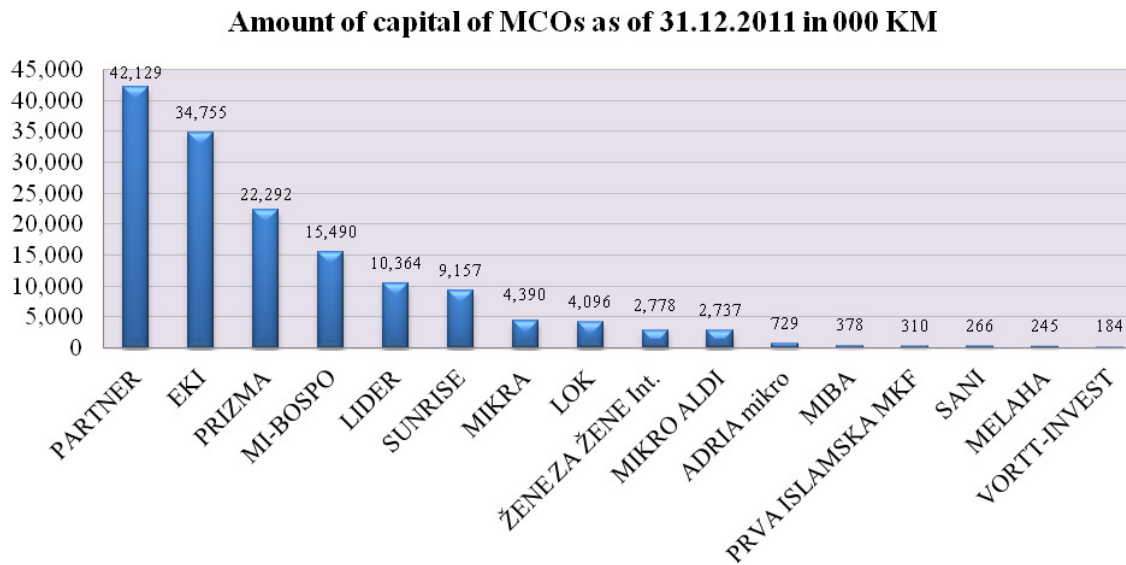
Graph 1.



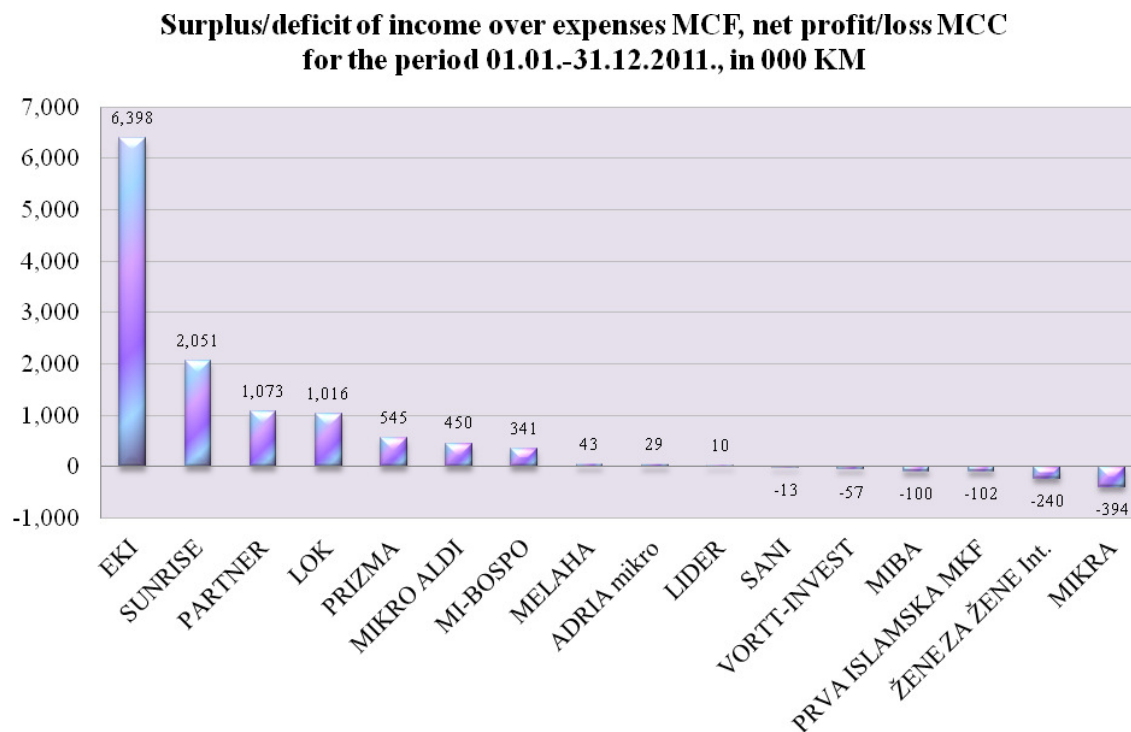
Graph 2.



Graph 3.

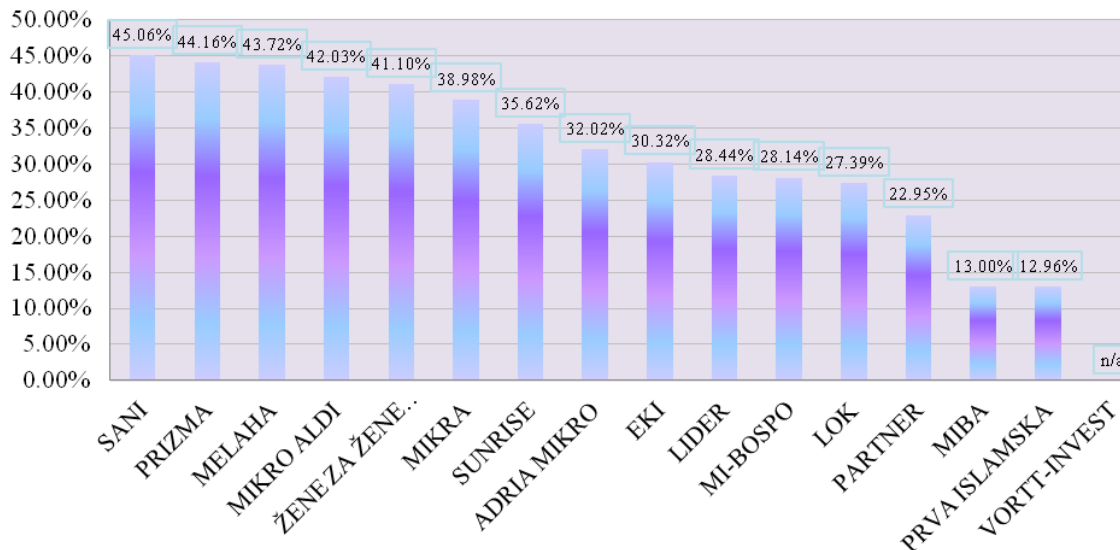


Graph 4.



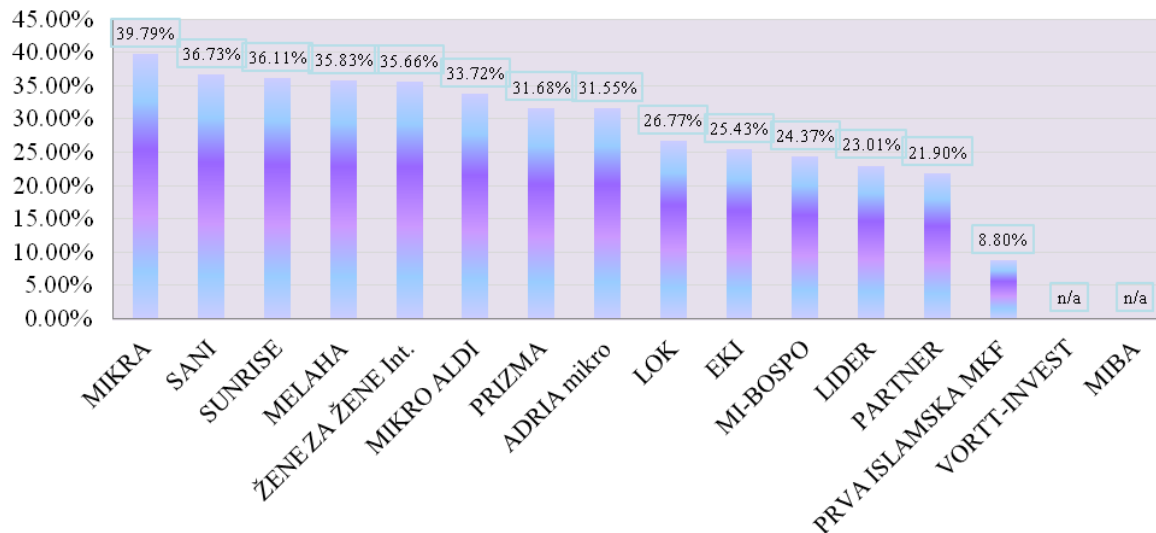
Graph 5.

Average risk weighted EIR on short term loans based on reports from MCOs in the 4th quarter of 2011.

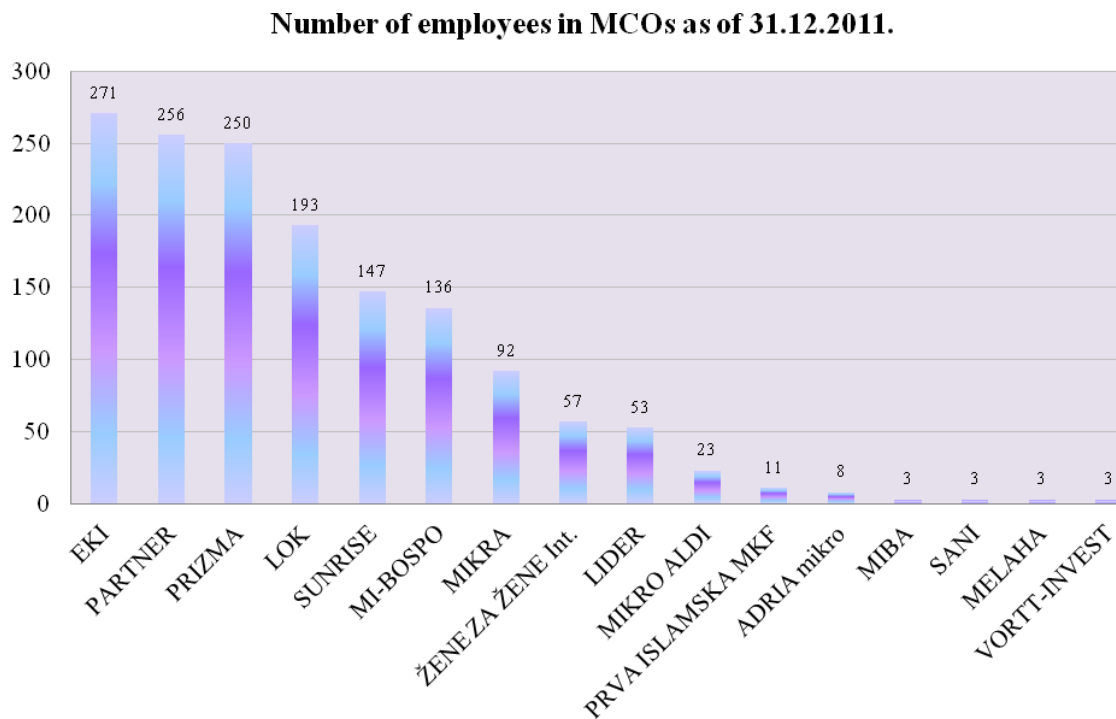


Graph 6.

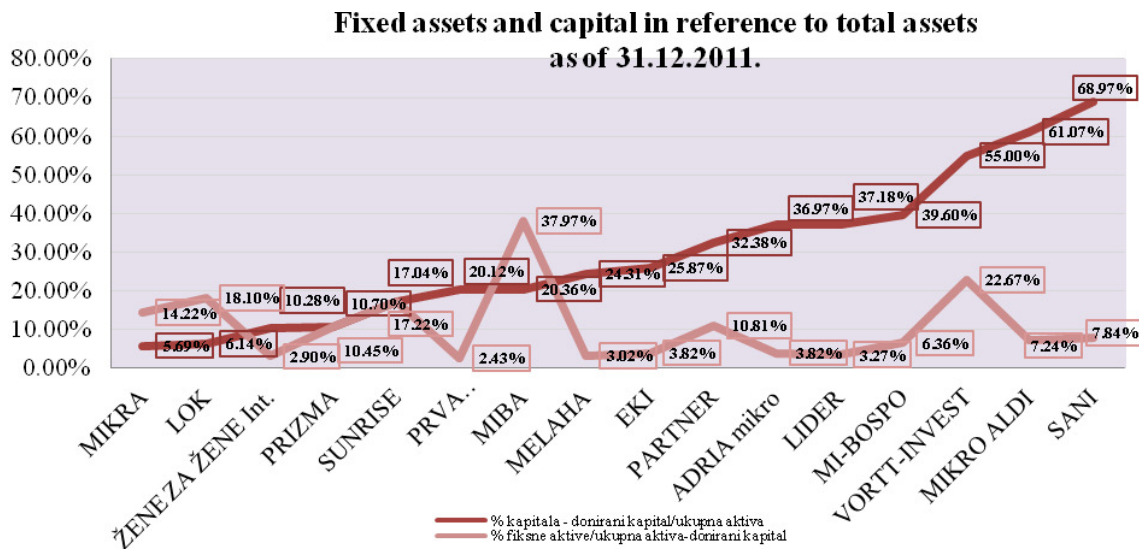
Average risk weighted EIR on long term loans based on reports from MCOs in the 4th quarter of 2011.



Graph 7.

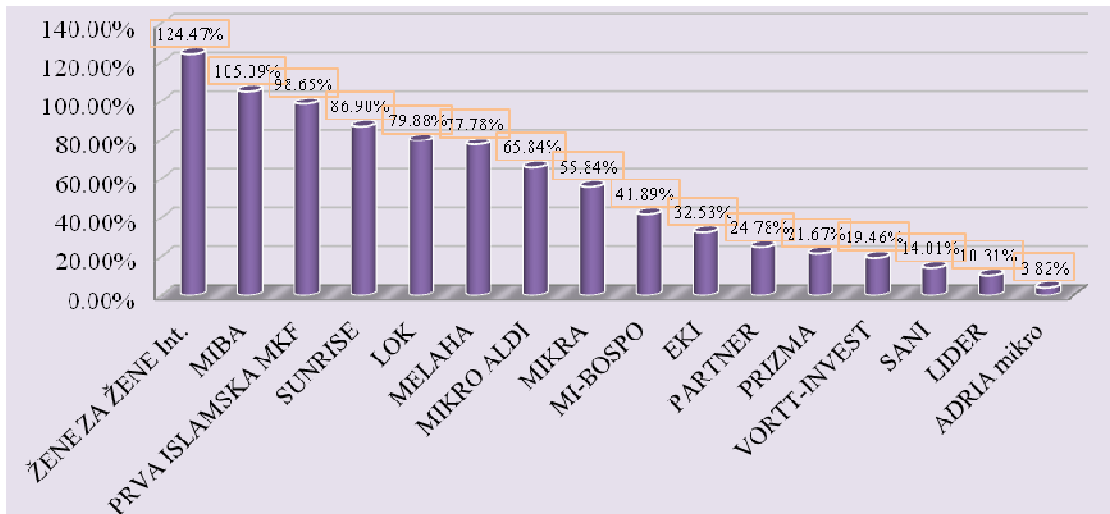


Graph 8.



Graph 9.

Total receivables from written off loans in reference to total gross portfolio of MCOs as of 31.12.2011.



Graph 10.

Portfolio in risk over 30 days as of 31.12.2011.

