



**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  
31.03.2017**

**Sarajevo, May 2017**

The Banking Agency of the Federation of B&H (the Agency), as a regulatory institution conducting supervision of microcredit organizations, prepared the Information on the Microcredit System of the Federation of Bosnia and Herzegovina as of 31.03.2017 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 31.03.2017.

**CONTENTS**

**I INTRODUCTION..... 3**

**II BUSINESS PERFORMANCE OF THE MCO SYSTEM IN THE FEDERATION OF B&H..... 5**

**1. MICROCREDIT SYSTEM STRUCTURE..... 5**

1.1. Status, Number and Network of Branches ..... 5

1.2. Ownership Structure ..... 5

1.3. Human Resources ..... 5

**2. FINANCIAL PERFORMANCE INDICATORS..... 7**

2.1. Balance Sheet ..... 7

2.1.1. Liabilities ..... 8

2.1.2. Capital..... 10

2.1.3. Assets and Asset Quality ..... 11

2.2. Profitability ..... 18

2.3. Weighted Nominal and Effective Interest Rates ..... 20

2.4. Liquidity ..... 22

2.5. FX Risk..... 22

2.6. Transactions with Related Entities ..... 22

**III CONCLUSIONS AND RECOMMENDATIONS..... 25**

**IV ANNEXES..... 27**

## 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 System 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.

As of 31.03.2017, 12 MCOs, 11 of which are MCFs (non-profit organisations) and 1 of which is an MCC (profit organisation), had the Agency's operating licence in the Federation of B&H. They operated through 281 organisational units. As of 31.03.2017, the total headcount of the microcredit system was 1 336, which is up by 85 employees or 7% compared to 31.12.2016. However, we emphasise that this figure does not represent the real increase in employees, but is the result of the fact that 54 employees of one MCF were hired part-time as employees of the MCC in the first quarter of 2017, with the aforementioned being recorded in reports on the qualification structure of employees of both the MCF and MCC. When excluding the aforementioned fact as well as the fact that the number of these employees was 42 as of 31.12.2016, the real number of employees as of 31.03.2017 amounted to 1 240 employees, which is 31 employees or 3% more compared to 31.12.2016.

As of 31.03.2017, the balance sheet total of MCOs amounted to KM 442.3 million, KM 405.3 million or 91.6% of which relate to MCFs and KM 37 million or 8.4% to the MCC. The balance sheet total at the end of the first quarter of 2017 was up by KM 2.1 million compared to the balance as of 31.12.2016.

As of 31.03.2017, total MCO gross loans, as the most significant item of MCO assets, amounted to KM 384.1 million and made up 87% of total assets of MCOs, therefore being up by 2% compared to the end of the previous year, while net loans amounted to KM 380.5 million and are up by 2% compared to the balance as of 31.12.2015. Microlending is largely directed toward agriculture (33%), housing needs (20%), and other (20%), and is mostly related to long-term loans to natural persons. Average weighted effective interest rates on total loans in the microcredit system amounted to 24.90% in the first quarter of 2017, down by 0.74 percentage points compared to the fourth quarter of 2016. 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, along with the constant monitoring of asset quality, will be to control MCO costs, their justification and effectiveness, with the aim of reducing interest rates on microloans placed by MCOs in the Federation of B&H.

Compared to the end of the previous year, as of 31.03.2017, the microcredit portfolio saw an increase of 2% (KM 6.2 million) and also recorded a slight deterioration of quality indicators of the active loan portfolio. The slight deterioration of the quality indicators of the active loan portfolio was recorded by increasing the loan loss provisioning rate from 0.89%, which is what it amounted to as of 31.12.2016, to 0.93%. The portfolio at risk exceeding 30 days past due amounted to 1.05% and is up by 0.05 percentage points compared to the end of the previous year. The total system result with respect to the

portfolio at risk is within the framework of the prescribed standard (below 5%). The portfolio at risk exceeding more than one day past due recorded a slight deterioration, thus being up from 2.23%, which is what it amounted to at the end of the previous year, to 2.34%. At system level, the percentage of write-offs amounted to 1.00% as of 31.03.2017 and this indicator was lower by 0.11 percentage points compared to the end of the previous year and is within the framework of the prescribed standard.

The main source of funding of MCOs are loan commitments, which amounted to KM 207.2 million or 47% of total MCO liabilities as of 31.03.2017 and are at approximately the same level compared to the balance as of 31.12.2016. Total MCO capital as of 31.03.2017 amounted to KM 212.1 million or 48% of total MCO liabilities, which is up by KM 4.5 million or 2% compared to the end of the previous year, with the capital of MCFs amounting to KM 208.6 million or 98.3% and the capital of one MCC amounting to KM 3.5 million or 1.7%. The most significant MCF capital items are excess income over expenses in the amount of KM 157.1 million, which constitutes 75% of total MCF capital, followed by donated capital, which amounted to KM 45.9 million or 22% of total MCF capital. Core capital and other MCF reserves amounted to KM 5.6 million, i.e. 3% of total MCF capital. The core capital of one MCD amounts to KM 600 thousand, and unallocated profit and current profit to KM 1 055 thousand.

In the period from 01.01. to 31.03.2017, out of a total of 11 MCFs, 8 MCFs had excess income over expenses in the total amount of KM 4 389 thousand, while 3 MCFs recorded less income over expenses in the total amount of KM 26 thousand. In the period from 01.01. to 31.03.2017, one MCC recorded net profit in the amount of KM 38 thousand (01.01. to 31.03.2016: KM 202 thousand net profit).

At the level of the microcredit system in the Federation of B&H, a positive financial result in the amount of KM 4 401 thousand was recorded, which is up by KM 1 128 thousand or 34% compared to the same period of the previous year.

With respect to operational sustainability, out of 12 MCOs, 5 MCFs and 1 MCC can cover expenses with regular income.

## II BUSINESS PERFORMANCE OF THE MCO SYSTEM IN THE FEDERATION OF B&H

### 1. MICROCREDIT SYSTEM STRUCTURE

#### 1.1. Status, Number and Network of Branches

As of 31.03.2017, 12 MCOs have operating licences of the Agency, 11 of which are MCFs (non-profit organisations) and 1 of which is an MCC (profit organisation), as well as 37 organisational units of the MCC seated in Republika Srpska.

All MCFs that have obtained the operating licence from the Agency have performed a re-registration in accordance with the LoMCO, i.e. they came to be as a result of the change in the form of MCOs established in accordance with the Law on Microcredit Organisations („Official Gazette of the Federation of B&H, No.: 24/00). Therefore, all MCFs are legal successors of the property, rights and obligations of MCOs established in accordance with the Law on Microcredit Organisations from 2000. Annex 2 includes the main data on MCFs and MCC, which have the Agency's operating licence for microlending business operations as of 31.03.2017.

As of 31.03.2017, there was a total of 281 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 184 organisational units of microcredit organisations are seated in the Federation of B&H, 93 in Republika Srpska and 4 in Brčko District. The total number of organisational units of MCOs seated in the Federation of B&H is up by 2 organisational units or 1% compared to the end of the previous year. A total of 145 organisational units of MCOs seated in the Federation of B&H have the authority to assign microloans and are therefore registered in the competent registry. 8 MCOs have organisational units outside 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 two MCCs, which are seated in Republika Srpska and operate in the Federation of B&H through 37 branches and field offices.

#### 1.2. Ownership Structure

A microcredit organisation is a legal entity which may be established and may operate as a microcredit foundation or a microcredit company. Microcredit foundations in the Federation of B&H have been established by non-governmental, mostly humanitarian organisations (World Vision, CHF International, HO BOSPO, Catholic Relief Service, Deputy, Mercy Corps, Islamic Relief, Melaha), citizens' associations (CA „LOK“, CA „ALDI“) and natural persons. The founders are entitled to be registered as founders without capital ownership rights on the basis of the donated capital for the establishment of microcredit foundations. One MCC is 100% owned by one MCF.

#### 1.3. Human Resources

As of 31.03.2017, the total headcount of the microcredit system was 1 336, which is up by 85 employees or 7% compared to 31.12.2016. MCFs employ 1 219 employees or 91.2% and the MCC 117 employees or 8.8%.

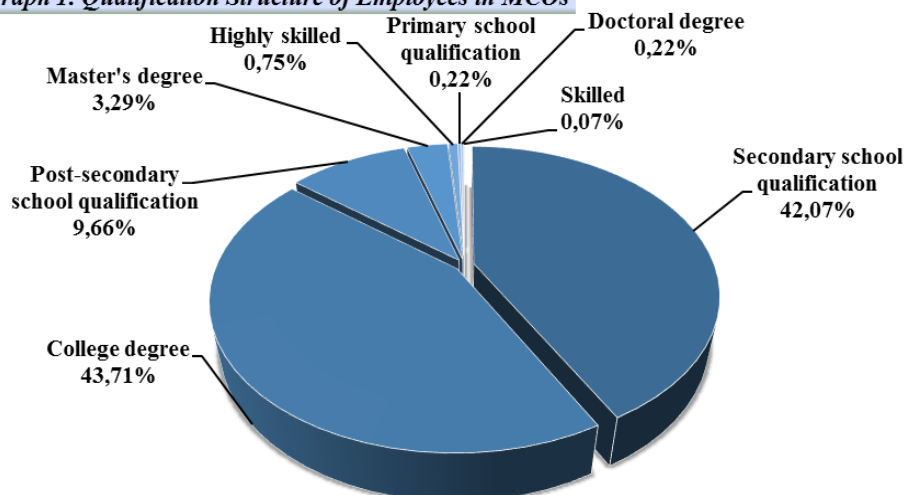
*Table 1. Qualification Structure of Employees*

No.	Quali- fication	31.12.2016		Total	Share (%)	31.03.2017		Total	Share (%)	Index
		MCFs	MCCs			MCFs	MCCs			
1	2	3	4	5=(3+4)	6	7	8	9=(7+8)	10	11=9/5
1.	PSQ	3	0	3	0.24	3	0	3	0.22	100
2.	S	1	0	1	0.08	1	0	1	0.07	100
3.	HS	10	0	10	0.80	10	0	10	0.75	100

4.	SSQ	509	21	530	42.37	521	41	562	42.07	106
5.	PSSQ	110	5	115	9.19	110	19	129	9.66	112
6.	CD	518	29	547	43.73	531	53	584	43.71	107
7.	MR	41	2	43	3.44	41	3	44	3.29	102
8.	DR	2	0	2	0.16	2	1	3	0.22	150
<b>TOTAL</b>		<b>1 194</b>	<b>57</b>	<b>1 251</b>	<b>100.00</b>	<b>1 219</b>	<b>117</b>	<b>1 336</b>	<b>100.00</b>	<b>107</b>

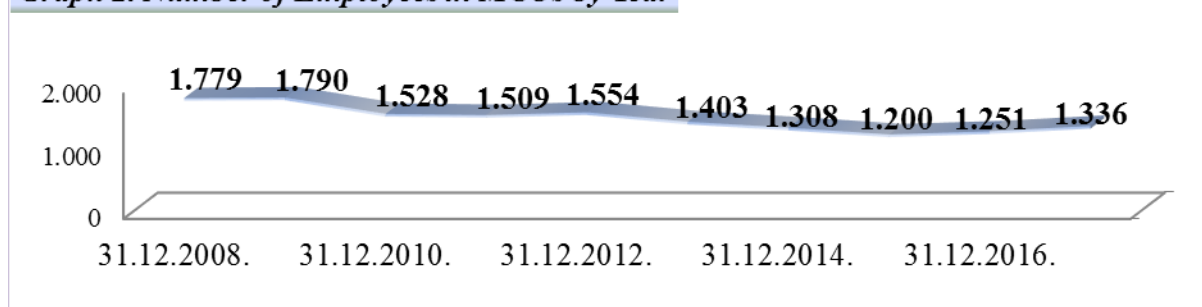
However, we emphasise that this figure does not represent the real increase in employees, but is the result of the fact that 54 employees of one MCF were hired part-time as employees of the MCC in the first quarter of 2017, with the aforementioned being recorded in reports on the qualification structure of employees of both the MCF and MCC. When excluding the aforementioned fact as well as the fact that the number of these employees was 42 as of 31.12.2016, the real number of employees as of 31.03.2017 amounted to 1 240 employees, which is 31 employees or 3% more compared to 31.12.2016. The employees structure is dominated by university degrees with 43.71%, secondary school qualification with 42.07%, and two-year post-secondary school qualification with 9.66%. The share percentage of employees with Master's degrees is up by 2%, with secondary school qualification by 6%, with university degrees by 7%, with two-year post-secondary school qualification by 12%, while the share percentage of employees with doctoral degrees is up by 50%.

**Graph 1. Qualification Structure of Employees in MCOs**



An overview of the number of MCO employees throughout the years reveals that the biggest number of employees was recorded at the end of 2009, when the total headcount of MCOs was 1 790. As of 31.03.2017, MCOs had 1 336 employees, down by 25% 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 69% and 33%, respectively.

**Graph 2. Number of Employees in MCOs by Year**



## 2. FINANCIAL PERFORMANCE INDICATORS

### 2.1. Balance Sheet

As of 31.03.2017, the balance sheet total of MCOs amounts to KM 442.3 million, which is up by KM 2.1 million compared to the balance as of 31.12.2016. The balance sheet total increased with 6 MCFs and 1 MCC compared to the end of the previous year, while 5 MCFs recorded a drop.

A drop in the balance sheet total of up to 10% was recorded with 4 MCFs compared to 31.12.2016, while one MCF reduced its assets by KM 2.1 million in the first quarter of 2017 and recorded a drop of even 10% compared to the end of the previous year.

Five MCFs and one MCC with assets in the amount of KM 397.4 million or 90% have the largest share in the total MCO balance.

- KM 000 -

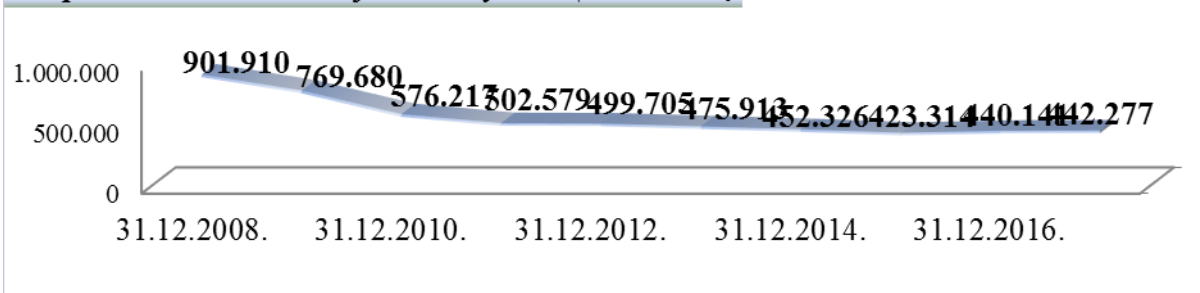
**Table 2. Balance Sheet MCOs**

DESCRIPTION	31.12.2016			31.03.2017					Ind.
	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
<b>ASSETS</b>									
1. Cash	22 227	4 496	26 723	21 806	5	545	1	22 351	84
2. Facilities to banks	733	0	733	550	0	0	0	550	75
3. Loans	349 791	28 081	377 872	348 066		36 000		384 066	102
4. Loan loss provisions	3 193	176	3 369	3 344		214		3 558	106
5. Net loans	346 598	27 905	374 503	344 722	85	35 786	97	380 508	102
6. Business premises and other fixed assets	28 734	115	28 849	28 733	7	160	1	28 893	100
7. Long-term investments	3 061	0	3 061	3 061	1	0	0	3 061	100
8. Other assets	6 008	455	6 463	6 612	2	513	1	7 125	110
9. Provisions for other assets items, except loans	182	9	191	199		12		211	110
<b>TOTAL ASSETS</b>	<b>407 179</b>	<b>32 962</b>	<b>440 141</b>	<b>405 285</b>	<b>100</b>	<b>36 992</b>	<b>100</b>	<b>442 277</b>	<b>100</b>
<b>LIABILITIES</b>									
10. Loan commitments	179 808	28 100	207 908	175 344	43	31 835	86	207 179	100
11. Other liabilities	23 258	1 337	24 595	21 371	5	1 593	4	22 964	93
12. Capital	204 113	3 525	207 638	208 570	52	3 564	10	212 134	102
<b>TOTAL LIABILITIES</b>	<b>407 179</b>	<b>32 962</b>	<b>440 141</b>	<b>405 285</b>	<b>100</b>	<b>36 992</b>	<b>100</b>	<b>442 277</b>	<b>100</b>
Off-balance sheet records	115 630	220	115 850	114 341		285		114 626	99

An overview of the balance sheet total of MCOs throughout the years reveals that the largest amount of the aforementioned was recorded at the end of 2008, when it amounted to KM 901.9 million. The balance sheet total of MCOs as of 31.03.2017 amounted to KM 442.3 million and it is lower by even 51% 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 87% and 62%, respectively.



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

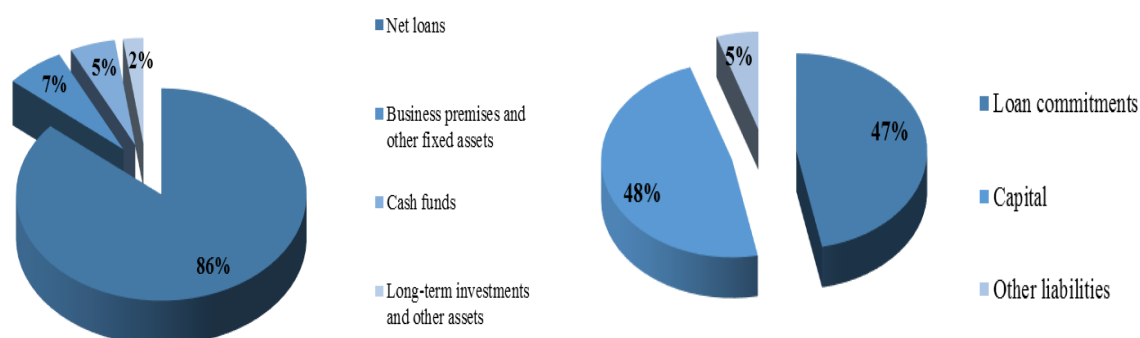


In the assets structure of MCOs, cash funds amount to KM 22.4 million or 5% with a rate of decrease of 16% compared to 31.12.2016 and largely related to cash funds of MCFs. Facilities to banks amount to KM 0.6 million and are down by KM 0.2 million or 25%.

Net loans, i.e. gross loans net of loan loss provisions amount to KM 380.5 million or 86% of total assets and are up by KM 6 million or 2% compared to 31.12.2016. Net loan growth compared to the end of the previous year was recorded by 6 MCFs and 1 MCC, a drop was recorded by 4 MCFs, while 1 MCF retained approximately the same level of net loans in the reporting period.

Business premises and other fixed assets amount to KM 28.9 million or 7% of total assets and are at approximately the same level compared to the end of the previous year. The fixed assets percentage compared to total assets (net of donated capital) is 7.29% at system level, which is within the framework of the allowed amount (up to 10%). Individually, two 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 6.9 million, which include calculated interest, advances, accrued and deferred items, etc. These two balance sheet items make up 2% of total assets of the microcredit system. The percentage of other assets at system level compared to total assets is 1.61% and individually, this item is above 10% in the case of no MCF.

**Graph 4. Assets and Liabilities Structure of MCOs**



Loan commitments amounted to KM 207.2 million or 47% of total liabilities as of 31.03.2017, thus remaining at approximately the same level compared to the balance as of 31.12.2016. As of 31.03.2017, total MCO capital amounted to KM 212.1 million or 48% of total MCO liabilities and it is up by KM 4.5 million or 2% compared to the end of the previous year.

### 2.1.1. Liabilities

Loan commitments in the MCO liabilities structure are the main source of funding, amounting to KM 207.2 million or 47% of total liabilities. They are at approximately the same level compared to 31.12.2016.



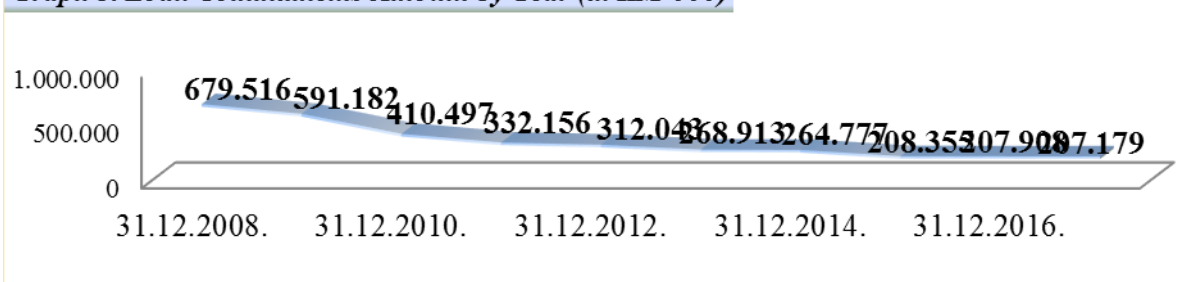
**Table 3. Maturity Structure of Taken Loans**

DESCRIPTION	31.12.2016				31.03.2017				Index
	MCFs	MCCs	TOTAL	%	MCFs	MCCs	TOTAL	%	
1	2	3	4=(2+3)	5	6	7	8=(6+7)	9	10=8/4
<b>1. Liabilities on short-term loans</b>	73 903	5 549	79 452	38	75 641	9 208	84 849	41	107
<b>2. Liabilities on long-term loans</b>	105 905	22 551	128 456	62	99 703	22 627	122 330	59	95
<b>TOTAL</b>	<b>179 808</b>	<b>28 100</b>	<b>207 908</b>	<b>100</b>	<b>175 344</b>	<b>31 835</b>	<b>207 179</b>	<b>100</b>	<b>100</b>

Out of total loan commitments, long-term loans (of which there is no record in the case of 2 MCFs) amount to KM 122.3 million or 59% and are down by 5% 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 2 MCFs) amount to KM 84.9 million or 41% and are up by 7% compared to the end of the previous year. As of 31.03.2017, one MCF did not have loan commitments.

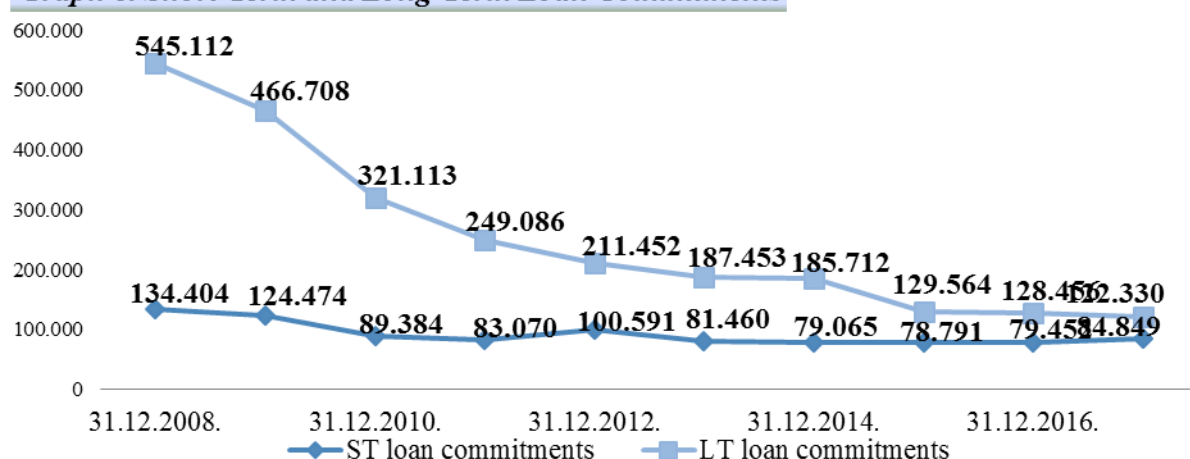
Looking at the total loan commitments amount of MCOs throughout the years of MCO operations, the biggest amount was recorded at the end of 2008 when they amounted to KM 679.5 million. Total loan commitments of MCOs as of 31.03.2017 amounted to KM 207.2 million, and are lower by even 70% compared to the 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 loan commitments by even 88% and 86%, respectively.

**Graph 5. Loan Commitments Amount by Year (in KM 000)**



In addition to the fact that loan commitments are lower by 70% compared to 2008 and at approximately the same level compared to the end of the previous year, looking at loan commitments by maturity, long-term loans have dropped by even 78% compared to 2008 and are down by 5% compared to the end of 2016, while short-term loans are lower by 37% compared to 2008, but recorded an increase in the amount of 7% compared to the end of 2016.

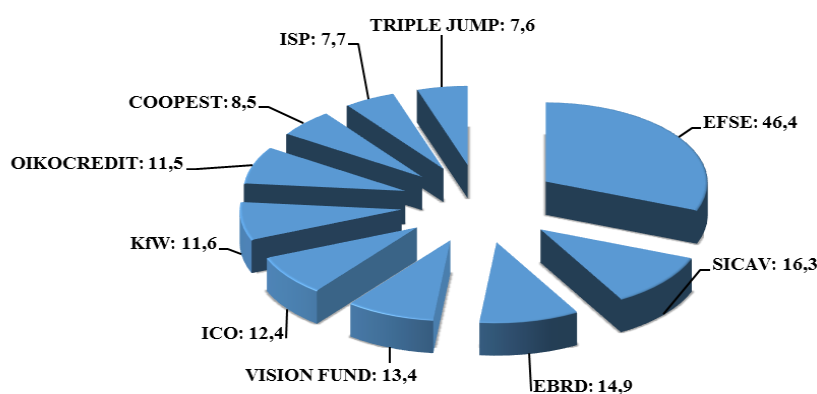
**Graph 6. Short-Term and Long-Term Loan Commitments**



The ten most significant creditors of MCOs are:

- 1.) EFSE – European Fund for Southeast Europe, Luxembourg (KM 46.4 million);
- 2.) Responsibility SICAV, Switzerland (KM 16.3 million);
- 3.) EBRD – European Bank for Reconstruction and Development, Great Britain (KM 14.9 million);
- 4.) Vision Fund, USA (KM 13.4 million);
- 5.) ICO – Instituto de Credito Oficial, Spain (KM 12.4 million);
- 6.) KfW – Kreditanstalt fur Wiederaufbau, Germany (KM 11.6 million);
- 7.) Oikokredit, Netherlands (KM 11.5 million);
- 8.) Coopest, Netherlands (KM 8.5 million);
- 9.) Intesa Sanpaolo Bank (KM 7.7 million);
- 10.) Triple Jump B.V., Netherlands (KM 7.6 million).

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



Other liabilities amount to KM 23 million or 5% of total liabilities. These include income tax liabilities, liabilities to employees, suppliers, accrued expenses and others. The percentage of other liabilities at system level compared to total liabilities is 9.98%, and individually, a total of 7 MCFs recorded more than 10% of other liabilities compared to total liabilities.

Off-balance records as of 31.03.2017 amount to KM 114.6 million and are down by 1% compared to the end of the previous year.

## 2.1.2. Capital

The total capital of MCOs as of 31.03.2017 amounts to KM 212.1 million or 48% of total liabilities, which is up by KM 4.5 million or 2% compared to the end of 2016. The capital of MCFs amounts to KM 208.6 million or 98.3%, and the capital of one MCC to KM 3.5 million or 1.7%.

The total capital of the microcredit system (net of donated capital) amounts to 37.60% of total assets, with 2 MCFs and 1 MCC having a percentage of capital amount (net of donated capital) compared to total assets that is lower than the allowed amount, i.e. less than 10% of total assets.

- KM 000 -

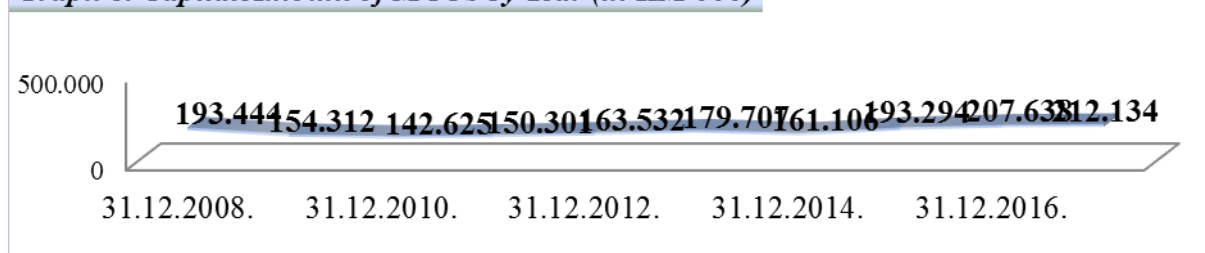
**Table 4. Capital Structure of MCOs**

DESCRIPTION	31.12.2016					31.03.2017					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	45 851	22	0	0	45 851	45 851	22	0	0	45 851	100
Core capital	3 820	2	600	17	4 420	3 820	2	600	17	4 420	100

Surplus/deficit of income over expenses	152 598	75	0	0	152 598	157 072	75	0	0	157 072	103
Issue premiums	0	0	0	0	0	0	0	0	0	0	0
Unallocated profit	0	0	1 016	29	1 016	0	0	1 055	30	1 055	104
Legal reserves	0	0	1 909	54	1 909	0	0	1 909	53	1 909	100
Other reserves	1 844	1	0	0	1 844	1 827	1	0	0	1 827	99
<b>TOTAL CAPITAL</b>	<b>204 113</b>	<b>100</b>	<b>3 525</b>	<b>100</b>	<b>207 638</b>	<b>208 570</b>	<b>100</b>	<b>3 564</b>	<b>100</b>	<b>212 134</b>	<b>102</b>

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 capital of MCOs as of 31.03.2017 amounted to KM 212.1 million and is up by KM 18.7 million or 10% compared to the end of 2008.

**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 157.1 million and makes up 75% of total MCF capital, which is up by KM 4.5 million or 3% compared to the end of the previous year. A deficit of income over expenses for the period from 01.01. to 31.03.2017 was recorded by 3 MCFs, while 8 MCFs recorded an excess of income over expenses and one MCC recorded a net profit. As of 31.03.2017, an excess of income over expenses, i.e. a profit from regular operations was recorded by 6 MCFs and 1 MCC, while 5 MCFs recorded a deficit of income over expenses from regular operations. Out of those 5 MCFs, 2 MCFs recorded a positive result at the end of the first quarter of 2017 due to extraordinary income. 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 45.9 million or 22% of total MCF capital. The amount of donated capital, as reported by MCOs, is at the same level compared to the end of the previous year. 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, 9 MCFs include the amount of donated capital in their reports and keep records on its balance.

The core capital of MCFs as of 31.03.2017 amounts to KM 3.8 million or 2% of total MCF capital. Other reserves, which relate to 2 MCFs, amount to KM 1.8 million or 1% of total MCF capital. The core capital of one MCC amounts to KM 600 thousand and its unallocated and current profit to KM 1 055 thousand.

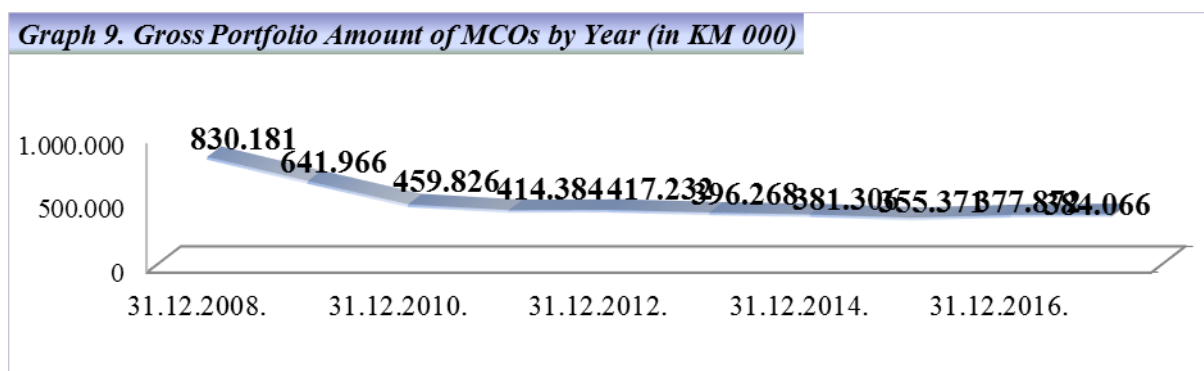
### 2.1.3. Assets and Asset Quality

The main activity of MCOs is microlending, to which the amount of KM 384.1 million or 87% of total assets of the microcredit system is related. The level of total system loans depends on loans of MCFs, which account for KM 348.1 million or 90.6% of total loans, while the MCC accounts for KM 36 million or 9.4% of total loans. Net loans, which make up total loans net of loan loss provisions are presented in Table 5.

No.	DESCRIPTION	31.12.2016			31.03.2017			Index
		MCFs	MCCs	Total	MCFs	MCCs	Total	
1	2	3	4	5=(3+4)	6	7	8=(6+7)	9=8/5
1.	Loans	349 791	28 081	377 872	348 066	36 000	384 066	102
2.	Loan loss provisions	3 193	176	3 369	3 344	214	3 558	106
3.	<b>Net loans (1.-2.)</b>	<b>346 598</b>	<b>27 905</b>	<b>374 503</b>	<b>344 722</b>	<b>35 786</b>	<b>380 508</b>	<b>102</b>

Net loans amount to KM 380.5 million and are up by 2% compared to 31.12.2016, while gross loans are also up by 2% compared to the end of the previous year.

Loan loss provisions amount to KM 3.6 million and are up by 6% compared to 31.12.2016. The loan loss provisions to total loan portfolio ratio amounts to 0.93% and recorded a deterioration of 0.04% compared to 31.12.2016.

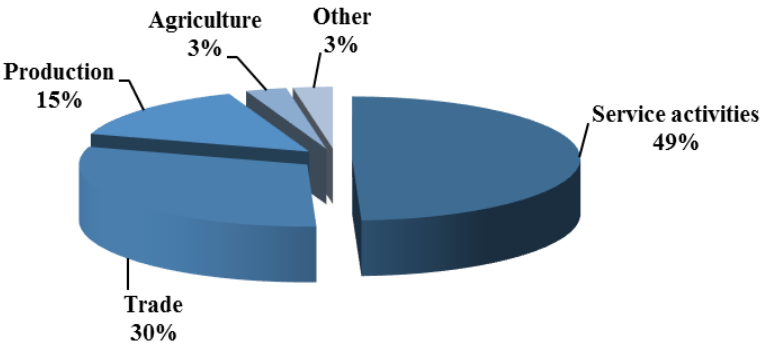


An overview of the gross portfolio of MCOs throughout the years of MCO operations shows that the largest amount was recorded at the end of 2008, when it amounted to KM 830.2 million. The total gross portfolio as of 31.03.2017 amounted to KM 384.1 million and dropped by 54% compared to the end of 2008. A comparison of these two periods in the case of individual MCOs reveals that two MCFs recorded the biggest gross portfolio drop, by even 89% and 67%, respectively.

No.	Microloans	Short-term loans	Long-term loans	Receivables due	TOTAL	%
1	2	3	4	5	6=(3+4+5)	7
<b>1.</b>	<b>Legal entities</b>					
a.)	Service activities	173	4 564	11	4 748	49%
b.)	Trade	256	2 636	21	2 913	30%
c.)	Agriculture	18	263	0	281	3%
d.)	Production	115	1 289	3	1 407	15%
e.)	Other	57	213	1	271	3%
	<b>TOTAL 1:</b>	<b>619</b>	<b>8 965</b>	<b>36</b>	<b>9 620</b>	<b>100%</b>
<b>2.</b>	<b>Natural persons</b>					
a.)	Service activities	5 512	61 701	276	67 489	18%
b.)	Trade	1 904	16 773	97	18 774	5%
c.)	Agriculture	9 193	118 812	322	128 327	34%
d.)	Production	644	6 617	31	7 292	2%
e.)	Housing needs	2 849	74 703	182	77 734	21%
f.)	Other	13 205	61 274	351	74 830	20%
	<b>TOTAL 2:</b>	<b>33 307</b>	<b>339 880</b>	<b>1 259</b>	<b>374 446</b>	<b>100%</b>
	<b>TOTAL (1+2):</b>	<b>33 926</b>	<b>348 845</b>	<b>1 295</b>	<b>384 066</b>	

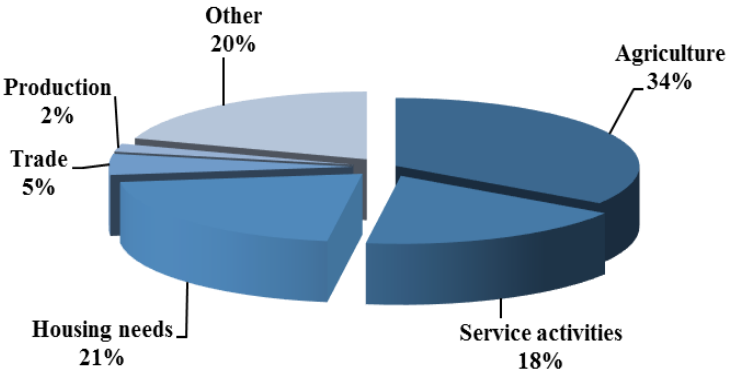
Out of the total number of microloans, KM 9.6 million or 3% were granted to legal entities and KM 374.5 million or 97% were granted to natural persons. In the maturity structure of microloans, short-term loans with receivables due account for KM 35.2 million or 9% and long-term loans for KM 348.9 million or 91%. Receivables due total KM 1.3 million 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 4.7 million or 49% for service activities and KM 2.9 million or 30% for trade. Out of the total microloan amount to legal entities, KM 1.4 million or 15% were granted for production, while KM 0.3 million or 3% were granted for agriculture and KM 0.3 million or 3% for other purposes.

**Graph 11. Sector Structure of Microloans to Natural Persons**



As for loans to **natural persons**, KM 128.3 million or 34% was placed for agriculture, followed by KM 77.8 million or 21% for housing needs, KM 67.5 million or 18% for service activities, KM 18.8 million or 5% for trade, KM 7.3 million or 2% for production, and KM 74.8 million or 20% for other purposes.

- KM 000 -

<b>Table 7. Sector Structure of Microloans</b>				
Microloans for:	31.12.2016	31.03.2017	Share	Index
Agriculture	126 352	128 608	33%	102
Housing	76 643	77 734	20%	101

Other	69 336	75 101	20%	108
Services	73 333	72 237	19%	99
Trade	22 441	21 687	6%	97
Production	9 767	8 699	2%	89
<b>Total</b>	<b>377 872</b>	<b>384 066</b>	<b>100%</b>	<b>102</b>

Based on the analysis of the industry, it can be concluded that microlending is largely directed toward lending of agriculture (33%), housing needs (20%), and other purposes (20%), 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 an increase between 1% and 8%, with the exception of loans for services activities, trade and production, which decreased by 1% to 11% in the reporting period. In terms of microloan maturity, long-term microloans are up by 2% compared to the end of the previous year, while short-term microloans (including receivables due) are also up by 2% in the reporting period.

- KM 000 -

DESCRIPTION	31.12.2016	31.03.2017	Share	Index
<b>Long-term microloans</b>	343 405	348 845	91%	102
<b>Short-term microloans with receivables due</b>	34 467	35 221	9%	102
<b>TOTAL</b>	<b>377 872</b>	<b>384 066</b>	<b>100%</b>	<b>102</b>

According to reports that microcredit organisations submitted to the Agency in relation to the amount of risk portfolio as a result of the May 2014 natural disasters, as of 31.03.2017, 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 0.9 million. The loan portfolio that was past due as of 30.04.2014 and was additionally at risk as a result of the natural disasters, amounted to KM 37 thousand as of 31.03.2017. The loan portfolio that was renegotiated – rescheduled as a result of the natural disasters amounted to KM 0.3 million as of 31.03.2017. Loans for agriculture (33%) and loans for housing needs (29%) have the largest share in the amount of rescheduled loans as a result of the natural disasters.

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

Receivables amounts divided into the set groups and calculated reserves by these groups with the balance as of 31.03.2017 are shown in the following table.

- KM 000 -

No.	Days past due	Provisioning rates	Loan amount	Share (%)	Interest due		Amount of other assets items	Provisions			Total provisions
					Provisioning rate	Interest amount		By loans	By interest due	By other assets items	
1	2	3	4	5	6	7	8	9=(4x3)/100	10=(7x6)/100	11=(8x3)/100	12=(9+10+11)

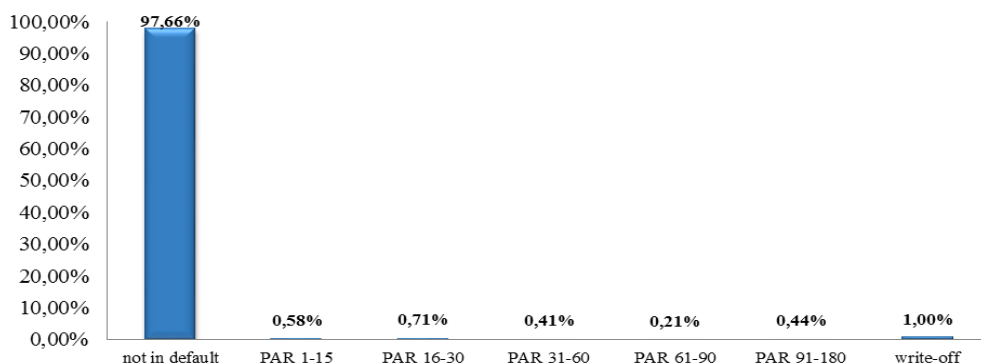
1.	0	0%	375 067	97.66	0%	0	295	0	0	0	<b>0</b>
2.	1 – 15	2%	2 231	0.58	2%	32	0	45	0	0	<b>45</b>
3.	16 – 30	15%	2 739	0.71	100%	48	0	411	48	0	<b>459</b>
4.	31 – 60	50%	1 561	0.41	100%	39	0	780	39	0	<b>819</b>
5.	61 – 90	80%	796	0.21	100%	40	0	637	40	0	<b>677</b>
6.	91 – 180	100%	1 672	0.44	100%	84	0	1 686	84	0	<b>1 770</b>
<b>TOTAL</b>			<b>384 066</b>	<b>100.00</b>		<b>243</b>	<b>295</b>	<b>3 559</b>	<b>211</b>	<b>0</b>	<b>3 770</b>
7.	More than 180	Write-off	<b>948</b>		100%	<b>81</b>					

\*Column 9, days past due category (91-180) includes additional provisions of one MCF for loans for additional funds and additional provisions in line with harmonising the manner of calculating provisions according to the Agency's instructions.

The amount of defaulted loans for more than one day is KM 9 million or 2.34%, while 97.66% of loans are not defaulted. The total amount of interest due by current loans which are defaulted for more than one day is KM 0.2 million. The total amount of calculated reserves on all bases is KM 3.8 million and they are up by KM 0.2 million or 6% compared to 31.12.2016.

In the first three months of 2017, the MCO write-off amounted to KM 0.9 million of principal and KM 0.1 million of interest.

**Graph 12. Portfolio Quality of MCOs**



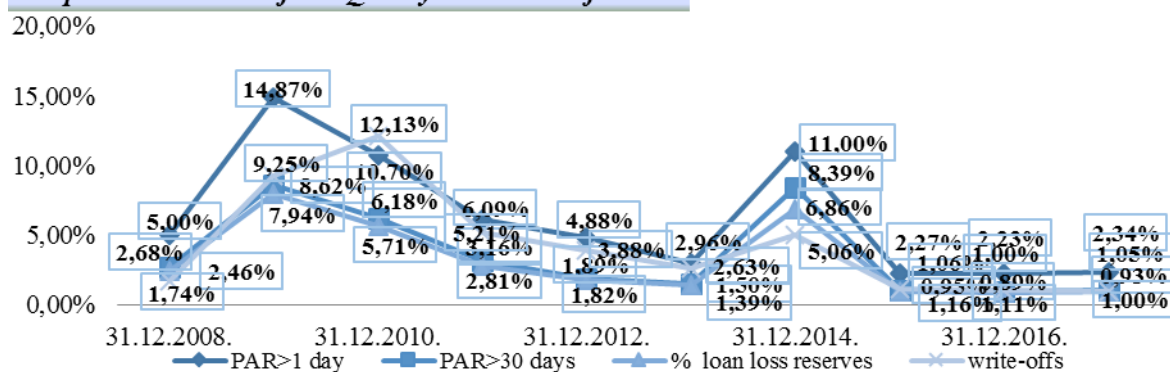
### 2.1.3.1. Key Indicators of Loan Portfolio Quality

Compared to the end of the previous year, as of 31.03.2017, the microcredit portfolio saw an increase of 2% (KM 6.2 million), but recorded a slight deterioration of quality indicators of the active loan portfolio. 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 slight deterioration of active loan portfolio quality indicators was rendered by an increase of the loan loss provisioning rate from 0.89%, which is what it amounted as of 31.12.2015, to 0.93%. Similarly, the portfolio at risk exceeding 30 days past due recorded a slight deterioration, thus being up from 1.00%, to which it amounted at the end of the previous year, to 1.05%. The total system result based on the portfolio at risk is within the framework of the prescribed standard (below 5%), with two MCFs violating the prescribed standard if observed individually. The portfolio at risk for more than one day past due recorded a slight deterioration, thus being up from 2.23%, to which it amounted at the end of the previous year, to 2.34%.

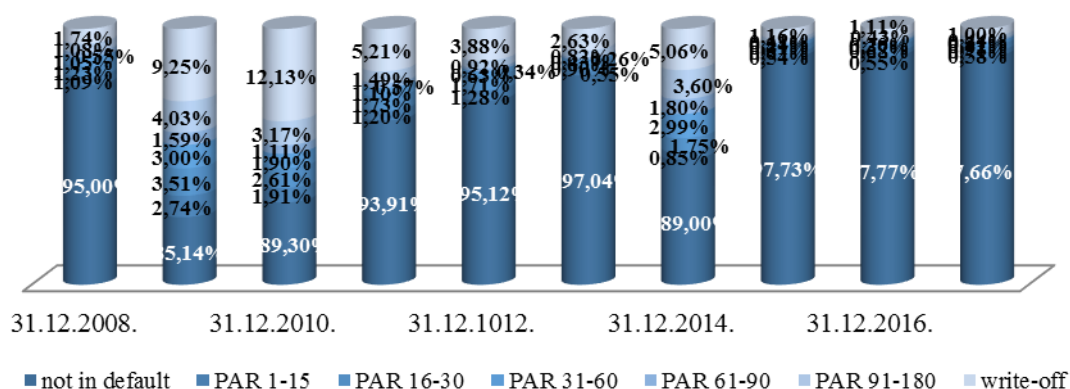


**Graph 13. Active Portfolio Quality Indicators of MCOs**



In the first three months of 2017, MCOs wrote off 539 loan accounts (531 write-offs relate to natural persons and 8 to legal entities) in the total amount of KM 1 million, KM 0.9 million of which relate to the written-off principal.

**Graph 14. Gross Portfolio Classification of MCOs by Year**



As of 31.03.2017, the percentage of write-offs at system level amounted to 1.00%, with this indicator being down by 0.11 percentage points compared to the end of the previous year and thus being within the framework of the prescribed standard. Three MCFs do not meet the Agency's standard 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 2 million of written-off principal and KM 0.2 million of written-off interest in the first three months of 2017, while the permanent write-off in the same reporting period amounted to KM 36 thousand of principal and KM 2 thousand of interest. Regarding the efficiency of the collection of write-offs in the first three months of 2017, 3 MCFs had a collection efficiency percentage of 3% compared to the total amount of receivables by write-offs, while 8 MCFs and 1 MCC had a collection efficiency percentage ranging from 1% to 2%.

- KM 000 -

**Table 10. Receivables by Written off Principal and Interest**

DESCRIPTION	NATURAL PERSONS		LEGAL ENTITIES		TOTAL	
	Written-off principal	Written-off interest	Written-off principal	Written-off principal	Written-off interest	Written-off principal
1	2	3	4	5	6	7
Initial balance as of 01.01.2017.	100 145	10 731	2 807	298	102 952	11 029
<b>Changes in 2017:</b>						
New write-off in the current year	905	74	43	6	948	80

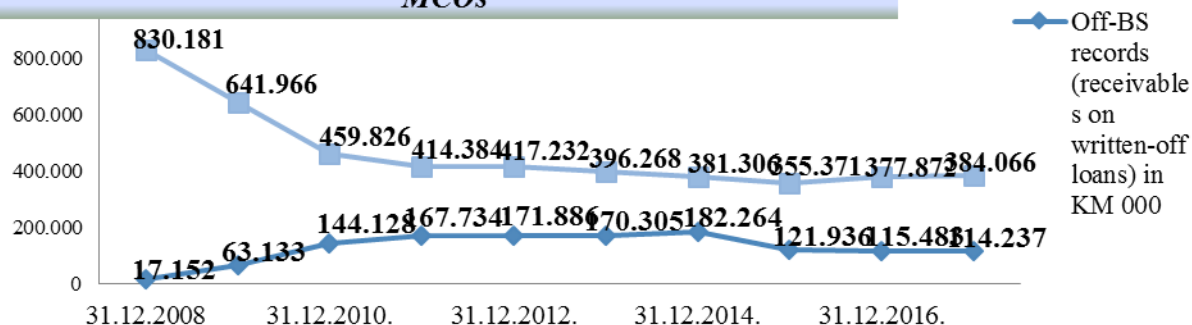
Write-off in the period 01.01.-31.03.	905	74	43	6	948	80
Write-off in the period 01.04.-30.06.	0	0	0	0	0	0
Write-off in the period 01.07.-30.09.	0	0	0	0	0	0
Write-off in the period 01.10.-31.12.	0	0	0	0	0	0
<b>Collected in the current year</b>	<b>1 999</b>	<b>173</b>	<b>27</b>	<b>1</b>	<b>2 026</b>	<b>174</b>
Collection of write-offs in the period 01.01.-31.03.	1 999	173	27	1	2 026	174
Collection of write-offs in the period 01.04.-30.06.	0	0	0	0	0	0
Collection of write-offs in the period 01.07.-30.09.	0	0	0	0	0	0
Collection of write-offs in the period 01.10.-31.12.	0	0	0	0	0	0
<b>Permanent write-off in the current year</b>	<b>36</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>36</b>	<b>2</b>
Permanent write-off in the period 01.01.-31.03.	36	2	0	0	36	2
Permanent write-off in the period 01.04.-30.06.	0	0	0	0	0	0
Permanent write-off in the period 01.07.-30.09.	0	0	0	0	0	0
Permanent write-off in the period 01.10.-31.12.	0	0	0	0	0	0
<b>Balance as of 31.03.2017</b>	<b>99 015</b>	<b>10 630</b>	<b>2 823</b>	<b>303</b>	<b>101 838</b>	<b>10 933</b>

\*Note: The data in Table 10 differs from total receivables by write-offs shown in the off-balance records in the amount of KM 1.5 million, which includes court expenses, penalty and process interest as a portion of off-court settlements in the case of three MCFs.

As of 31.03.2017, total receivables by write-offs, which are in the off-balance sheet records, amount to as KM 114.6 million, down by 1% compared to the end of the previous year.

Compared to 2008, the gross portfolio of MCOs is lower by 54%, while receivables by write-offs are almost 7 times higher and make up 30% of the total loan portfolio as of 31.03.2017. There are significant deviations in the quality of the portfolio between different MCOs, which are evident from the data that three MCFs have over 60% of total write-offs compared to the total gross portfolio (total receivables by write-offs, which are in the off-balance records, are higher than total gross loans by 131% in the case of one MCF), which is a direct consequence of past loan expansion and the improper management of assets by MCFs. 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.

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

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

According to the loan repayment reports of MCOs with guarantorship as a security instrument, as of 31.03.2017 in the Federation of B&H, the total number of loan accounts in the active loan portfolio of MCOs was 154 669, 1.21% of which were being repaid by guarantors, which is down by 0.02 percentage points compared to the percentage of loans being paid off by guarantors out of the total number of loans as of 31.12.2016 (2016: 1.23%). According to quarterly reports, the total gross loan portfolio in the MCO system as of 31.03.2017 amounted to KM 384 066 thousand KM, with the share of the outstanding loan debt being paid off by guarantors amounting to 1.36%, up by 0.07 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 2016 (2016: 1.29%).

According to MCO reports and pursuant to the Decision on Manner of Customer Complaint Management of Banks, MCOs and Leasing Companies („Official Gazette of the Federation of B&H“, No. 23/14 and 62/14), in the period from 01.01. to 31.03.2017, a total of 41 complaints was filed against MCOs. In the case of 6 MCFs, there is no evidence of complaints.

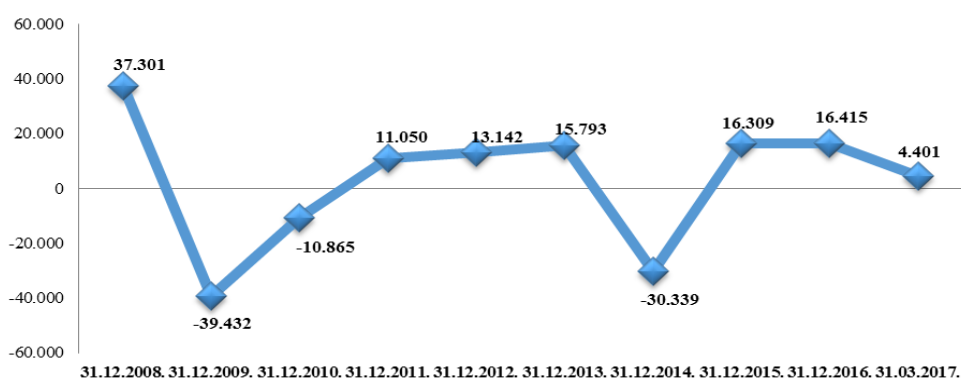
Co-debtors/guarantors have filed 8 complaints, debtors 20 complaints, while other stakeholders filed 13 complaints. The MCOs resolved 7 complaints positively, 32 complaints negatively, while 2 complaints are in the process of being handled and commented on.

## 2.2. Profitability

In the period from 01.01. to 31.03.2017, one MCC recorded a net profit in the amount of KM 38 thousand (01.01. to 31.03.2016: KM 202 thousand net profit). In that period, MCFs recorded more income over expenses in the total amount of KM 4 363 thousand, while they recorded more income over expenses in the total amount of KM 3 071 thousand in the same period of the previous year.

In the period from 01.01. to 31.03.2017, out of a total of 11 MCFs, 8 MCFs had more income over expenses in the total amount of KM 4 389 thousand, while 3 MCFs recorded less income over expenses in the total amount of KM 26 thousand.

Graph 16. Total Financial Result of MCOs by Year (in KM 000)



At the level of the microcredit system in the Federation of B&H, a positive financial result in the amount of KM 4 404 thousand has been recorded, which is up by KM 1 128 thousand or 34% compared to the same period of the previous year.

The structure of the income statement of the microcredit system of the Federation of B&H is shown in Table 11.

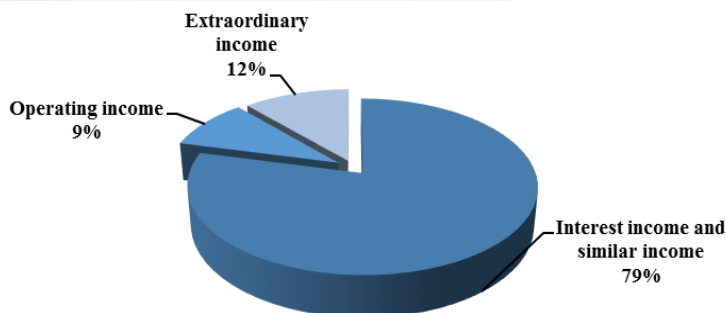
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**Table 11. Income Statement MCOs**

No.	OPIS	For the period 01.01. - 31.03.2016				For the period 01.01. - 31.03.2017				Index
		MCFs	MCCs	Total	%	MCFs	MCCs	Total	%	
1	2	1	2	3=(1+2)	4	5	6	7=(5+6)	8	9=(7/3)
<b>1.</b>	<b>INCOME</b>									
	Interest-based									
<b>1.1.</b>	<b>income and similar income</b>	16 259	769	17 028	89	17 008	1 361	18 369	89	108
<b>1.2.</b>	<b>Operating income</b>	1 998	58	2 056	11	2 095	112	2 207	11	107
<b>2.</b>	<b>TOTAL INCOME (1.1.+1.2.)</b>	<b>18 257</b>	<b>827</b>	<b>19 084</b>	<b>100</b>	<b>19 103</b>	<b>1 473</b>	<b>20 576</b>	<b>100</b>	<b>108</b>
<b>3.</b>	<b>EXPENSES</b>									
	Interest-based									
<b>3.1.</b>	<b>expenses and similar expenses</b>	2 459	259	2 718	15	2 293	445	2 738	14	101
<b>3.2.</b>	<b>Operating expenses</b>	13 894	278	14 172	78	13 901	885	14 786	79	104
<b>3.3.</b>	<b>Expenses for loan loss provisions and other losses</b>	1 266	89	1 355	7	1 127	109	1 236	7	91
<b>4.</b>	<b>TOTAL EXPENSES (3.1.+3.2.+3.3.)</b>	<b>17 619</b>	<b>626</b>	<b>18 245</b>	<b>100</b>	<b>17 321</b>	<b>1 439</b>	<b>18 760</b>	<b>100</b>	<b>103</b>
<b>5.</b>	<b>EXTRAORDINARY INCOME</b>	2 640	2	2 642		2 692	6	2 698		102
<b>6.</b>	<b>EXTRAORDINARY EXPENSES</b>	207	1	208		111	2	113		54
<b>7.</b>	<b>TOTAL INCOME - EXPENSES (2+5-4-6)</b>	<b>3 071</b>	<b>202</b>	<b>3 273</b>		<b>4 363</b>	<b>38</b>	<b>4 401</b>		<b>134</b>
<b>8.</b>	<b>SURPLUS/DEFICIT OF INCOME OVER EXPENSES</b>	<b>3 071</b>		<b>3 071</b>		<b>4 363</b>		<b>4 363</b>		142
<b>9.</b>	<b>PROFIT BEFORE TAXES</b>		<b>202</b>	<b>202</b>			<b>38</b>	<b>38</b>		
<b>10.</b>	<b>TAXES</b>		<b>0</b>	<b>0</b>			<b>0</b>	<b>0</b>		
<b>11.</b>	<b>NET PROFIT/LOSS</b>		<b>202</b>	<b>202</b>			<b>38</b>	<b>38</b>		
<b>12.</b>	<b>TOTAL FIN. RESULT</b>			<b>3 273</b>				<b>4 401</b>		

The total income of MCOs in the period from 01.01. to 31.03.2017 amounts to KM 20.6 million, which mainly account for MCF income. The total income is up by KM 1.5 million or 8% compared to the same period of the previous year. The biggest income portion is contributed by interest income, which amounts to KM 18.4 million or 89% of total income and is up by KM 1.3 million or 8% compared to the same period of the previous year, while operating income amounts to KM 2.2 million or 11% of total income and is up by KM 0.2 million or 7% compared to the same period of the previous year.

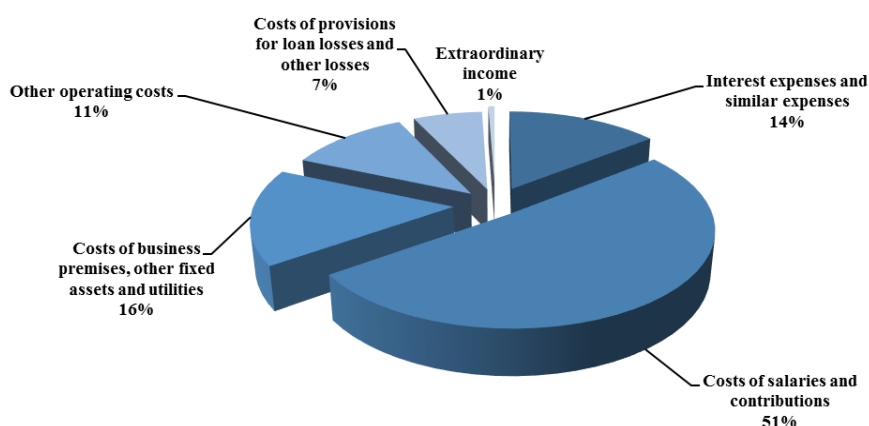
**Graph 17. Income Structure (Including Extraordinary Income)**



Extraordinary income of MCOs generated in the period from 01.01. to 31.03.2017 amounts to KM 2.7 million, which is up by KM 0.1 million or 2% compared to the same period of the previous year. Extraordinary income is dominated by the collection of receivables from written-off loans. Extraordinary income of MCOs generated in the first three months of 2017 amounts to KM 0.1 million and is down by KM 0.1 million or 46% compared to the same period of the previous year.

Total expenses amount to KM 18.8 million, 17.3 million or 92% of which account for the expenses of MCFs, and KM 1.5 million or 8% for the expenses of one MCC. Compared to the same period of the previous year, total expenses are up by KM 0.5 million or 3%. In the expenses structure, KM 2.7 million or 14% of total expenses account for interest expenses on taken loans and other similar expenses and are up by 1% compared to the same period of the previous year. Operating expenses amount to KM 14.8 million or 79% of total expenses and are up by KM 0.6 million or 4% compared to the same period of the previous year. Operating expenses include salary and contributions' expenses in the amount of KM 9.6 million (01.01. to 31.03.2016: KM 9.4 million), costs of business premises, other fixed assets and utilities in the amount of KM 3 million (01.01. to 31.03.2016: KM 2.6 million) and other operating expenses in the amount of KM 2.2 million (01.01. to 31.03.2016: KM 2.1 million). Expenses for loan loss provisions and other losses amount to KM 1.2 million or 7% of total expenses and are down by KM 0.1 million or 9% compared to the same period of the previous year.

**Graph 18. Expenses Structure (Including Extraordinary Expenses)**



### 2.3. Weighted Nominal and Effective Interest Rates

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.

In accordance with monthly statements on weighted nominal and effective interest rates by loan, in the first quarter of 2017, MCOs placed microloans in the total amount of KM 97 million, which is up by KM 3.9 million or 4% compared to the microloan amount placed in the same period of the previous year. As of 31.03.2017, MCOs had 154 669 active loan accounts, which is up by 1 395 loan accounts or 1% compared to the end of the previous year. As of 31.03.2017, the average amount of microloans at system level was KM 2 483, the average amount of microloans in MCFs was KM 2 344, while the average amount of microloans in the MCC was KM 5 849.

**Table 12. Average Weighted Nominal and Effective Interest Rates on Microloans for Q1 2017 – by Product**

No.	DESCRIPTION	Total amount of microloan payment in Q1 2017 (in KM 000)	Weighted nominal interest rate (average)	Weighted effective interest rate (average)
<b>1.</b>	<b>Short-term microloans for:</b>	<b>17 940</b>	<b>18.20%</b>	<b>26.56%</b>
1.1.	Service activities	2 824	17.20%	26.31%
1.2.	Trade	1 209	18.84%	26.94%
1.3.	Agriculture	4 767	15.49%	23.97%
1.4.	Production	386	16.53%	22.43%
1.5.	Housing needs	1 069	21.21%	28.58%
1.6.	Non-purpose – basic needs	2 338	19.88%	24.34%
1.7.	Other	5 347	19.51%	29.42%
<b>2.</b>	<b>Long-term microloans for:</b>	<b>79 063</b>	<b>20.64%</b>	<b>24.52%</b>
2.1.	Service activities	13 700	20.49%	24.51%
2.2.	Trade	3 644	20.21%	24.22%
2.3.	Agriculture	25 928	19.64%	23.18%
2.4.	Production	1 475	20.33%	24.54%
2.5.	Housing needs	14 944	20.07%	23.35%
2.6.	Non-purpose – basic needs	1 380	23.41%	29.35%
2.7.	Other	17 992	22.50%	27.05%
<b>TOTAL</b>		<b>97 003</b>	<b>20.19%</b>	<b>24.90%</b>

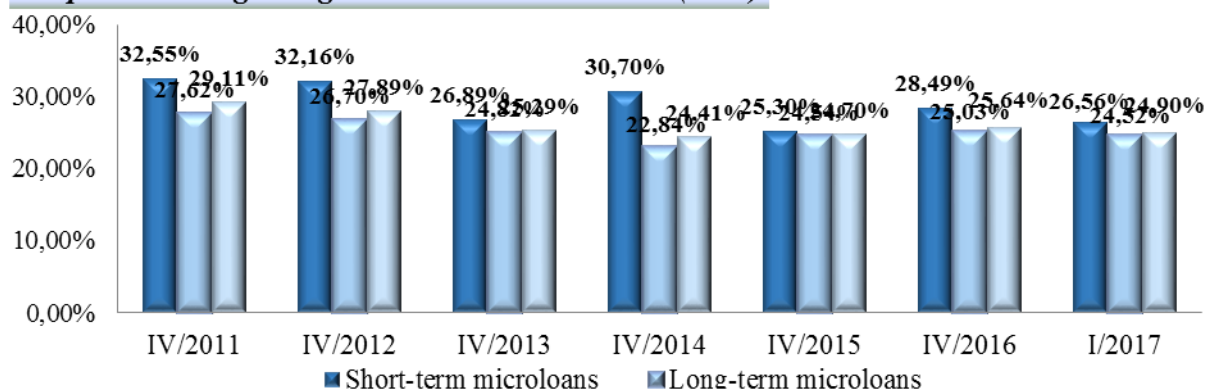
The average weighted nominal interest rate on short-term loans ranges from 15.49% for agriculture up to 21.21% for housing needs, and the effective interest rate ranges from 22.43% for production up to 29.42% for other loans. The average weighted nominal interest rate on long-term loans ranges from 19.64% for agriculture up to 23.41% for non-purpose loans, and the effective interest rate ranges from 23.18% for agriculture up to 29.35% for non-purpose loans. When analysing the effective interest rates of MCOs by loan product, it can be concluded that the most favourable loans are placed for agriculture and production, while the most expensive loans are non-purpose and other loans.

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 following table.

AVERAGE WEIGHTED EIR on:	IV/2011	IV/2012	IV/2013	IV/2014	IV/2015	IV/2016	I/2017
Short-term microloans	32.55%	32.16%	26.89%	30.70%	25.30%	28.49%	26.56%
Long-term microloans	27.62%	26.70%	24.82%	22.84%	24.54%	25.03%	24.52%
Total microloans	29.11%	27.89%	25.29%	24.41%	24.70%	25.64%	24.90%



**Graph 19. Average Weighted EIRs on Microloans (in %)**



Microcredit organisations decreased effective interest rates on total microloans, so that, at the end of the first quarter of 2017, average weighted effective interest rates on total loans in the microcredit system amounted to 24.90% and recorded a decrease of 0.74 percentage points compared to the fourth quarter of 2016. Compared to the same period, average weighted effective interest rates on short-term loans amounted to 26.56% and recorded a decrease of 1.93 percentage points. Average weighted effective interest rates on long-term loans amounted to 24.52% at the end of the first quarter of 2017 and are down by 0.51 percentage points compared to the fourth quarter of the previous year.

## 2.4. Liquidity

Creditors, local commercial banks and various international socially-oriented commercial funds still abstain from lending to a large number of MCOs, due to which many MCOs are deprived of more favourable financial assets with which they would finance their activity. According to submitted reports on the liquidity of MCOs as of 31.03.2017, one MCF had significant problems with maintaining liquidity. The aforementioned will, according to information provided in the report, record a decrease in the active loan portfolio in the reporting periods to come.

## 2.5. FX Risk

Microcredit organisations perform certain transactions denominated in foreign currencies, mainly in EUR, on the basis of which there are exposures to changes in foreign exchange rates. According to the Law on the Central Bank of Bosnia and Herzegovina, KM is pegged to EUR, and microcredit organisations are not exposed to foreign exchange risk in practice when it comes to the most significant currency EUR.

## 2.6. Transactions with Related Entities

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

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



- All transactions with related entities must be approved by an MCO's managing body,
- An entity related to an MCO that is a member of the managing body of such MCO must not participate in voting during the decision-making process on business transactions between an MCO and them or any other entity related to them,
- The managing body must sign a written statement that any transaction between them and a related entity is fair and in the best interest of the MCO,
- MCOs shall establish and maintain regular records, documentation and files on approvals of the managing bodies for transactions with related entities, etc.

When conducting transactions with related entities of an MCO, no such conditions may be offered that would be more favourable to any other entities, and MCOs shall report to the Agency through quarterly reports on all transactions conducted by the MCO with its related entities in the reporting quarter. In the first three months of 2017, out of 12 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 384 658 million. One MCF and MCC have a 75% share in the total amount of transactions with related entities.

- in KM -

No.	Description of transaction	Transaction amount in the period 01.01.-31.03.2017	Share (%)
1.	Payment of joint expenses of a related person	143 222	37.23%
2.	Cost reimbursement	93 053	24.19%
3.	Transactions with the founder and founder-related persons	80 137	20.83%
4.	Borrowings from legal entities and natural persons	33 939	8.82%
5.	Payment by invoices for delivered goods/services	32 507	8.45%
6.	Lease of business premises	1 800	0.47%
7.	Loan annuities	0	0.00%
8.	Short-term loans from banks	0	0.00%
9.	Regular and penalty interest, management fees	0	0.00%
10.	Legal services	0	0.00%
11.	Short-term deposits to banks	0	0.00%
12.	Receivables based on lease	0	0.00%
<b>TOTAL</b>		<b>384 658</b>	<b>100.00%</b>

Table 13 provides a breakdown of transactions with related entities in the period from 01.01. to 31.03.2017, which shows that the largest share in transactions with related entities belongs to payments of joint expenses of a related person (37.23%), followed by cost reimbursement (24.19%) and transactions with the MCOs' founders and their related persons (20.83%). In addition to the aforementioned transactions, MCOs also reported transactions with related entities based on borrowings from legal entities and natural persons, the lease of business premises, and other transactions.

The reported transactions of MCOs with related entities refer to transactions conducted with entities related to the MCOs' founders and their related persons (92%), members of the audit board (4%), and members of the management board (4%). 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.

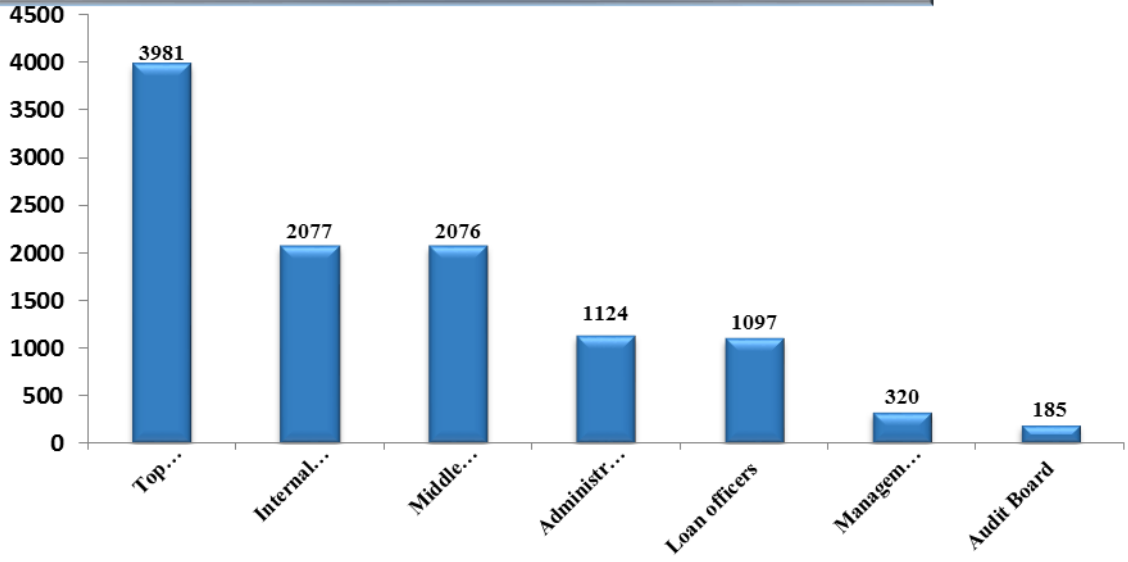
### **2.6.1. Standard Monthly Income in Microcredit Activities**

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. 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 value paid for the same service on the microcredit market industry in an approximate or equal amount with the average of the relevant group, i.e. the average of the overall microcredit industry. In order to determine the average, MCO values, the business operations of which are in line with the business standards prescribed by the decision on other general terms and conditions of microcredit organisations, are used because wages in these organisations are market-based considering that prescribed measurable standards ensure that the MCOs operate in accordance with the business principles of due diligence, which they are obligated to do in accordance with Art. 40 of the Law on Associations and Foundations.

Salary and contributions' expenses generated in the period 01.01. to 31.03.2017 are up by 2% compared to the same period of the previous year. According to MCO reports, as of 31.03.2017, the average monthly net salary of MCO employees was KM 1 209 and the average monthly net amount of incentives, stimulations and bonuses was KM 47. This means that the average monthly net salary with bonuses was KM 1 256 in the microcredit system. As of 31.03.2017, the average monthly net salary of a senior management member in the microcredit system was KM 3 981 including bonuses, while average monthly net compensations paid to management board members in MCOs were KM 320 and to audit board members KM 185. As of the reporting date, the average monthly net salaries of internal auditors in MCOs were KM 2 077 including bonuses, of middle and lower management KM 2 076, of loan officers KM 1 097 and of administration and other staff KM 1 124.

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



Article 39 of the Law on MCOs stipulates that the microcredit foundations shall invest the excess income over expenses in performing microcredit activities and that the direct or indirect allocation of the excess of income over expenses to founders, members of bodies, responsible persons and employees in the microcredit foundation is not allowed.

In the case of one MCF, the average monthly net salary of the senior management is almost 2 times higher compared to the sector average.

### III CONCLUSIONS AND RECOMMENDATIONS

When analysing MCO reports as of 31.03.2017, it can be concluded that the business operations of microcredit organisations in the Federation of B&H show a slight improvement compared to the end of the previous year. The balance sheet total remained at approximately the same level compared to the end of the previous year, however, the loan portfolio is up by 2%, with a slight deterioration of quality indicators. A real increase was also recorded with respect to the number of employees (by 3%) and capital (by 2%), while loan commitments remained at approximately the same level during the reporting period.

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 system. Consolidation at the level of MCOs, especially medium-sized ones, is necessary for the stabilisation of the microcredit system 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 leading their business operations into the legal framework in order to fulfill the basic 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 system and the Central Credit 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. 04-06/17**

**Sarajevo, 26.05.2017**

Annex 1. Regulations of the Banking Agency for Business Operations of MCOs

Annex 2. Main Data on MCOs

Annex 3. Balance Sheet of MCFs

Annex 4. Balance Sheet of MCCs

Annex 5. Income Statement of MCFs

Annex 6. Income Statement of MCCs

Annex 7. Overview of Donated Funds of MCFs

## Annex 1.

### REGULATIONS OF THE BANKING AGENCY FOR MCO BUSINESS OPERATIONS AS OF 31.03.2017

<b>Decisions of the Banking Agency related to MCO operations</b>	<b>Official Gazette of the Federation of B&amp;H</b>
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	31.03.2017			
						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 129 71 000 SARAJEVO	Sead Mucić	033/ 754-380, 754-388 fax	<a href="mailto:sead.mucic@eki.ba">sead.mucic@eki.ba</a> <a href="http://www.eki.ba">www.eki.ba</a>	36 992	3 564	117	10
2.	MKF "EKI" Sarajevo	ul. Džemala Bijedića 129, 71 000 SARAJEVO	Sadina Bina	033/ 754-380, 754-388 fax	<a href="mailto:sadina.bina@eki.ba">sadina.bina@eki.ba</a> <a href="http://www.eki.ba">www.eki.ba</a>	108 572	64 918	265	69
3.	MKF "LIDER" Sarajevo	ul. Turhanija 2 71 000 SARAJEVO	Džavid Sejfović	033/ 250-580, 250-581 fax	<a href="mailto:dzavids@lider.ba">dzavids@lider.ba</a> <a href="http://www.lider.ba">www.lider.ba</a>	17 210	10 774	66	14
4.	"LOK MKF" Sarajevo	ul. Skenderija 13 71 000 SARAJEVO	Elma Čardaklija - Bašić	033/ 564-200, 564-201 fax	<a href="mailto:central.office@lok.ba">central.office@lok.ba</a> <a href="http://www.lok.ba">www.lok.ba</a>	18 661	2 419	96	22
5.	MKF "MELAHA" Sarajevo	ul. Hamdije Kreševljakovića 59 71 000 SARAJEVO	Jakob Finci	033/ 205-737 tel/fax	<a href="mailto:info@melaha.ba">info@melaha.ba</a> <a href="http://www.melaha.ba">www.melaha.ba</a>	1 260	451	6	0
6.	MKF "MI-BOSPO" Tuzla	ul. Bosne srebrene bb 75 000 TUZLA	Nejira Nalić	035/ 270-283, 252-448 fax	<a href="mailto:mi-bospo@mi-bospo.org">mi-bospo@mi-bospo.org</a> <a href="http://www.mi-bospo.org">www.mi-bospo.org</a>	54 696	20 992	176	32
7.	MKF "MIKRA" Sarajevo	ul. Marka Marulića 2/VI 71 000 SARAJEVO	Sanin Čampara	033/ 616-162, 717-141 fax	<a href="mailto:mikra@mikra.ba">mikra@mikra.ba</a> <a href="http://www.mikra.ba">www.mikra.ba</a>	26 084	7 009	118	25
8.	MKF "MIKRO ALDI" Goražde	ul. Panorama bb 73 000 GORAŽDE	Ferida Softić	038/ 226-456, 221-004 fax	<a href="mailto:info@mikroaldi.org">info@mikroaldi.org</a> <a href="http://www.mikroaldi.org">www.mikroaldi.org</a>	5 524	4 604	29	7
9.	"PARTNER MKF" Tuzla	ul. 15. maja bb 75 000 TUZLA	Senad Sinanović	035/ 300-250, 300-269 fax	<a href="mailto:partner@partner.ba">partner@partner.ba</a> <a href="http://www.partner.ba">www.partner.ba</a>	131 348	71 959	294	60
10.	"PRVA ISLAMSKA MKF" Sarajevo	ul. Jukićeva 75 71 000 SARAJEVO	Edina Hadžimurtezić	033/ 666-233, 666-224 fax	<a href="mailto:info@mfi.ba">info@mfi.ba</a>	1 814	1 680	8	0
11.	MKF "SANI" Zenica	ul. Mehmedalije Tarabara 10 72 000 ZENICA	Sulejman Haračić	032/ 405-606 tel/fax	<a href="mailto:mikrosanizenica@yahoo.com">mikrosanizenica@yahoo.com</a>	391	211	5	0
12.	MKF "SUNRISE" Sarajevo	ul. Zagrebačka 50 71 000 SARAJEVO	Samir Bajrović	033/ 727-350, 812-231 fax	<a href="mailto:sunrise@microsunrise.ba">sunrise@microsunrise.ba</a> <a href="http://www.microsunrise.ba">www.microsunrise.ba</a>	39 725	23 553	156	42
<b>TOTAL</b>						<b>442 277</b>	<b>212 134</b>	<b>1 336</b>	<b>281</b>



## Annex 3.

## BALANCE SHEET OF MCFs

in KM 000

No.	DESCRIPTION	31.12.2016	%	31.03.2017	%	Index
1	2	3	4	5	6	7=5/3
<b>ASSETS</b>						
<b>1.</b>	<b>Cash (1a+1b)</b>	<b>22 227</b>	<b>6</b>	<b>21 806</b>	<b>5</b>	<b>98</b>
1a)	Cash and non-interest bearing deposit accounts	11 698	3	12 585	3	108
1b)	Interest-bearing deposit accounts	10 529	3	9 221	2	88
2.	Facilities to banks	733	0	550	0	75
3.	Loans	349 791		348 066		100
3a)	Loan loss reserves	3 193		3 344		105
<b>3b)</b>	<b>Net loans (3-3a)</b>	<b>346 598</b>	<b>85</b>	<b>344 722</b>	<b>85</b>	<b>99</b>
4.	Business premises and other fixed assets	28 734	7	28 733	7	100
5.	Long-term investments	3 061	1	3 061	1	100
6.	Other assets	6 008	1	6 612	2	110
7.	Minus: provisions for other assets items, except loans	182		199		109
<b>8.</b>	<b>TOTAL ASSETS</b>	<b>407 179</b>	<b>100</b>	<b>405 285</b>	<b>100</b>	<b>100</b>
<b>LIABILITIES</b>						
9.	Short-term loan commitments	73 903	18	75 641	19	102
10.	Long-term loan commitments	105 905	26	99 703	25	94
11.	Other liabilities	23 258	6	21 371	5	92
<b>12.</b>	<b>TOTAL LIABILITIES</b>	<b>203 066</b>	<b>50</b>	<b>196 715</b>	<b>49</b>	<b>97</b>
13.	Donated capital	45 851		45 851		100
14.	Core capital	3 820		3 820		100
<b>15.</b>	<b>Surplus of income over expenses</b>	<b>213 906</b>		<b>218 332</b>		<b>102</b>
15a)	For previous years	199 850		214 042		107
15b)	For current year	14 056		4 290		31
<b>16.</b>	<b>Deficit of income over expenses</b>	<b>61 308</b>		<b>61 260</b>		<b>100</b>
16a)	For previous years	61 268		61 234		100
16b)	For current year	40		26		65
17.	Other reserves	1 844		1 827		99
<b>18.</b>	<b>TOTAL CAPITAL</b>	<b>204 113</b>	<b>50</b>	<b>208 570</b>	<b>51</b>	<b>102</b>
<b>19.</b>	<b>TOTAL LIABILITIES</b>	<b>407 179</b>	<b>100</b>	<b>405 285</b>	<b>100</b>	<b>100</b>
<b>OFF-BALANCE SHEET RECORDS</b>						
	- written-off loans	115.263		113.952		99
	- agent business	367		389		106

## Annex 4.

## BALANCE SHEET OF MCCs

in KM 000

No.	DESCRIPTION	31.12.2016	%	31.03.2017	%	Index
1	2	3	4	5	6	7=5/3
<b>ASSETS</b>						
<b>1.</b>	<b>Cash (1a+1b)</b>	<b>4 496</b>	<b>14</b>	<b>545</b>	<b>1</b>	<b>12</b>
1a)	Cash and non-interest bearing deposit accounts	4 496	14	545	1	12
1b)	Interest-bearing deposit accounts	0	0	0	0	n/a
2.	Facilities to banks	0	0	0	0	n/a
3.	Loans	28 081		36 000		128
3a)	Loan loss reserves	176		214		122
<b>3b)</b>	<b>Net loans (3-3a)</b>	<b>27 905</b>	<b>85</b>	<b>35 786</b>	<b>97</b>	<b>128</b>
4.	Business premises and other fixed assets	115	0	160	1	139
5.	Long-term investments	0	0	0	0	n/a
6.	Other assets	455	1	513	1	113
7.	Minus: provisions for other assets items, except loans	9		12		133
<b>8.</b>	<b>TOTAL ASSETS</b>	<b>32 962</b>	<b>100</b>	<b>36 992</b>	<b>100</b>	<b>112</b>
<b>LIABILITIES</b>						
9.	Short-term loan commitments	5 549	17	9 208	25	166
10.	Long-term loan commitments	22 551	68	22 627	61	100
11.	Other liabilities	1 337	4	1 593	4	119
<b>12.</b>	<b>TOTAL LIABILITIES</b>	<b>29 437</b>	<b>89</b>	<b>33 428</b>	<b>90</b>	<b>114</b>
13.	Donated capital	0		0		n/a
14.	Core capital	600		600		100
15.	Issue premiums	0		0		n/a
<b>16.</b>	<b>Unallocated profit (16a+16b)</b>	<b>1 016</b>		<b>1 055</b>		<b>104</b>
16a)	Of previous years	331		1 017		307
16b)	Of current year	685		38		6
17.	Legal reserves	1 909		1 909		100
18.	Other reserves	0		0		n/a
<b>19.</b>	<b>TOTAL CAPITAL</b>	<b>3 525</b>	<b>11</b>	<b>3 564</b>	<b>10</b>	<b>101</b>
<b>20.</b>	<b>TOTAL LIABILITIES</b>	<b>32 962</b>	<b>100</b>	<b>36 992</b>	<b>100</b>	<b>112</b>
<b>OFF-BALANCE SHEET RECORDS</b>						
	<b>- written-off loans</b>	220		285		130
	<b>- agent business</b>	0		0		n/a

## Annex 5.

## INCOME STATEMENT OF MCFs

in KM 000

No.	DESCRIPTION	For the period 01.01. - 31.03.2016	%	For the period 01.01. - 31.03.2017	%	Index
1	2	3	4	5	6	7=(5/3)
<b>I</b>	<b>FINANCIAL INCOME AND EXPENSES</b>					
<b>1.</b>	<b>Interest income and similar income</b>					
1.1.	Interest by interest-bearing deposit accounts with deposit institutions	11	0	6	0	55
1.2.	Interest on facilities to banks	0	0	1	0	n/a
1.3.	Loan interest	15 984	98	16 686	98	104
1.4.	Other financial income	264	2	315	2	119
<b>1.5.</b>	<b>Total interest income and similar income (1.1. to 1.4.)</b>	<b>16 259</b>	<b>100</b>	<b>17 008</b>	<b>100</b>	<b>105</b>
<b>2.</b>	<b>Interest expenses and similar expenses</b>					
2.1.	Interest on borrowed funds	2 246	91	2 097	91	93
2.2.	Other financial expenses	213	9	196	9	92
<b>2.3.</b>	<b>Total interest expenses and similar expenses (2.1. to 2.2.)</b>	<b>2 459</b>	<b>100</b>	<b>2 293</b>	<b>100</b>	<b>93</b>
<b>3.</b>	<b>Net financial income (1.5. - 2.3.)</b>	<b>13 800</b>		<b>14 715</b>		<b>107</b>
<b>II</b>	<b>OPERATING INCOME AND EXPENSES</b>					
<b>4.</b>	<b>Operating income</b>					
4.1.	Fees for services performed	1 834	92	1 891	90	103
4.2.	Other operating income	164	8	204	10	124
<b>4.3.</b>	<b>Total operating income (4.1. do 4.2.)</b>	<b>1 998</b>	<b>100</b>	<b>2 095</b>	<b>100</b>	<b>105</b>
<b>5.</b>	<b>Operating expenses</b>					
5.1.	Salary and contributions costs	9 223	66	9 007	65	98
5.2.	Costs of business premises, other fixed assets and utility costs	2 632	19	2 844	20	108
5.3.	Other operating expenses	2 039	15	2 050	15	101
<b>5.4.</b>	<b>Total operating expenses (5.1. to 5.3.)</b>	<b>13 894</b>	<b>100</b>	<b>13 901</b>	<b>100</b>	<b>100</b>
6.	Loan loss provisions and provisions for other losses	1 266		1 127		89
<b>7.</b>	<b>Surplus/deficit of income over expenses from regular operations (3.+4.3.-5.4.-6.)</b>	<b>638</b>		<b>1 782</b>		<b>279</b>
8.	Extraordinary income	2 640		2 692		102
9.	Extraordinary expenses	207		111		54
<b>10.</b>	<b>Surplus/deficit of income over expenses (7.+8.-9.)</b>	<b>3 071</b>		<b>4 363</b>		<b>142</b>

## Annex 6.

## INCOME STATEMENT OF MCCs

in KM 000

No.	DESCRIPTION	For the period 01.01. - 31.03.2016	%	For the period 01.01. - 31.03.2017	%	Index
1	2	3	4	5	6	7=(5/3)
<b>I</b>	<b>FINANCIAL INCOME AND EXPENSES</b>					
<b>1.</b>	<b>Interest income and similar income</b>					
1.1.	Interest by interest-bearing deposit accounts with deposit institutions	0	0	0	0	n/a
1.2.	Interest on facilities to banks	0	0	0	0	n/a
1.3.	Loan interest	768	100	1 360	100	177
1.4.	Other financial income	1	0	1	0	100
<b>1.5.</b>	<b>Total interest income and similar income (1.1. to 1.4.)</b>	<b>769</b>	<b>100</b>	<b>1 361</b>	<b>100</b>	<b>177</b>
<b>2.</b>	<b>Interest expenses and similar expenses</b>					
2.1.	Interest on borrowed funds	250	97	421	95	168
2.2.	Other financial expenses	9	3	24	5	267
<b>2.3.</b>	<b>Total interest expenses and similar expenses (2.1. to 2.2.)</b>	<b>259</b>	<b>100</b>	<b>445</b>	<b>100</b>	<b>172</b>
<b>3.</b>	<b>Net financial income (1.5. - 2.3.)</b>	<b>510</b>		<b>916</b>		<b>180</b>
<b>II</b>	<b>OPERATING INCOME AND EXPENSES</b>					
<b>4.</b>	<b>Operating income</b>					
4.1.	Fees for services performed	54	93	100	89	185
4.2.	Other operating income	4	7	12	11	300
<b>4.3.</b>	<b>Total operating income (4.1. to 4.2.)</b>	<b>58</b>	<b>100</b>	<b>112</b>	<b>100</b>	<b>193</b>
<b>5.</b>	<b>Operating expenses</b>					
5.1.	Salary and contributions costs	224	80	584	66	261
5.2.	Costs of business premises, other fixed assets and utility costs	13	5	200	23	1 538
5.3.	Other operating expenses	41	15	101	11	246
<b>5.4.</b>	<b>Total operating expenses (5.1. to 5.3.)</b>	<b>278</b>	<b>100</b>	<b>885</b>	<b>100</b>	<b>318</b>
6.	Loan loss provisions and provisions for other losses	89		109		122
<b>7.</b>	<b>PROFIT/LOSS FROM REGULAR BUSINESS OPERATIONS (3.+4.3.-5.4.-6.)</b>	<b>201</b>		<b>34</b>		<b>17</b>
8.	Extraordinary income	2		6		300
9.	Extraordinary expenses	1		2		200
10.	PROFIT/LOSS BEFORE TAXES	202		38		19
11.	TAXES	0		0		n/a
<b>12.</b>	<b>NET PROFIT/LOSS</b>	<b>202</b>		<b>38</b>		<b>19</b>

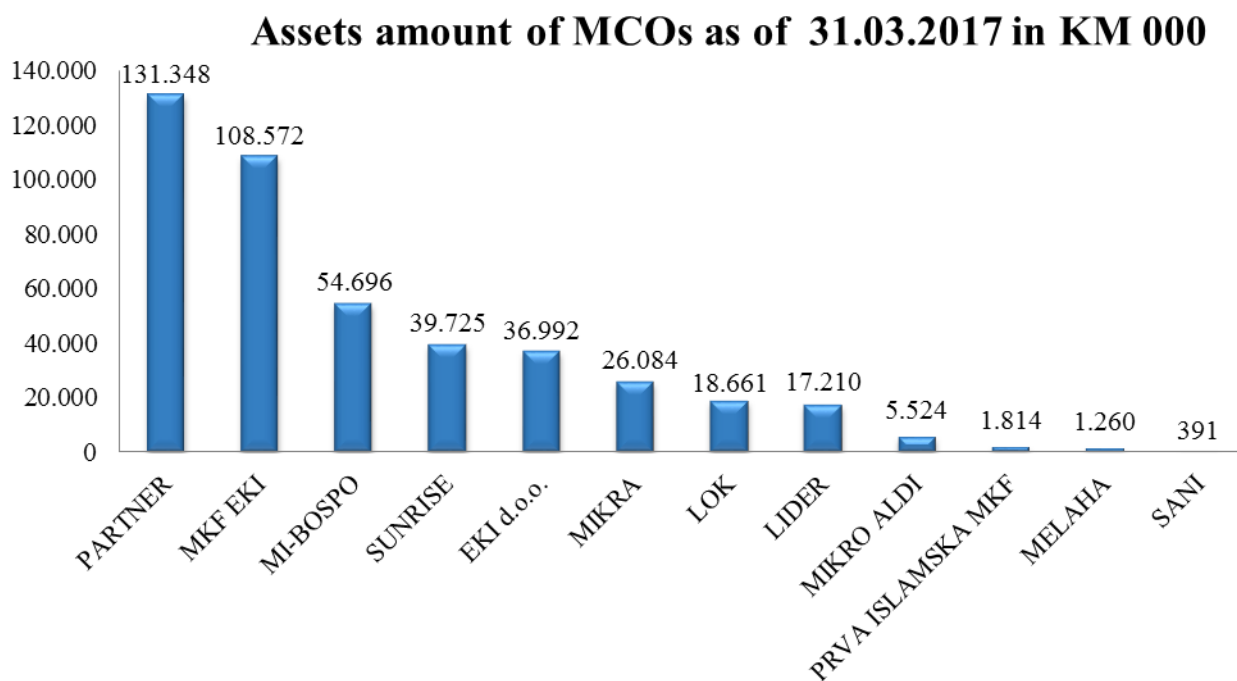
**Annex 7.**
**OVERVIEW OF DONATED FUNDS OF MCFs  
as of 31.03.2017**
*KM 000*

No.	Donor	MKF EKI Sarajevo	MKF LIDER Sarajevo	LOK MKF Sarajevo	MKF MELAHA Sarajevo	MKF ML-BOSPO Tuzla	MKF MIKRA Sarajevo	MKF MIKRO ALDI Goražde	PARTNER MKF Tuzla	PRVA ISLAMSKA MKF	MKF SUNRISE Sarajevo	TOTAL
<b>Credit fund donations</b>		<b>6 326</b>	<b>5 891</b>	<b>4 639</b>	<b>0</b>	<b>3 354</b>	<b>4 070</b>	<b>804</b>	<b>16 561</b>	<b>2 265</b>	<b>1 940</b>	<b>45 850</b>
1.	Mercy Corps								10 091			10 091
2.	USAID	3 046		543					3 046			6 635
3.	CHF-(SIDA, MEDI, HILP)		5 891									5 891
4.	LIP			1 479		947			675		1 214	4 315
5.	CRS						4 070					4 070
6.	UNHCR			1 198		479		200	1 229		613	3 719
7.	Islamic Relief WW, Representative Office Sarajevo									2 265		2 265
8.	UNDP	1 932		153					59			2 144
9.	UMCOR			637		377			317			1 331
10.	IRC					371			805			1 176
11.	SIDA Housing	1 080										1 080
12.	Women's World Banking PRM/USA State Department			577		1 034						1 034
13.	Department											577
14.	OXFAM							500				500
15.	EZE, Germany								339			339
16.	USDA Know-How Project	237										237
17.	Church World Service					146						146
18.	Other	31		52				104			113	300
<b>Fixed assets donations</b>		<b>8</b>	<b>0</b>	<b>286</b>	<b>0</b>	<b>12</b>	<b>235</b>	<b>80</b>	<b>229</b>	<b>0</b>	<b>85</b>	<b>935</b>
19.	Unipromet						235					235
20.	Mercy Corps								229			229
21.	Nedžad Beglerović			102								102
22.	NOVIB							80				80
23.	EBRD										75	75
24.	Other	8		184		12					10	214
<b>Operating expenses donations</b>		<b>1 019</b>	<b>874</b>	<b>2 810</b>	<b>500</b>	<b>1 344</b>	<b>17</b>	<b>146</b>	<b>2 051</b>	<b>0</b>	<b>711</b>	<b>9 472</b>
25.	LIP			1 515					201		711	2 427
26.	USAID					1 344			591			1 935
27.	CHF		874									874
28.	Mercy Corps								808			808
29.	SIDA Housing	748										748
30.	PM			556								556
31.	BCT			519								519
32.	JKPHD La Benevolencija				500							500
33.	NBR			220								220
34.	UNHCR								176			176
35.	EFSE	26						1	91			118
36.	NOVIB							110				110
37.	EBRD	105							1			106
38.	IFC	104										104
39.	Other	36					17	35	183			271
<b>TOTAL DONATED CAPITAL</b>		<b>7 353</b>	<b>6 765</b>	<b>7 735</b>	<b>500</b>	<b>4 710</b>	<b>4 322</b>	<b>1 030</b>	<b>18 841</b>	<b>2 265</b>	<b>2 736</b>	<b>56 257</b>

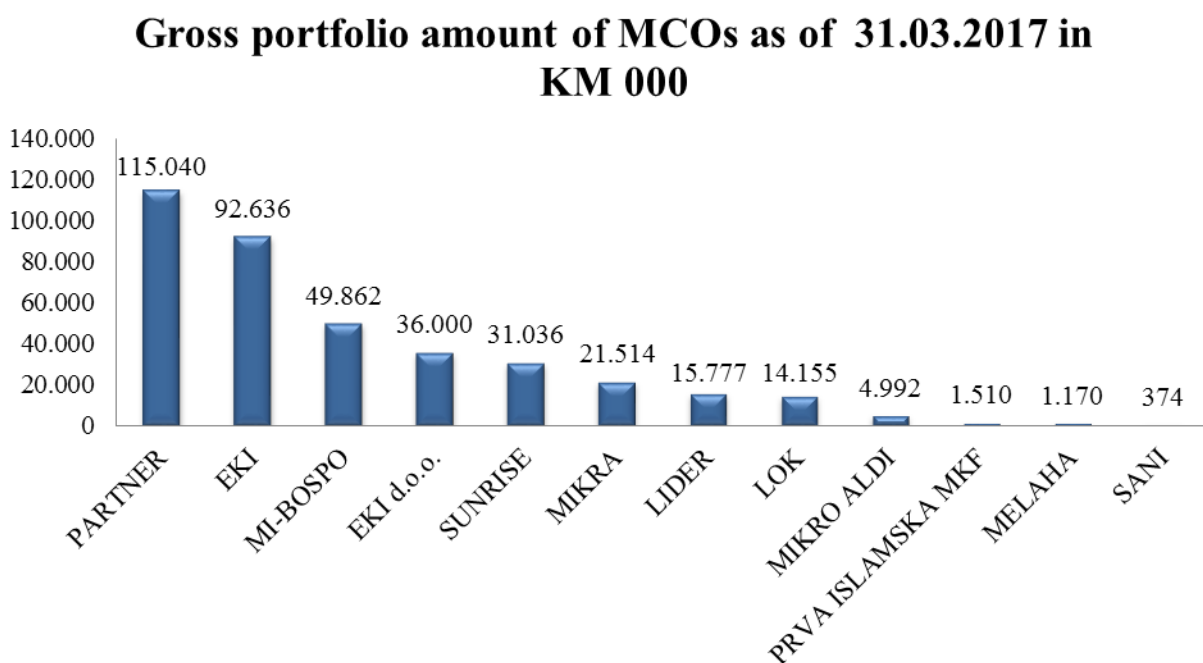
## GRAPHS

- Graph 1. Assets amount of MCOs as of 31.03.2017 in KM 000
- Graph 2. Gross portfolio amount of MCOs as of 31.03.2017 in KM 000
- Graph 3. Loan commitments amount of MCOs as of 31.03.2017 in KM 000
- Graph 4. Capital amount of MCOs as of 31.03.2017 in KM 000
- Graph 5. Donated capital amount (by reports) of MCOs as of 31.03.2017 in KM 000
- Graph 6. Surplus/deficit of income over expenses of MCFs, i.e. net profit/loss of MCCs for the period 01.01.- 31.03.2017 in KM 000
- Graph 7. Operational sustainability of MCOs in the period 01.01.- 31.03.2017
- Graph 8. Number of employees of MCOs as of 31.03.2017
- Graph 9. Number of organisational units of MCOs seated in the Federation of B&H as of 31.03.2017
- Graph 10. Number of active loan accounts of MCOs with the balance as of 31.03.2017
- Graph 11. Number of written-off loans in the off-balance records as of 31.03.2017
- Graph 12. Loan amount in KM 000 written-off in the period 01.01.- 31.03.2017
- Graph 13. Collection amount by written-off loans in KM 000 in the period 01.01.- 31.03.2017
- Graph 14. Total receivables amount by written-off loans of MCOs in KM 000 with balance as of 31.03.2017
- Graph 15. Total receivables by written-off loans vs. total gross portfolio of MCOs as of 31.03.2017
- Graph 16. Risk portfolio over 30 days past due as of 31.03.2017
- Graph 17. Fixed assets and capital vs. total assets as of 31.03.2017
- Graph 18. Average monthly compensations to members of management/supervisory board of MCOs for the period 01.01.- 31.03.2017
- Graph 19. Average monthly income of senior management in MCOs for the period 01.01.- 31.03.2017
- Graph 20. Average monthly income of loan officers of MCOs for the period 01.01.- 31.03.2017
- Graph 21. Total microloans disbursed in Q1 2017 in KM 000
- Graph 22. Average weighted EIR on total loans as per MCO reports of in Q1 2017
- Graph 23. Average weighted EIR on short-term loans as per MCO reports in Q1 2017
- Graph 24. Average weighted EIR on long-term loans as per MCO reports in Q1 2017

**Graph 1**

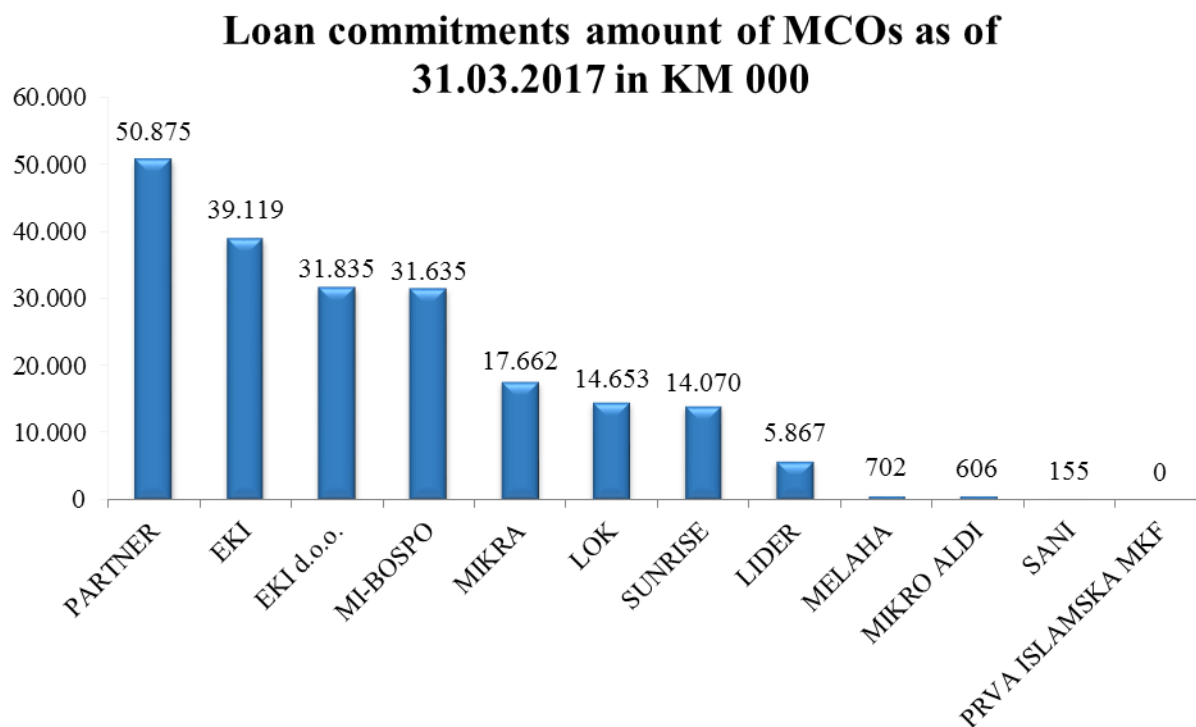


**Graph 2**

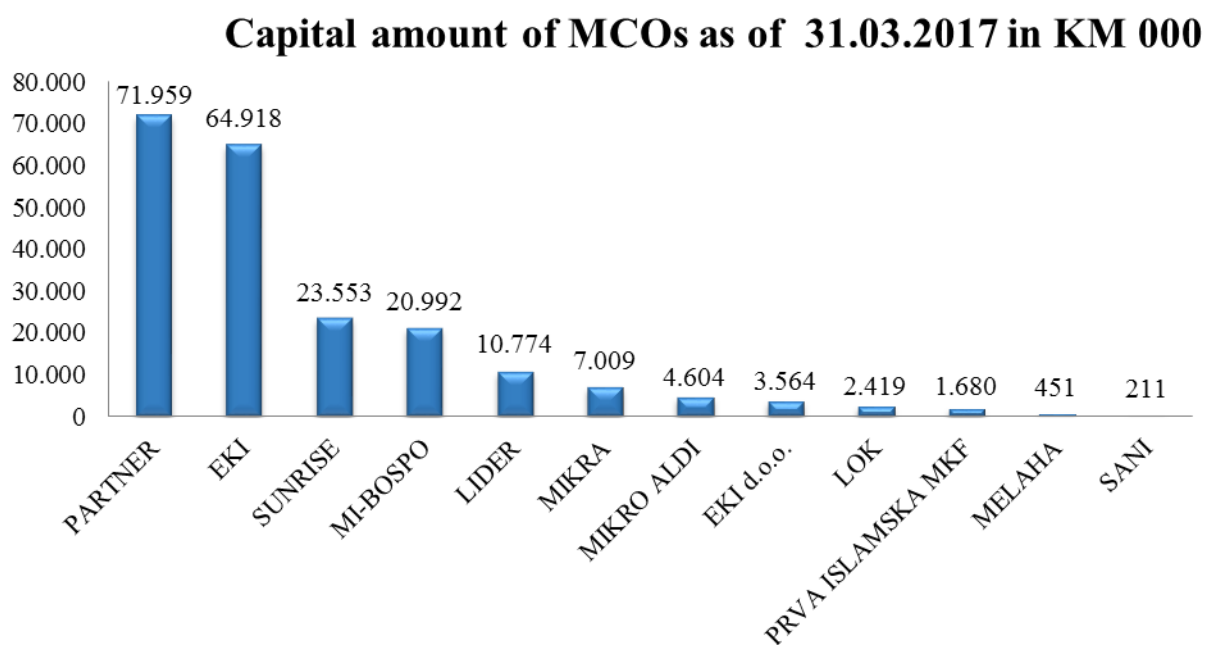




**Graph 3**

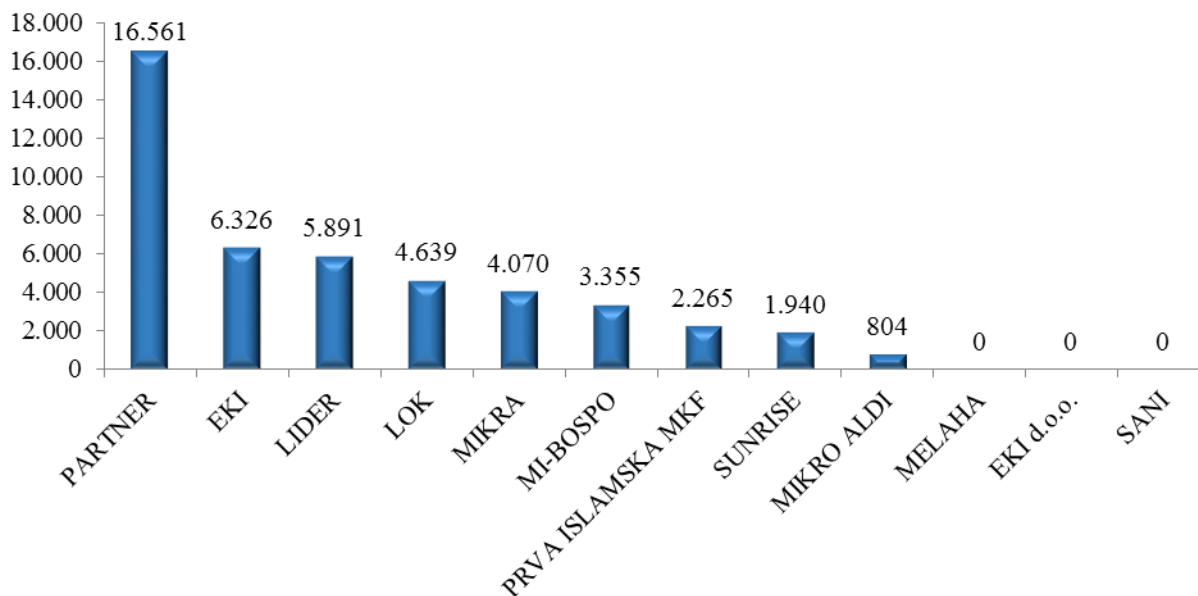


**Graph 4**



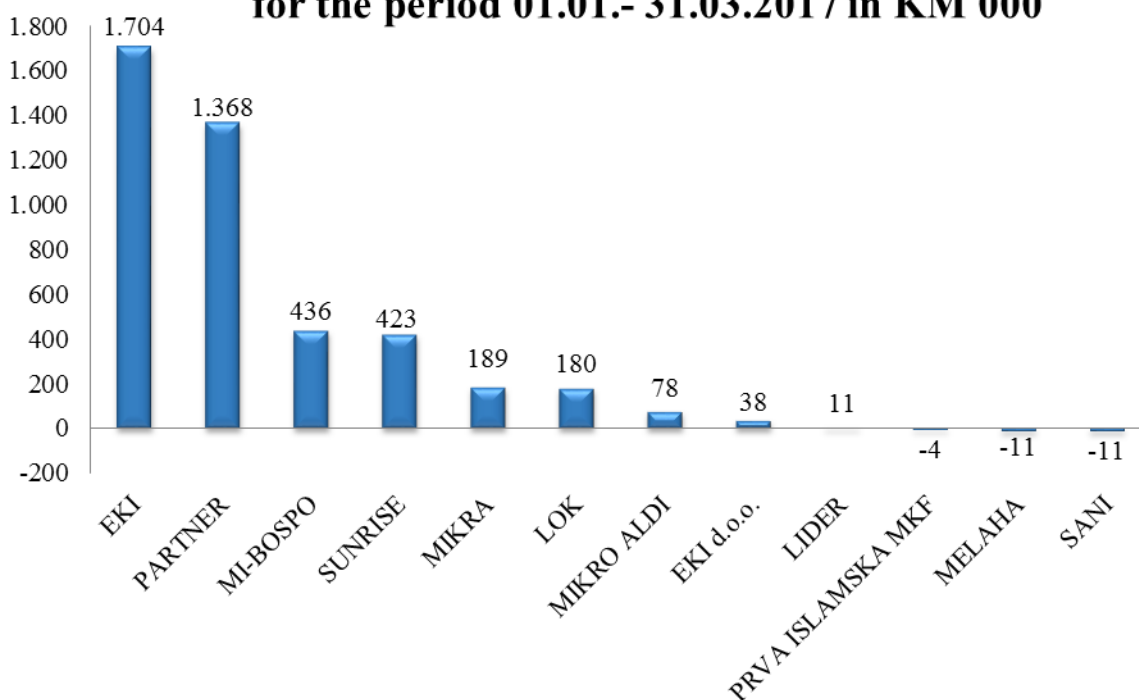
**Graph 5**

**Donated capital amount (by reports) of MCOs as of 31.03.2017 in KM 000**



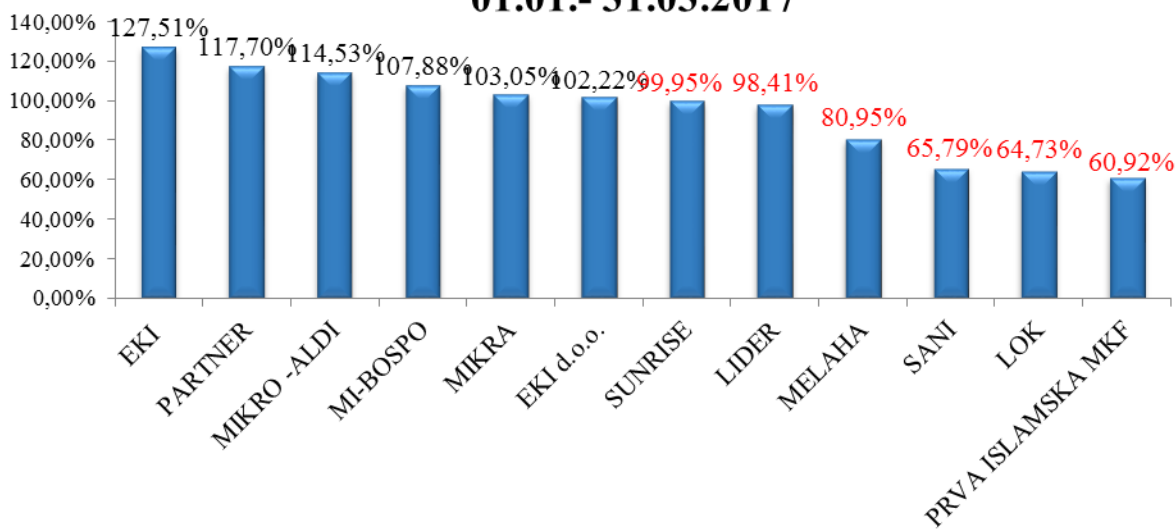
**Graph 6**

**Surplus/deficit of income over expenses of MCFs, i.e. net profit/loss of MCCs for the period 01.01.- 31.03.2017 in KM 000**



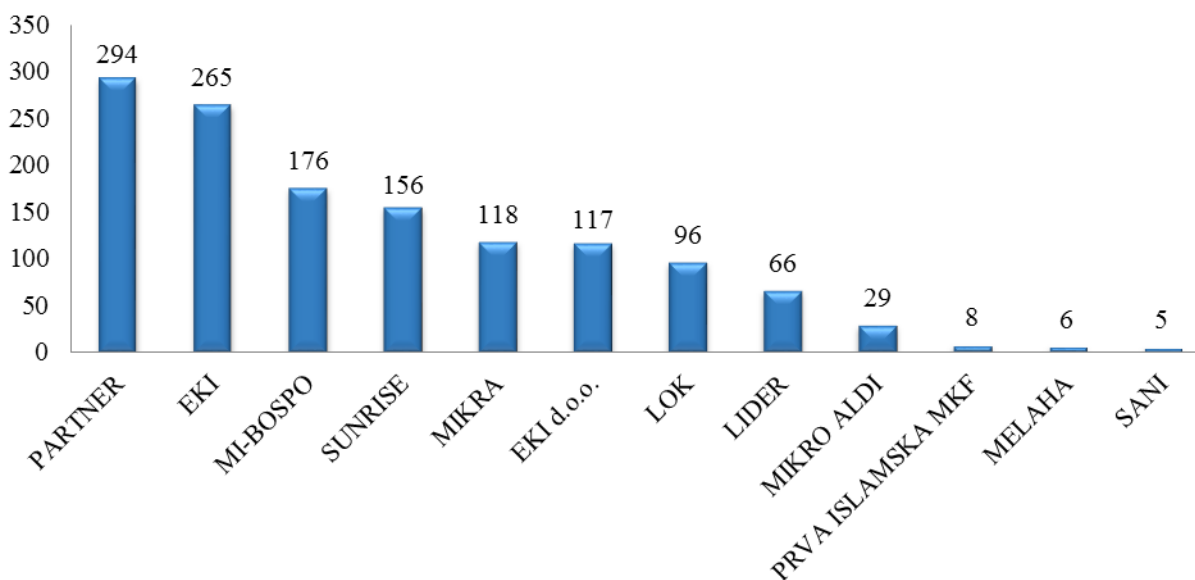
**Graph 7**

**Operational sustainability of MCOs in the period  
01.01.- 31.03.2017**



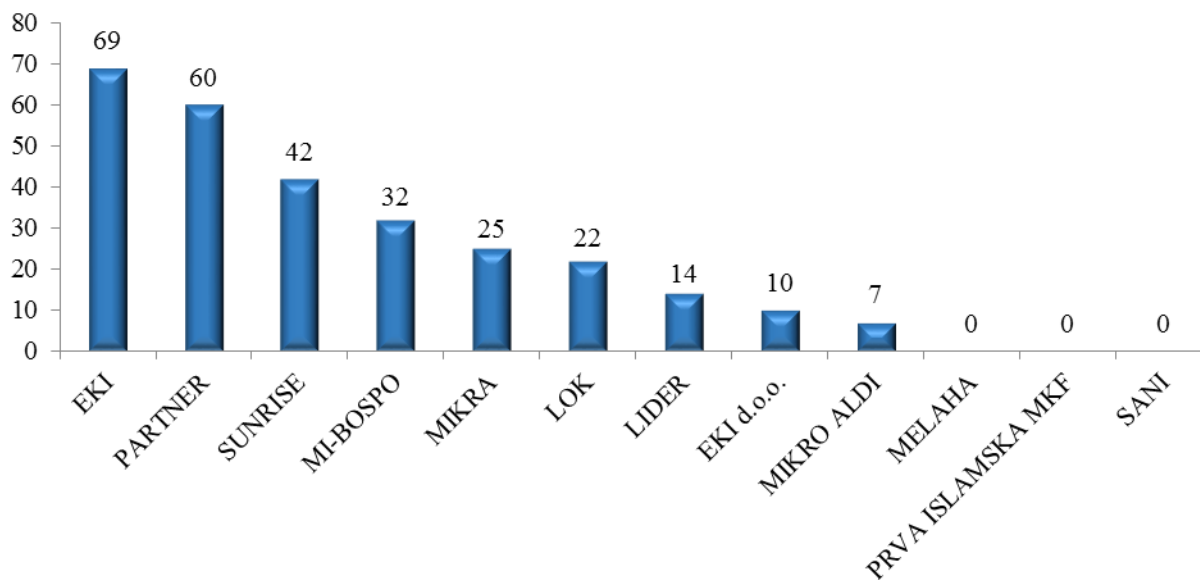
**Graph 8**

**Number of employees of MCOs as of 31.03.2017**



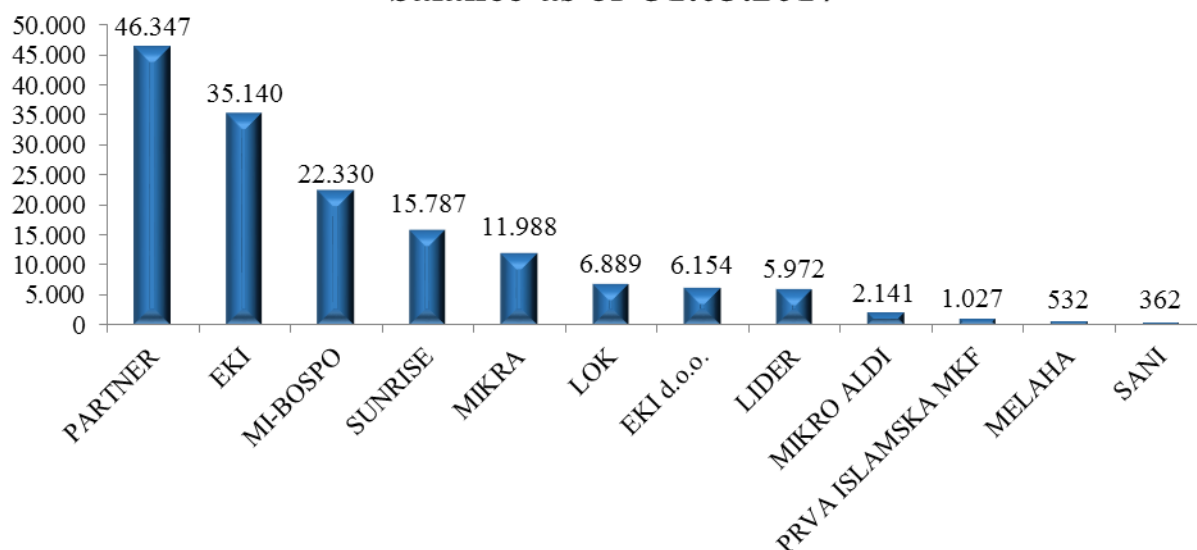
**Graph 9**

**Number of organisational units of MCOs seated in the Federation of B&H as of 31.03.2017**



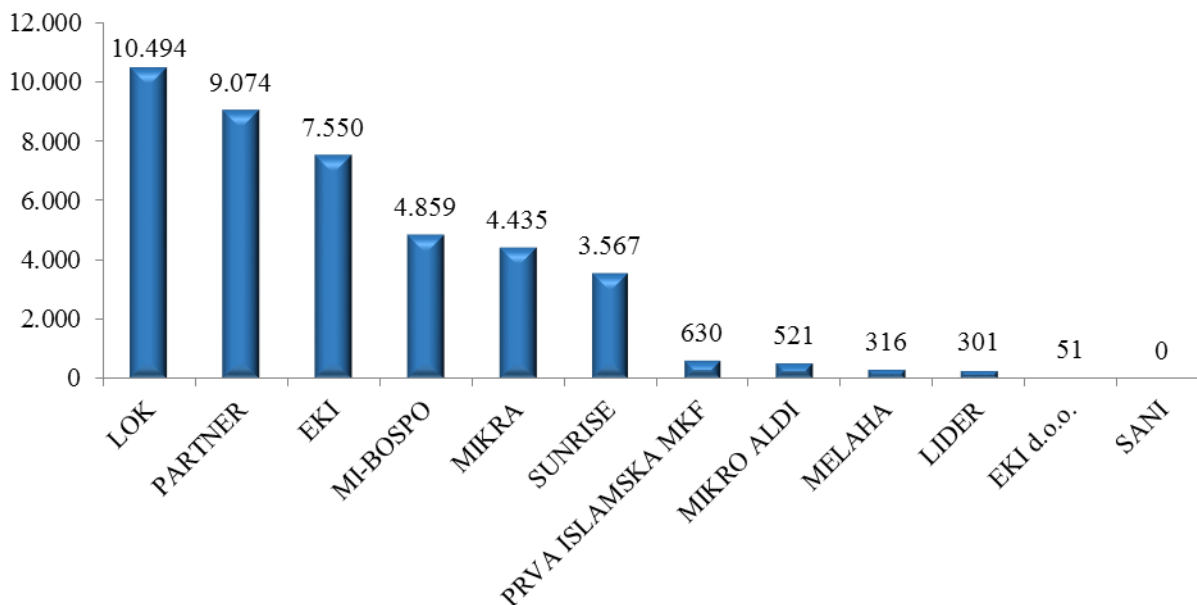
**Graph 10**

**Number of active loan accounts of MCOs with the balance as of 31.03.2017**



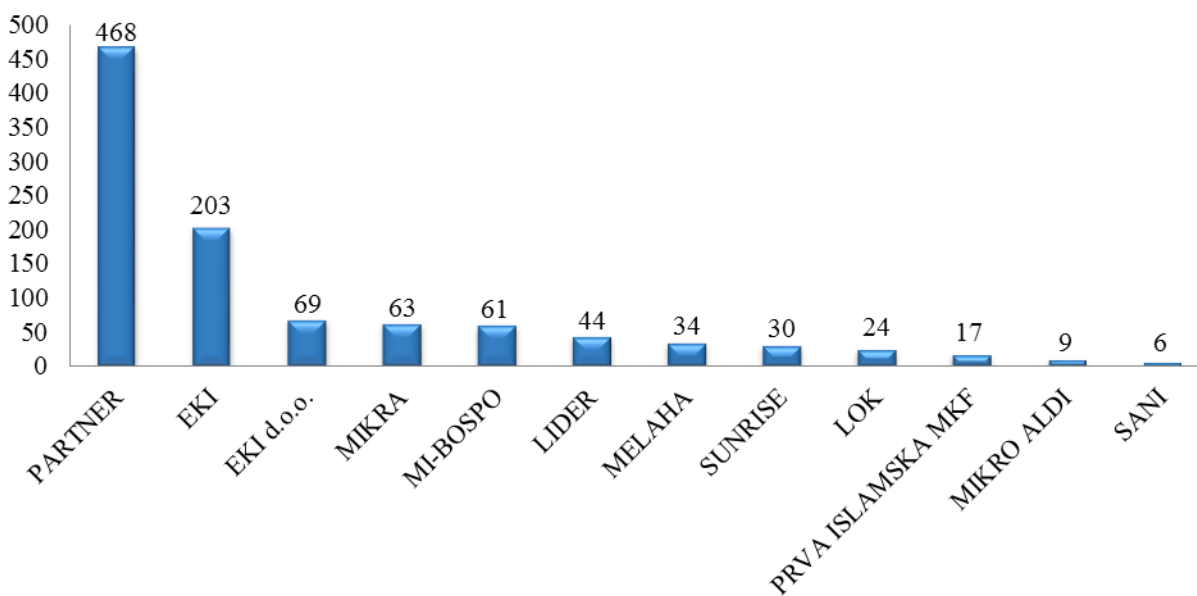
**Graph 11**

**Number of written-off loans in the off-balance sheet records as of 31.03.2017**



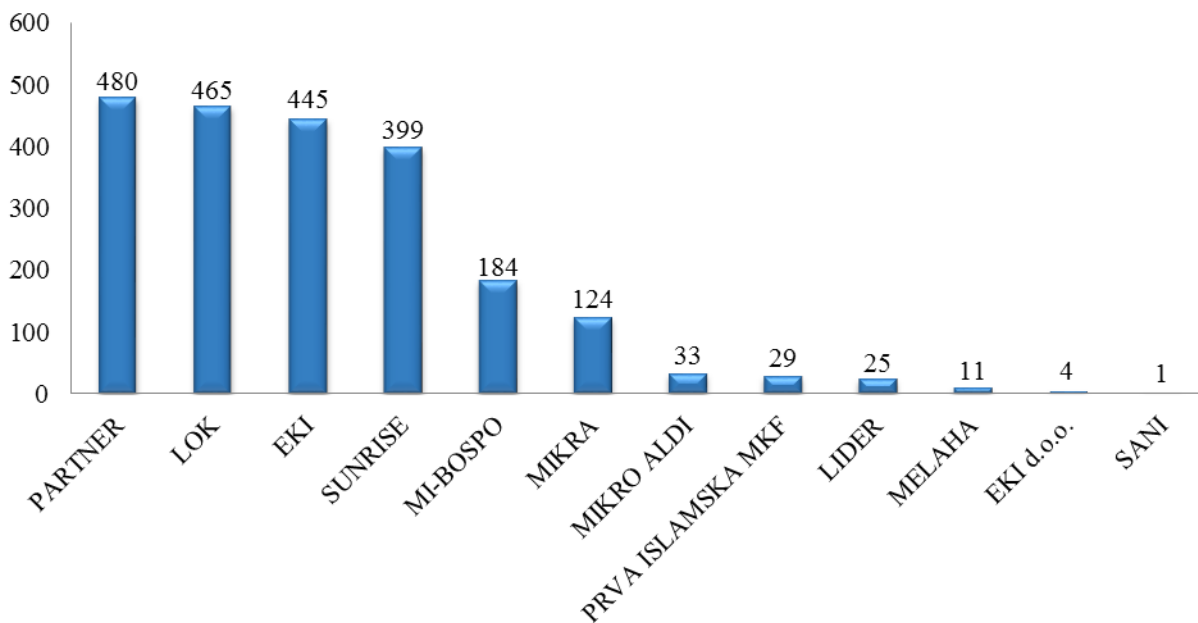
**Graph 12**

**Loan amount in KM 000 written-off in the period 01.01.- 31.03.2017**



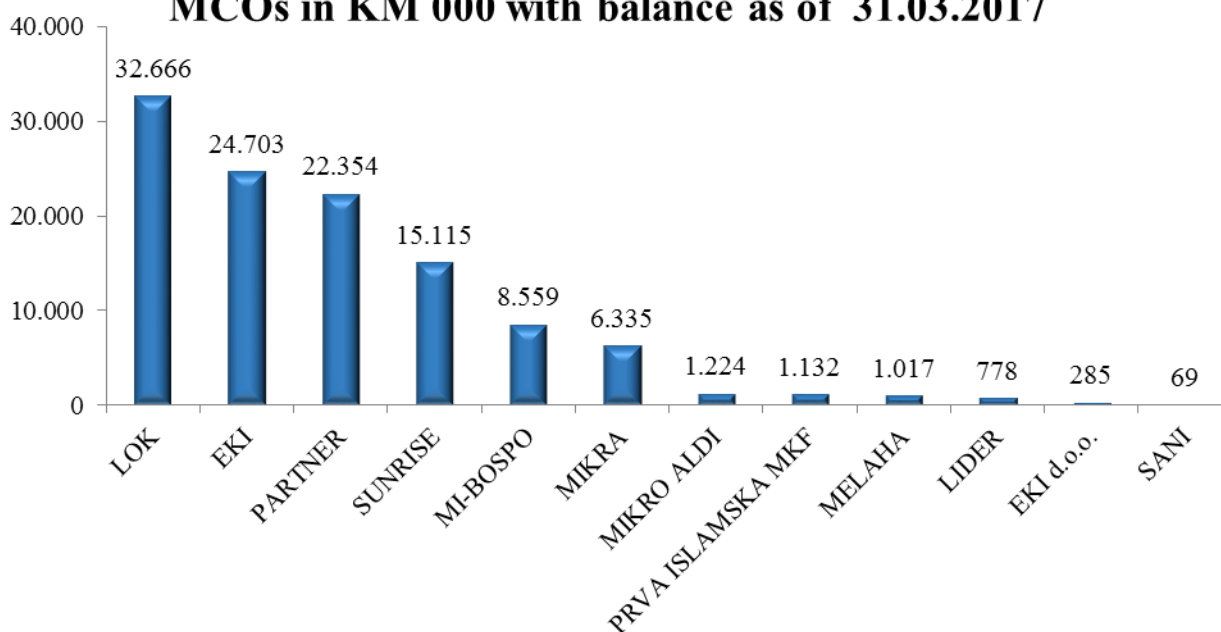
**Graph 13**

**Collection amount by written-off loans in KM 000 in the period 01.01.- 31.03.2017**



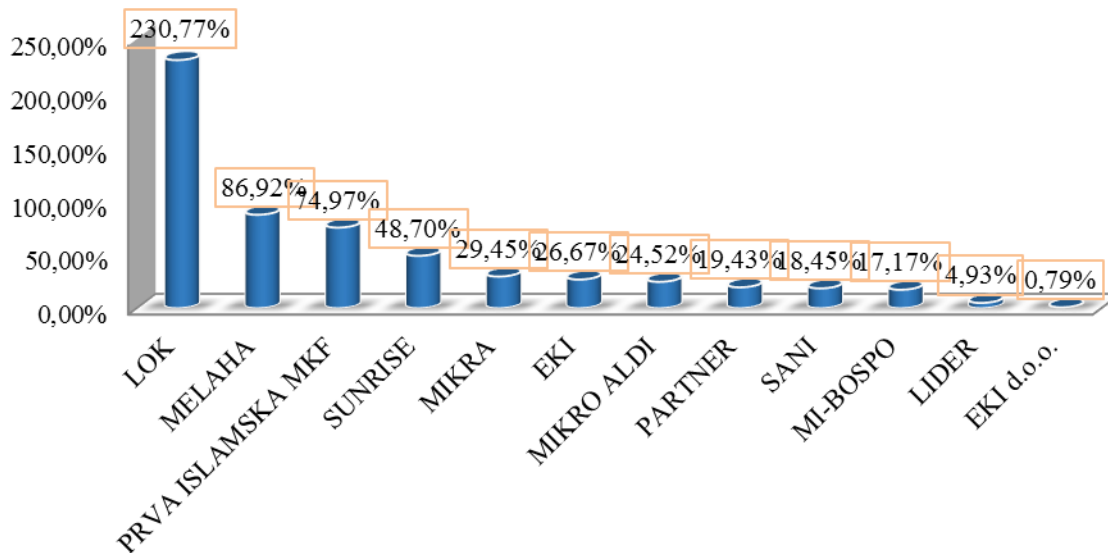
**Graph 14**

**Total receivables amount by written-off loans of MCOs in KM 000 with balance as of 31.03.2017**



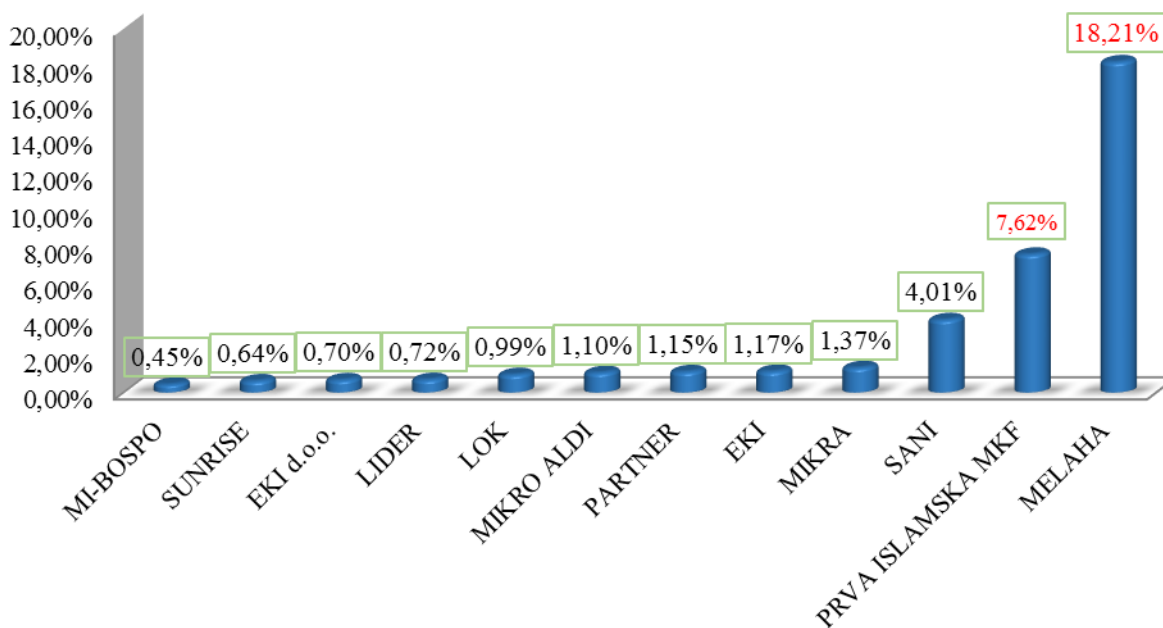
**Graph 15**

**Total receivables by written-off loans vs. total gross portfolio of MCOs as of 31.03.2017**

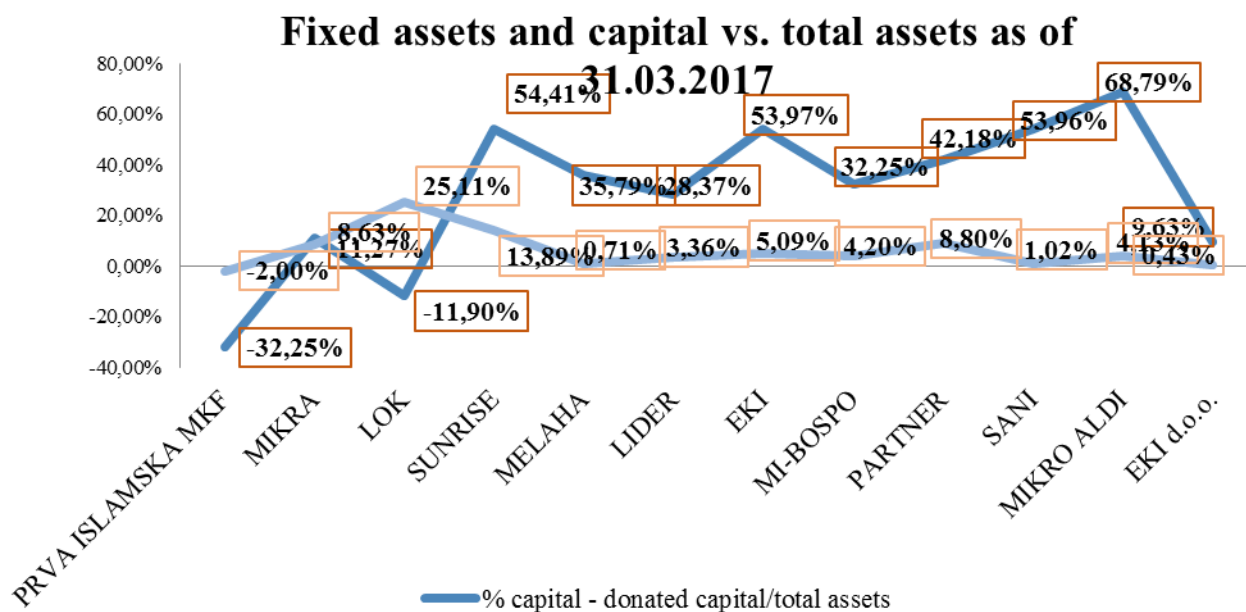


**Graph 16**

**Risk portfolio over 30 days past due as of 31.03.2017**

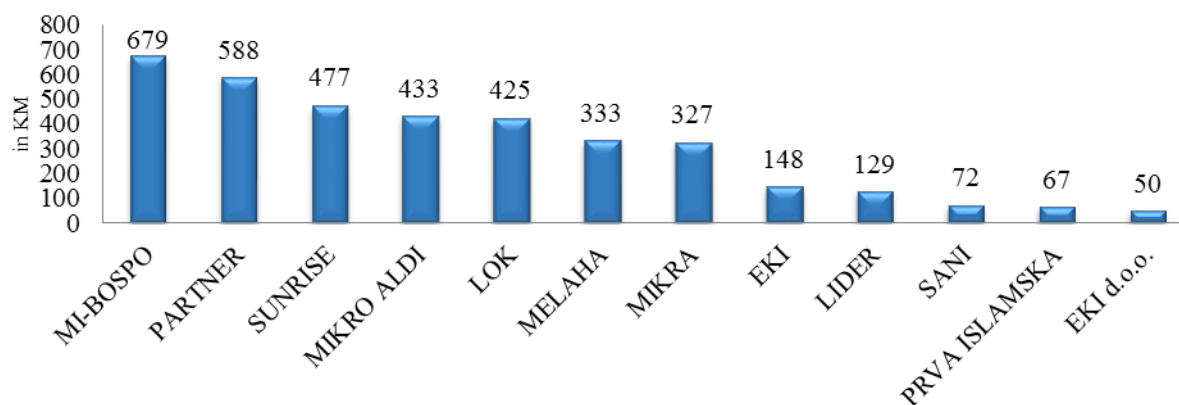


**Graph 17**



**Graph 18**

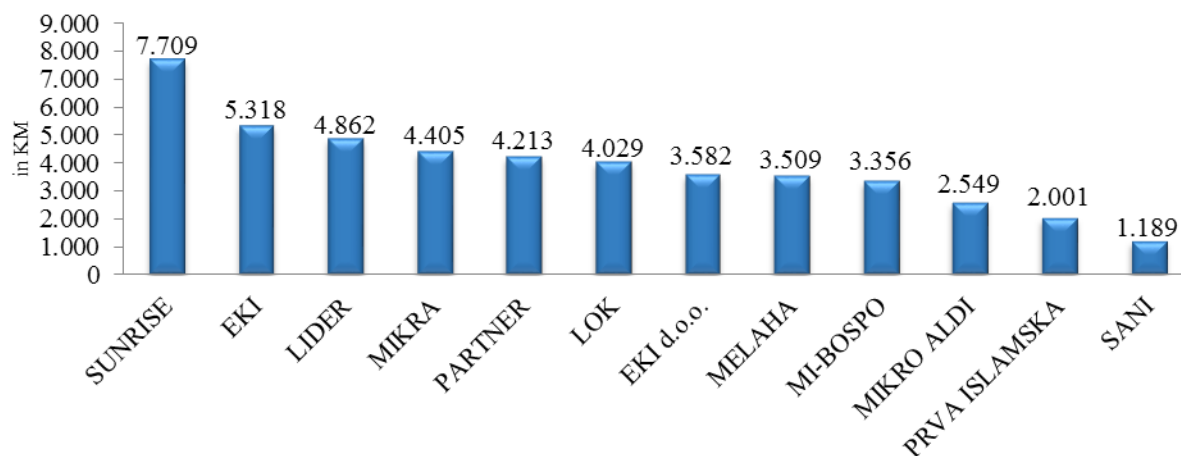
**Average monthly compensations to members of management/supervisory board of MCOs for the period 01.01.- 31.03.2017**





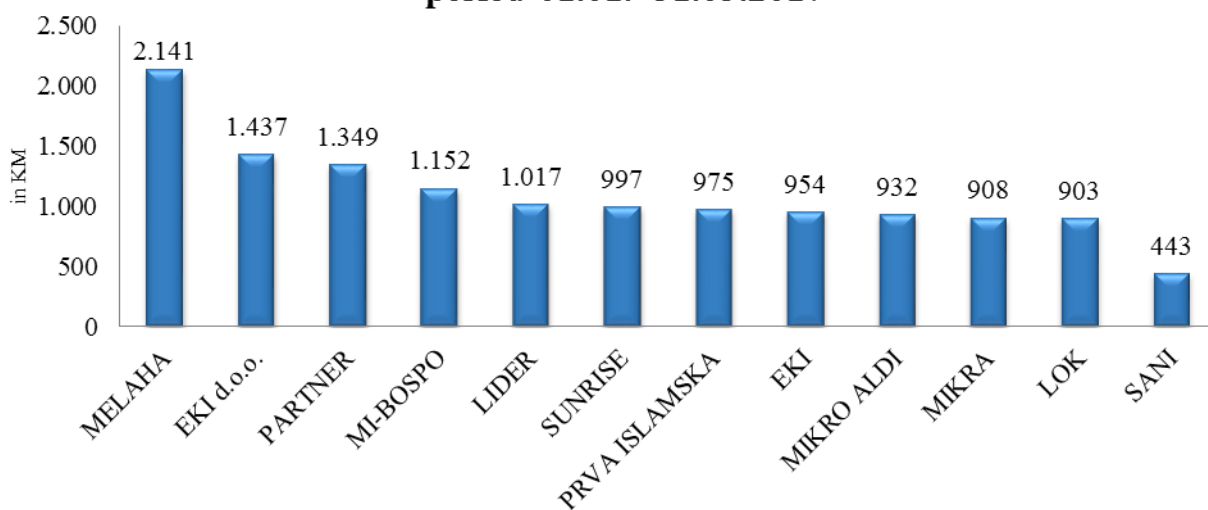
**Graph 19**

**Average monthly income of senior management in MCOs for the period 01.01.- 31.03.2017**



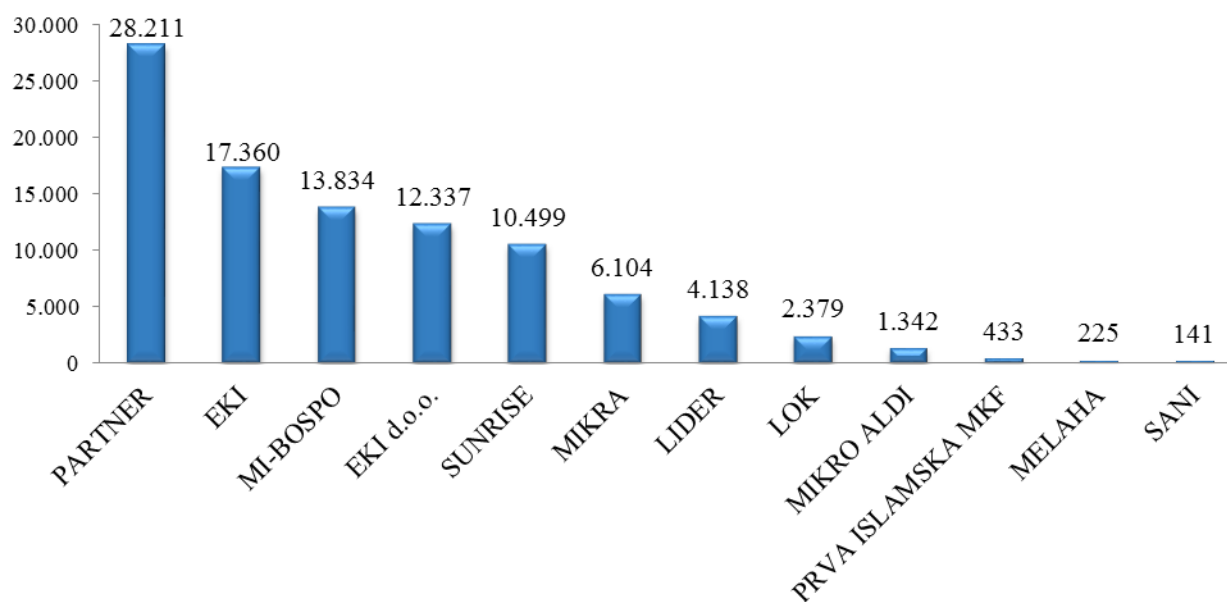
**Graph 20**

**Average monthly income of loan officers of MCOs for the period 01.01.- 31.03.2017**



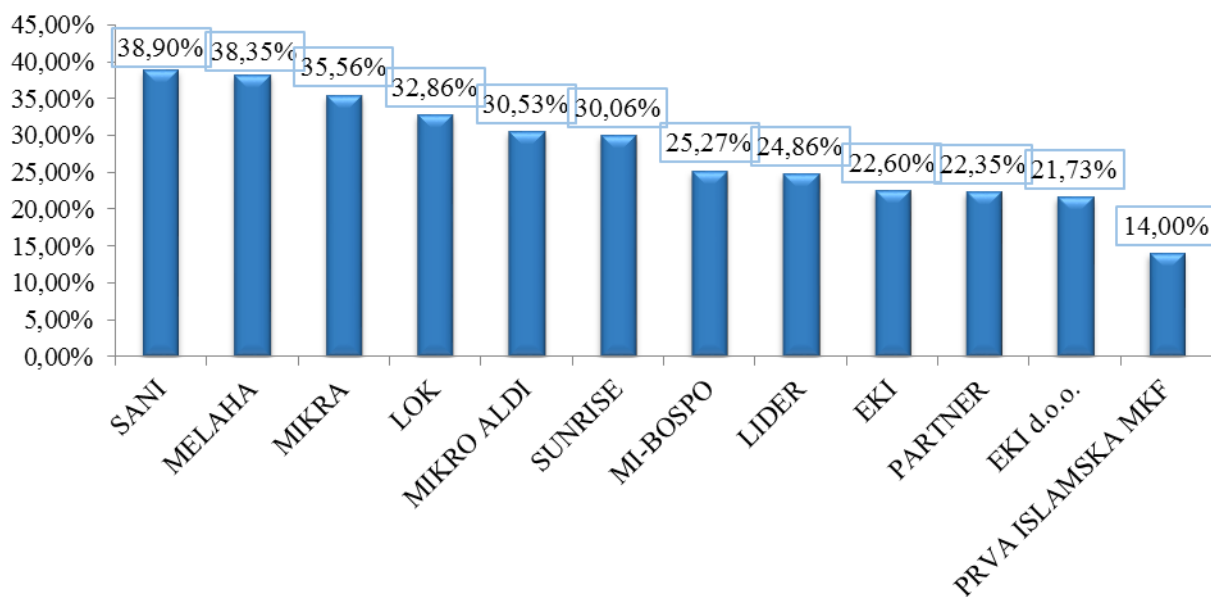
**Graph 21**

**Total microloans disbursed in Q1 2017 in KM 000**

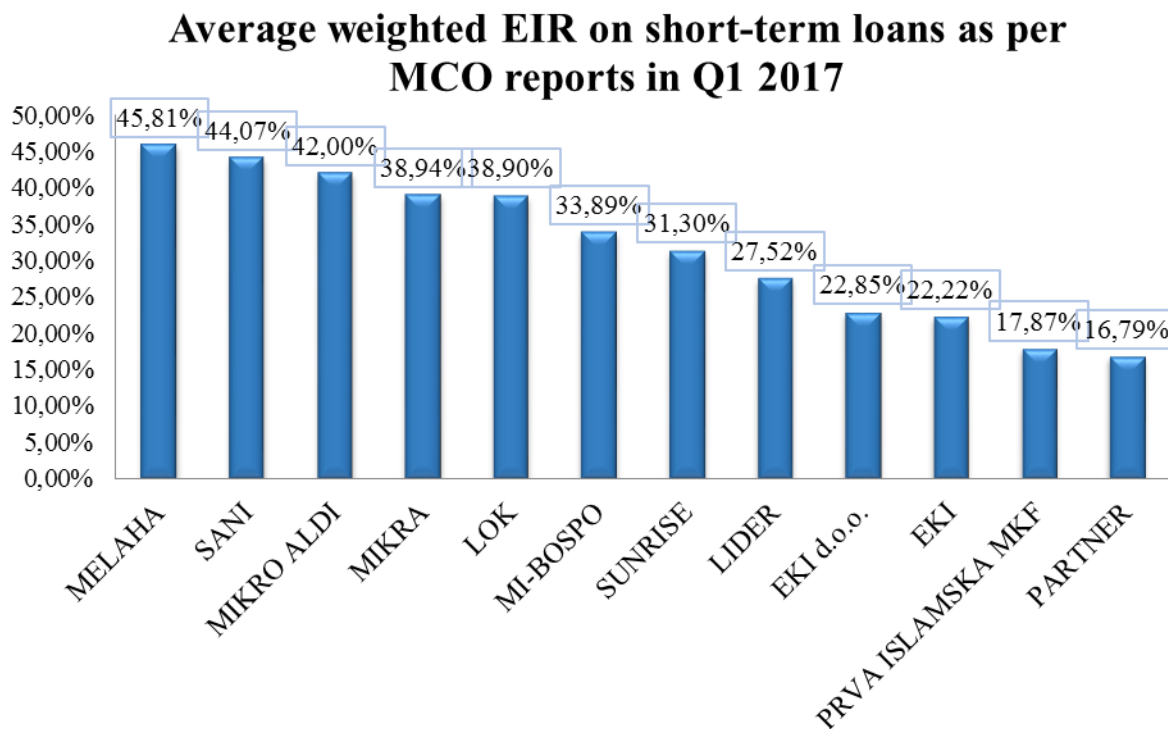


**Graph 22**

**Average weighted EIR on total loans as per MCO reports of in Q1 2017**



**Graph 23**



**Graph 24**

