



**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 31.12.2010.**

Sarajevo, March 2011

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### GRAPHS:

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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.

### ***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, published in the „Official Gazette of the Federation of BiH“ number: 27/07 ( the tenth Decision is issued in the “Official Gazette of the Federation of BiH”, Number 32/10) and instructions for business operations of MCOs adopted by the Director of the Agency.

#### ***Agency's decisions regarding the business operations of MCOs***

- 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;*
- 2. Decision on conditions and the procedure for issuing and revoking the business operation license and other approvals to micro-credit organizations;*
- 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;*
- 4. Decision on supervision of the business operations of the micro-credit organizations;*
- 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;*
- 6. Decision on the amount and manner for allocating and maintaining reserves for covering the loan losses of micro-credit organizations;*
- 7. Decision on unified manner of accrual and recording of effective interest rates on loans and deposits,*
- 8. Decision on other general conditions for business operations of the macro-credit organizations and*
- 9. Decision on fees that the micro-credit organizations pay to the Banking Agency of the Federation of BiH*
- 10. Decision on conditions and the manner of micro credit organization's acting on client's complaints.*

#### ***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. MCOs performance trend in the Federation of BiH in 2010***

There is a continuation of decline of the gross portfolio of MCCs during 2010, due to more restrictive lending policies that MCOs introduced as an answer to increased credit risk and increased charge off of loans that are 180 days delinquent. In comparison to the end of 2009, there is a gradual decrease of the negative result of the performance measured by the realized net result accrued on the annual level for the average assets. Although the operating sustainability of the organizations measured by the operating income on the operating expense improved in comparison to the results realized for the same period last year. The indicators of the loan portfolio quality record a relative improvement. The ratio of the reserves for loan losses in relation to the portfolio is improving, decreasing from 7,9% to 5,7%. The risk portfolio has improved from 8,6% to 6,18%. The off balance sheet increased by 82% in comparison to the previous year. Evident is the increase trend in the restructured loans. Due to the slowed down lending, MCOs are too liquid, and the participating funds that are being earned, that is the credit portfolio, recorded a significant downfall in comparison to the end of 2009.

The result of the presented trend in the performance in this period is the improvement of the internal control systems in major number of MCCs, adjustment of the loan policies and procedures with the emphasis on the importance of the collection in comparison to the previous focus on the loan pay out, as well as the focus on the improvement of the organization sustainability. However, the consequence of aggressive growth of the majority MCOs from the previous periods, current economic environment as well as the general attitude of the public towards the sector left significant negative effects on the development of the MCOs, and which, it seems, can be overcome only through restructuring the MCOs' sector.

### ***1.3 Measures necessary on the level of the sector with an aim to eradicate the adverse effects of the business performance***

The Banking Agency of the Federation of BiH sees the necessary measures for eradicating the negative effects of the business operations and protection of the donated funds, in the changes to the Law on micro credit organizations with an aim to correct the vagueness of the existing regulations, adjusting the decisions in regard to the changes of the law, defining all the important aspects of MCCs performance, improving the management segment and leadership, limiting the transactions with the related entities, etc. Also, the new legal framework would enable creation of the legal preconditions for implementation of an advisor role with as special authorizations in the case of significant irregularities in the performance and MCCs losses.

The consolidation on the level of micro-credit organizations is still an imperative for healing of the sector in the coming period which would stabilize the micro-credit sector, decrease the consequences of the excessive competition, increase the MCOs management and personnel competence, strengthen the capital base of a smaller number of stronger and more sound MCOs, as well as implement significant savings in business operation expenses, which in turn would influence the decrease of the micro-credit interest rates.

The Agency will insist on the following: the full application and implementation of the law and regulations of the Agency, improving the transparency of performance of MCOs, overcoming the problems that occurred in the quality of the loan portfolio, obliged exchange of information on the level of sectors and the Central credit registry of CBBiH, improvement of the institutional capacity and internal controls in MCOs, as well as the responsible lending and implementation of the mission and aims of micro-credit sector, and that implies performing the microcredit activities with an aim to improve material position of the users of microcredit, increase of the employment and providing support for the development of the entrepreneurship.

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

As of 31.12.2010., there are 18 MCOs in the Federation of Bosnia and Herzegovina, of that 17 MCF (nonprofit organizations) and 1 MCF's (profit organization), as well as 40 MCCs organization units which head offices are in Republic Srpska. One MCF initiated the process of termination of operations, and did not submit the quarterly reports, therefore the data of 16 MCFs has been included in the Information. 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.

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 31.12.2010, so in comparison to 31.12.2009., the total number of organizational units with the head offices in the Federation declined by 10%. MCFs with head office in the Federation of BiH have a total of 362 organizational units, of which in the Federation of BiH 238, Republic Srpska 121 and District Brčko 3. A total of 211 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 at the Federal Ministry of Justice. There are 9 MCFs that have organizational units outside of the Federation of BiH.

The Agency issued a license to organizational units of one MCC with a head office in Republic Srpska, which operates in Federation of BiH through 40 business units and field offices.

## 2.1. Personnel

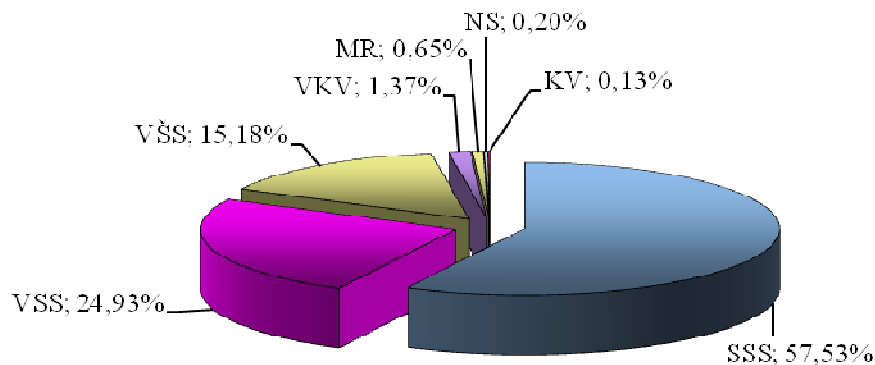
Table 1. Qualification structure of employees

No.	Qualification <sup>1</sup>	31.12.2009.		Total	Part.	31.12.2010.		Total	Part.	Index
		MCF	MCC			MCF	MCC			
1	2	3	4	5=(3+4)	6	7	8	9=(7+8)	10	11=9/5
1.	NS	4	0	4	0	3	0	3	0	75
2.	KV	2	0	2	0	2	0	2	0	100
3.	VKV	23	0	23	1	21	0	21	1	91
4.	SSS	1137	3	1140	64	876	3	879	58	77
5.	VŠS	214	0	214	12	232	0	232	15	108
6.	VSS	394	3	397	22	378	3	381	25	96
7.	MR	10	0	10	1	10	0	10	1	100
<b>TOTAL</b>		<b>1784</b>	<b>6</b>	<b>1790</b>	<b>100</b>	<b>1522</b>	<b>6</b>	<b>1528</b>	<b>100</b>	<b>85</b>

As of 31.12.2010., micro-credit sector employed a total of 1.528 employees, which is for 262 employees or 15% less than as of 31.12.2009. MCFs employ 1.522 employees or 99,6%, and MCCs 6 employees or 0,4%.

In the structure of employees the largest participation is of SSS of 57,53%, VSS of 24,93% and VŠS of 15,18%. The percentage of employees with higher education is increasing, while the number of employees with VSS and NS is decreasing in relation to 31.12.2009.

Qualification structure of employees as of 31.12.2010.



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

### 3. ANALISES OF THE FINANCIAL CONDITION AND PERFORMANCE ACHIEVEMENT OF MCOs

The Agency is performing the function of supervision and the examination of the financial condition of MCOs through on-site supervision and off-site (based on the reports that MCOs submit to the Agency), in compliance with the Law on MCOs and regulations of the Agency. The reporting base is composed of quarterly reports on balance sheet, capital, loans, reserves for loan losses, performance results and other reports on individual operation segments, as well as the monthly report on interest rates.

#### 3.1. Balance Sheet

Table 2. Balance Sheet of MCOs

in 000 KM

DESCRIPTION	31.12.2009.					31.12.2010.					Index
	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
<b>ASSETS</b>											
1. Cash	64.748	8	13	1	64.761	47.527	8	36	3	47.563	73
2. Placements to banks	41.084	5	0	0	41.084	28.751	5	0	0	28.751	70
3. Loans	640.886		1.080		641.966	458.551		1.276		459.826	72
4. Less: reserves for loan losses	50.924		75		50.999	26.214		36		26.250	51
5. Net loans	589.962	77	1.005	90	590.967	432.337	75	1.240	91	433.576	73
6. Business premises and other fixed assets	51.927	7	91	8	52.018	49.115	9	84	6	49.200	95
7. Long term investments	2.000	0	0	0	2.000	3.500	1	0	0	3.500	175
8. Other assets	20.446	3	14	1	20.460	14.319	2	9	1	14.328	70
9. Less: reserves for other assets, except loans	1.610		0	0	1.610	701	0	0	0	701	44
<b>TOTAL ASSETS</b>	<b>768.557</b>	<b>100</b>	<b>1.123</b>	<b>100</b>	<b>769.680</b>	<b>574.848</b>	<b>100</b>	<b>1.369</b>	<b>100</b>	<b>576.217</b>	<b>75</b>
<b>LIABILITIES</b>											
10. Liabilities for loans taken	590.749	77	433	39	591.181	409.898	71	598	44	410.496	69
11. Other liabilities	24.142	3	44	4	24.186	23.025	4	71	5	23.096	95
12. Capital	153.666	20	646	58	154.312	141.924	25	700	51	142.625	92
<b>TOTAL LIABILITIES</b>	<b>768.557</b>	<b>100</b>	<b>1.123</b>	<b>100</b>	<b>769.680</b>	<b>574.848</b>	<b>100</b>	<b>1.369</b>	<b>100</b>	<b>576.217</b>	<b>75</b>
Off balance sheet	79.269		34		79.303	144.521		88		144.609	182

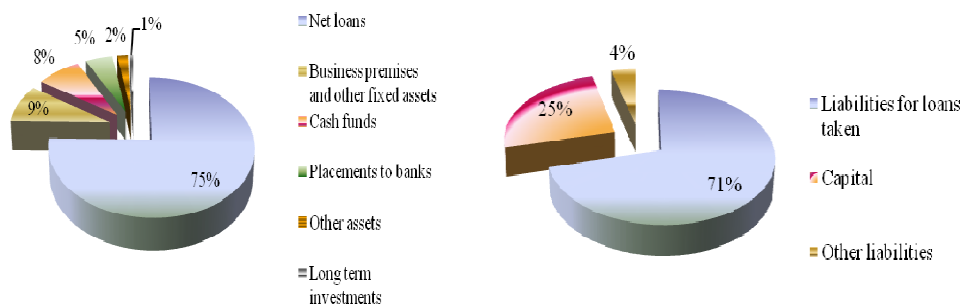
As of 31.12.2010., the MCOs balance sheet amount is 576,2 million KM and it decreased by 193,4 million KM or 25% in relation to the amount as of 31.12.2009., and in comparison to the end of 2008, the balance sheet level declined by 325,7 million KM or 36%. The balance sheet growth was recorded by 1 MCF and 1 MCC, and the decline by 15 MCF. The decline of the balance sheet level higher than 10% in relation to the end of 2009 is recorded by 4 MCFs, decline over 20% by 5 MCFs, over 30% by 4 MCFs and over 40% by 2 MCFs. The highest participation in the total MCOs balance sheet is by six MCFs with assets in the amount of 533,6 million KM or 93%.

In the asset structure of MCOs, the cash funds are 47,6 million KM or 8% with a decline rate of 27% in comparison to 31.12.2009., and mainly relate to cash funds of MCF. 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 433,6 million KM or 75% of the total assets and are by 157,4 million KM or 27% in decline in comparison to the end of the previous year, that is 376,1 million KM or 46% in relation to 31.12.2008. The decline of the net loans higher than 20% is recorded by 13 MCCs (of which 6 MCC have a decline higher than 30%), and only 1 MCF and 1 MCC have higher net loans in comparison to the end of last year.

The business premises and other fixed assets are 49,2 million KM or 9% of total assets and have declined by 5% in comparison to the end of the previous year. Five MCFs have a percentage of fixed assets in the total assets higher than the prescribed amount. The amount of 17,1 million KM or 3% are long term investment (3,5 million KM) and other assets in the amount of 13,6 million 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, while two MCFs have a percent of other assets higher than 10% in relation to the total assets.



In the liability structure of MCOs, the liabilities on acquired loans are the basic source of funds and amount to 410,5 million KM or 71% of total liabilities and decreased by 31% in comparison to 31.12.2009.

Table 3. Maturity structure of loans taken

in 000 KM

DESCRIPTION	31.12.2009.				31.12.2010.				Index
	MCF	MCC	TOTAL	%	MCF	MCC	TOTAL	%	
1					6	7	8=(6+7)	9	10=8/4
1. Liabilities on short term loans taken	124.041	433	124.474	21	88.871	513	89.384	22	72
2. Liabilities on long term loans taken	466.708	0	466.708	79	321.027	86	321.113	78	69
<b>TOTAL</b>	<b>590.749</b>	<b>433</b>	<b>591.181</b>	<b>100</b>	<b>409.898</b>	<b>598</b>	<b>410.496</b>	<b>100</b>	<b>69</b>

Of total liabilities on loans taken 321,1 million KM or 78% are long term loans, with a decline rate of 31% in relation to the same quarter of the last year. Of total liabilities on loans taken 89,4 million KM or 22% are short term loans, with a decline of 28% in comparison to the end of previous year. The liabilities from taken loans of MCFs amount to 409,9 million KM or 99,8% of total liabilities on loans taken.



The most significant MCO creditors are<sup>2</sup>:

- 1.) AECI – Agency for international cooperation Kingdom of Spain (47,9 million KM);
- 2.) EFSE – European Fund for the southeast Europe, Luxemburg (43,5 million KM);
- 3.) EBRD – European bank for reconstruction and development, Great Britain (36,8 million KM);
- 4.) DWM – Developing World Markets, USA (32,3 million KM);
- 5.) Development bank of the Federation of BiH<sup>3</sup> (25,5 million KM);
- 6.) ICO – Instituto de Credito Oficial, Spain (22,5 million KM);
- 7.) Blue Orchard Finance S.A., Switzerland (22,3 million KM);
- 8.) Oikokredit, Netherlands (17,8 million KM);
- 9.) Dexia Microcredit, Switzerland (14,9 million KM);
- 10.) Triodos – Doen, Netherlands ( 12,7 million KM);
- 11.) Triple Jump, Netherlands (10,8 million KM);
- 12.) Mercy Corps, USA ( 9,4 million KM);
- 13.) Symbiotics, Switzerland (8,8 million KM),
- 14.) Global Microfinance Facility (8,8 million KM);
- 15.) NLB Tuzlanska banka d.d. Tuzla ( 6,3 million KM) and other.

Other liabilities are 23,1 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.

The off-balance sheet is 144,6 million KM, and it consists of charged off credit receivables (143,3 million KM) and agent contracts (1,3 million KM), and it increased by 82% in comparison to 31.12.2009. Such significant increase in the amount of the off-balance sheet records in 2010 is a result of a more comprehensive reporting according to the Decision on amount and manner for establishing and allocating reserves for loan losses of the majority of micro credit organizations based on which all receivables due but not collected for 180 days, debited and charged off from balance sheet to off balance sheet until their collection or permanent charge off.

### **3.2. Capital**

The total capital of MCOs as of 31.12.2010., was 142,6 million KM, or 25% of total liabilities and it decreased by 11,7 million KM or 8% in comparison to the end of the previous year, that is 50,8 million KM or 26% in relation to 31.12.2008. Capital of MCFs is 141,9 million MCF or 99,5%, and the capital of one MCC is 0,7 million KM or 0,5%.

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<sup>2</sup> Of 44 recorded MCOs creditors, the Information lists only the most significant ones.

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

Table 4. Capital structure of MCOs

in 000 KM

DESCRIPTION	31.12.2009.					31.12.2010.					Index
	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	43.212	28	0	0	43.212	42.619	30	0	0	42.619	99
Core Capital	5.770	4	600	93	6.370	9.957	7	600	86	10.557	166
Surplus/deficit of income over expenses	98.843	64	0	0	98.843	84.856	60	0	0	84.856	86
Issue premium	0	0	0	0	0	0	0	0	0	0	0
Undistributed income	0	0	46	7	46	0	0	3	0	3	6
Regulatory provisions	0	0	0	0	0	0	0	98	14	98	
Other reserves	5.841	4	0	0	5.841	4.493	3	0	0	4.493	77
<b>TOTAL CAPITAL</b>	<b>153.666</b>	<b>100</b>	<b>646</b>	<b>100</b>	<b>154.312</b>	<b>141.924</b>	<b>100</b>	<b>700</b>	<b>100</b>	<b>142.625</b>	<b>92</b>

In the capital structure the most significant is the surplus of income over expenses which is 85 million KM, and constitutes 60% of total capital of MCFs, and is in decline for 14% in comparison to the end of the same quarter of last year. The deficit of income over expenses in the current year is realized by 11 MCF, and surplus of income over expenses only 5 MCF, while only the MCC realized a net profit. Undivided profit of one MCC is 101 thousand KM or 14% of the total capital of MCC.

The significant source of capital of MCF is the donated capital which is 42,6 million KM or 30% of the total capital, and it has decreased by 1% in comparison to the end of the previous year, whereas one MCC does not have donated capital. Core capital of MCOs as of 31.12.2010, was 10,5 million KM or 7% of the total capital. Other reserves are 4,5 million KM, or 3% of total capital and refer to four MCFs.

### 3.3. Credit portfolio quality

The core activity of MCOs is the micro-crediting that refers to the amount of 459,8 million KM or 80% 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 458,5 million KM or 99,7% of total loans, whereas MCCs relate to 1,3 million KM or 0,3% of total loans. Net loans, total loans minus the reserves for loan losses, are presented in the Table 5.

Table 5. Net loans

in 000 KM

No.	DESCRIPTION	31.12.2009.			31.12.2010.			Index
		MCF	MCC	Total	MCF	MCC	Total	
1	2	3	4	5=(3+4)	6	7	8=(6+7)	9=8/5
1.	Loans	640.886	1.080	641.966	458.551	1.276	459.826	72
2.	Reserves for loan losses	50.924	75	50.999	26.214	36	26.250	51
3.	<b>Net loans (1.-2.)</b>	<b>589.962</b>	<b>1.005</b>	<b>590.967</b>	<b>432.337</b>	<b>1.240</b>	<b>433.576</b>	<b>73</b>

Net loans are 433,6 million KM and decreased by 27% in comparison to 31.12.2009, that is, it decreased by 376,1 million KM or 46% in comparison to the end of 2008. Loans on gross basis decreased by 28% in relation to the end of the previous year. Loan loss reserves are 26,2 million KM and have decreased by 49% in relation to 31.12.2009, and higher by 28% in comparison to the end of 2008. Although the loan loss reserves in the absolute amount are significantly lower in relation to the same period of previous year, the ratio of the loan loss reserves and the loan portfolio has improved by 2,2% in relation to the ratio of the previous period.

Table 6. Department and maturity structure of micro-credit MCOs as of 31.12.2010.

in 000 KM

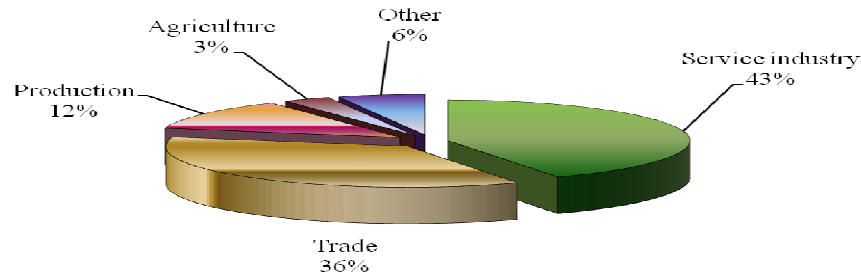
No.	Micro-credits	Short term loans	Long term loans	Past due receivables	TOTAL	%
1	2	3	4	5	6=(3+4+5)	7
<b>1.</b>	<b>Legal entities</b>					
a.)	Service industry	541	2.709	40	<b>3.290</b>	<b>43%</b>
b.)	Trade	733	2.000	64	<b>2.797</b>	<b>36%</b>
c.)	Agriculture	72	168	3	<b>243</b>	<b>3%</b>
d.)	Production	186	756	15	<b>957</b>	<b>12%</b>
e.)	Other	66	372	11	<b>449</b>	<b>6%</b>
	<b>UKUPNO 1:</b>	<b>1.598</b>	<b>6.005</b>	<b>133</b>	<b>7.736</b>	<b>100%</b>
<b>2.</b>	<b>Individuals</b>					
a.)	Service industry	8.073	88.098	1.758	<b>97.928</b>	<b>22%</b>
b.)	Trade	6.617	59.893	1.571	<b>68.081</b>	<b>15%</b>
c.)	Agriculture	7.523	142.110	2.460	<b>152.093</b>	<b>34%</b>
d.)	Production	2.300	26.835	504	<b>29.639</b>	<b>6%</b>
e.)	Housing needs	2.755	51.208	861	<b>54.824</b>	<b>12%</b>
f.)	Other	13.778	34.870	877	<b>49.525</b>	<b>11%</b>
	<b>TOTAL 2:</b>	<b>41.045</b>	<b>403.014</b>	<b>8.031</b>	<b>452.090</b>	<b>100%</b>
	<b>TOTAL (1+2):</b>	<b>42.643</b>	<b>409.019</b>	<b>8.164</b>	<b>459.826</b>	

According to the department structure of the micro-credits, 452,1 million KM or 98% of total loans are granted to the individuals, and 7,7 million or 2% to legal entities.

In the maturity structure of the micro-credits, short term loans, which include the past due receivables, are 50,8 million KM or 11%, and long term loans are 409 million KM or 89%. The total past due receivables are 8,2 million KM or 2% of the total loans and almost entirely refer to loans to individuals.

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 -trade 3,3 million, or 43%, and service industry 2,8 million KM or 36%. One million KM has been allocated for production, which is 12% of the total amount of micro-credits granted to legal entities, then 0,2 million KM for agriculture or 3%, and 0,4 million or 6% for other purposes.

**Sectorial structure of micro-loans originated to legal entities**



In regard to loans to **individuals**, 152,1 million KM or 34% was granted to agriculture, then 98 million KM or 22% for service industry, whereas 68,1 million KM or 15% was granted to the sector of trade, for housing needs 54,8 million KM or 12%, and for production 29,6 million KM or 6%, and for other 49,5 million KM or 11%.

Based on the analyses of the sector structure it is concluded that the micro-credit lending is in most part directed to lending to agriculture and service industry and mainly relates to long term loans to individuals.

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 loan, 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 31.12.2010.,:

*Table 7. Report on amount and manner of establishing the reserves for loan losses as of 31.12.2010.*

u 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.	1 - 15	2%	<b>8.791</b>	2%	<b>186</b>	<b>478</b>	176	4	10	<b>189</b>
2.	16 - 30	15%	<b>11.995</b>	100%	<b>198</b>	<b>0</b>	1.399	198	0	<b>1.597</b>
3.	31 - 60	50%	<b>8.757</b>	100%	<b>298</b>	<b>0</b>	4.148	298	0	<b>4.447</b>
4.	61 - 90	80%	<b>5.085</b>	100%	<b>252</b>	<b>0</b>	4.068	252	0	<b>4.320</b>
5.	91 - 180	100%	<b>14.554</b>	100%	<b>1.144</b>	<b>0</b>	14.554	1.144	0	<b>15.698</b>
6.	over 180	Charge off	<b>16.918</b>		<b>2.952</b>	<b>0</b>				
<b>UKUPNO</b>			<b>66.099</b>		<b>5.031</b>	<b>478</b>	<b>24.345</b>	<b>1.895</b>	<b>10</b>	<b>26.250</b>

Defaults in payment of longer than one day have loans in the amount of 49,2 million KM. The rate for the loans in default of more than one day in 2010, is 10,7%, it is lower than in relation to the end of previous year when it was 14,9%.

The total amount of past due interests on active loans that have a default longer than one day is 2,1 million KM.

Total amount of accrued reserves on all bases is 26,2 million KM.

#### ***- Collection of loan from the guarantor--***

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 31.12.2010, according to the reports of the MCOs in the Federation of BiH, 12.734 guarantors repaid 4,2 million KM of the total granted amount of loans of 52,6 million KM (9.036 credit units), which is by 83% higher than in relation to the amount paid by the guarantor at the end of the last year (2,3 million KM, paid by 7.235 guarantors, while the amount of the total granted loans was 29,2 million KM – 4.957 credit units). The remaining debt at the end of 2010, was 18,5 million KM (31.12.2009.: 13,8 million KM). From the noted data it can be concluded that in 2010 there was a significant increase of the amount of loans that were being paid by the guarantors, as well as the amount of repayment that was transferred to the guarantors.

#### ***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 and 46/09). 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 2010 – through products

No.	DESCRIPTION	Weighted nominal interest rate (average)	Weighted effective interest rate (average)
<b>1.</b>	<b>Short term loans for:</b>		
1.1.	Service industry	23,23%	33,28%
1.2.	Trade	21,37%	32,16%
1.3.	Agriculture	22,34%	33,04%
1.4.	Production	24,01%	31,86%
1.5.	Housing needs	24,15%	28,81%
1.6.	General purpose – basic needs	33,57%	42,21%
1.7.	Other	18,57%	26,53%
<b>2.</b>	<b>Long term loans for:</b>		
2.1.	Service industry	26,42%	31,43%
2.2.	Trade	26,94%	31,85%
2.3.	Agriculture	21,35%	25,02%
2.4.	Production	24,36%	28,19%
2.5.	Housing needs	21,01%	24,74%
2.6.	General purpose - basic needs	26,02%	31,80%
2.7.	<b>Other</b>	23,69%	29,94%

For short term loans, average nominal interest rates are in the range between 18,57% for other to 33,57% for general purpose loans, and for the effective interest rate in the range of 26,53% for housing needs to 42,21% for general purpose loans.

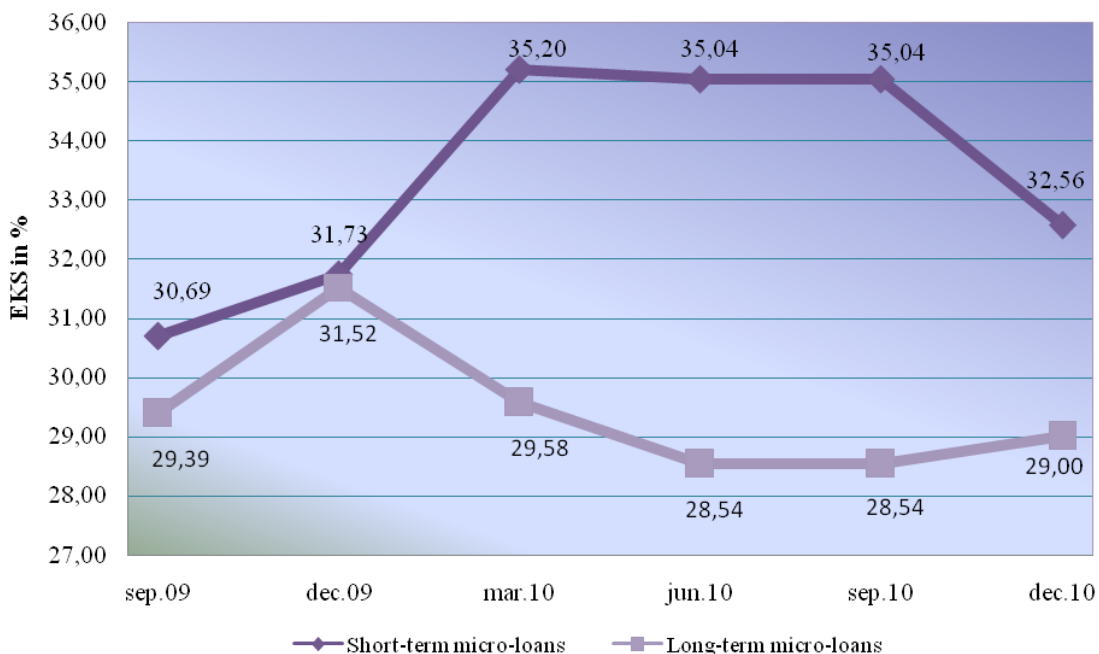
For long term loans, the average nominal interest rates are in the range between 21,01% for housing needs to 26,94% for trade, and effective interest rate in the range of 24,74% for housing needs to 31,85% for trade.

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 %	30.09.09.	31.12.09.	31.03.10.	30.06.10.	30.09.10.	31.12.10.
Short term micro-credits	30,69	31,73	35,20	35,04	35,04	32,56
Long term micro-credits	29,39	31,52	29,58	28,54	28,54	29,00

**TREND OF MOVEMENTS IN THE AVERAGE EFFECTIVE INTEREST RATES ON MICRO-LOANS BY QUARTERS in %**



The forming of the interest rates for micro-credits is determined on the basis of the capital expenses that MCOs use for funding the portfolio, administration expenses, expenses of provisioning for debt losses, as well as the expense of the capitalization. Higher interest rates on micro-credits in relation to bank loans are calculated so that the organizations could cover for mentioned expenses, and reach the financial sustainability level as the guarantee of a MCO endurance. MCF that has the lowest EIR is not operationally and financially sustainable, so the operating expenses are financed from donations.

### 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. - 31.12.2009.				For the period 01.01. - 31.12.2010.				Index
		MCF	MCC	Total	%	MCF	MCC	Total	%	
1	2	1	2	3=(1+2)	4	5	6	7=(5+6)	8	9=(7/3)
<b>1.</b>	<b>INTEREST INCOME AND SIMILAR TYPES OF INCOME</b>									
1.1.	Interest income and similar types of income	166.287	216	166.503	96	114.522	292	114.814	94	69
1.2.	Operating income	7.441	42	7.483	4	7.305	46	7.352	6	98
<b>2.</b>	<b>TOTAL INCOME (1.1.+1.2.)</b>	<b>173.728</b>	<b>258</b>	<b>173.986</b>	<b>100</b>	<b>121.827</b>	<b>338</b>	<b>122.165</b>	<b>100</b>	<b>70</b>
<b>3.</b>	<b>EXPENSES</b>									

3.1.	Income expenses and similar expenses	45.791	25	45.816	21	32.754	57	32.812	23	72
3.2.	Operating expenses	75.593	187	75.780	34	71.580	258	71.839	51	95
3.3.	Expenses for reserves for loan and other losses	98.349	28	98.377	45	36.085	33	36.118	26	37
4.	<b>TOTAL EXPENSES (3.1.+3.2.+3.3.)</b>	<b>219.733</b>	<b>239</b>	<b>219.972</b>	<b>100</b>	<b>140.419</b>	<b>349</b>	<b>140.768</b>	<b>100</b>	<b>64</b>
5.	EXTRAORDINARY INCOME	10.026	3	10.030		13.057	14	13.071		130
6.	EXTRAORDINARY EXPENSES	3.474	0	3.474		5.332	0	5.332		153
7.	<b>TOTAL INCOME -EXPENSES (2+5-4-6)</b>	<b>-39.453</b>	<b>23</b>	<b>-39.430</b>		<b>-10.868</b>	<b>3</b>	<b>-10.865</b>		
8.	<b>SURPLUS/DEFICIT OF INCOME OVER EXPENSES</b>	<b>-39.453</b>				<b>-10.868</b>		<b>-10.868</b>		
9.	INCOME BEFORE TAXES		23				3	3		
10.	TAXES		2				0	0		
11.	NET INCOME/LOSS		20				3	3		
12.	<b>TOTAL FINANCIAL RESULT</b>			<b>-39.432</b>				<b>-10.865</b>		

The total income of MCOs for the period of 01.01. - 31.12.2010., is 122,1 million KM, of which 121,8 million KM or 99,8% refers to income of MCFs, and 0,3 million KM or 0,2% on income of one MCC. In comparison to the same period of last year, total income of MCCs is in decline by 52 million KM, or 30%.

The core income is interest income and it is 114,8 million KM or 94 % of total income and in relation to the same period of previous year the interest income is in decline by 51,7 million KM or 31%.

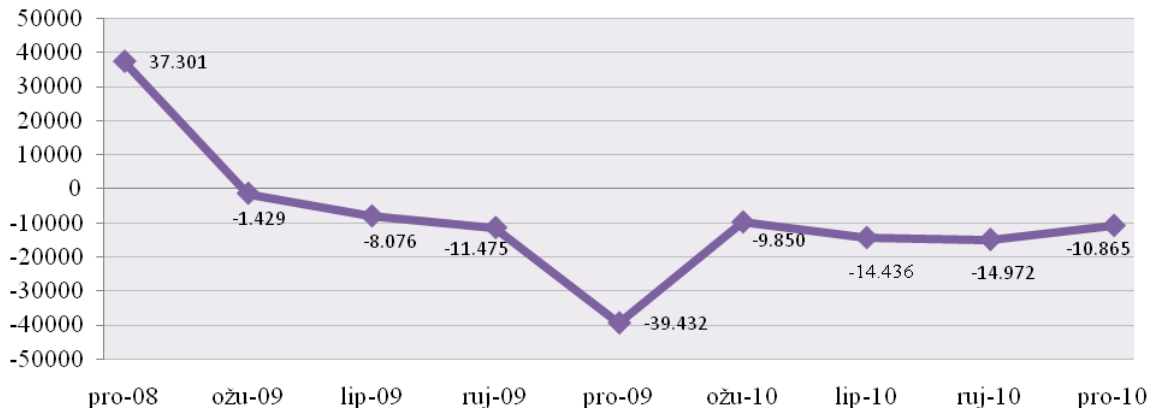
The total expenses are 140,7 million KM, of which 140,4 million or 99,8% relates to expenses of MCF, and 0,3 million KM or 0,2% to expenses of one MCC. In relation to the same period of last year the total expenses have declined by 79,2 million KM or 36%.

In the structure of expenses, 32,8 million KM or 23% of total expenses are expenses related to interests on acquired loans and other similar expenses, and have decreased by 13 million KM or 28% in regard to the same period of last year. Operational expenses are 71,8 million KM or 51% of total expenses and in relation to the same period of last year decreased by 3,9 million KM or 5%. The operating expenses refer to expenses of salaries and contributions 38,5 million KM (01.01. – 31.12.2009: 41,4 million KM)), expenses related to the business premises, other fixed assets and utilities 18 million KM (01.01.-31.12.2009: 17,1 million KM), and other operating expenses 15,3 million KM. (01.01.-31.12.2009.: 17,3 million KM). The expenses related to the reserves for loan losses and other losses are 36,1 million KM or 26% of total expenses, and in comparison to the same period last year decreased by 62,3 million KM or 63%.

For the period of 01.01.-31.12.2009., the net income of one MCC was 3 thousand KM (01.01. – 31.12.2009.: 20 thousand KM). In the same period MCF realized a deficit of income over expenses in a total amount of 10,8 million KM, while in the same period of last year the MCFs realized a deficit of income over expenses in a total amount of 39,4 million KM. In the period from 01.01 to 31.12.2010, of total 16 MCFs, 11 MCFs had a deficit of income over expenses in a total amount of 11,7 million KM, and 5 MCF realized an income surplus in the amount of 0,9 million KM).



### Total financial result of MCO by quarters in 000 KM



On the level of the microcredit sector in the Federation of BiH, there is realized a negative financial result in the amount of 10,8 million KM, in relation to the same period of the last year, it declined by 28,6 million KM.

#### 4. CONCLUSION AND RECOMANDATIONS

Analyzing the reports of MCOs as of 31.12.2010., we can conclude the following:

- Aggregate balance sheet of MCOs as of 31.12.2010. is 576,2 million KM, of which 574,8 million KM refers to MCFs or 99,8%, and 1,4 million KM to MCCs or 0,2% of the total balance sheet of MCOs;
- At the end of the fourth quarter, the aggregate balance sheet of MCOs decreased by 193,4 million KM or 25% in comparison to the same quarter of the last year, that is it decreased by 325,7 million KM or 36% in comparison to the end of 2008;
- The total gross loans of MCOs as of 31.12.2010. are 459,8 and net loans 433,6 million KM and are 75% of total assets of MCOs;
- The basic source of funds for MCOs are liabilities on acquired loans that, as of 31.12.2010., are 410,5 million KM or 71% of total liabilities of MCOs;
- The total capital of MCOs as of 31.12.2010., is 142,6 million KM, of which the capital of MCF is 141,9 million KM, and MCC 0,7 million KM. The most significant items of capital of MCFs are the surplus of income over expenses in the amount of 85 million KM, which constitutes 60% of the total capital of MCF. The undivided profit and reserves of one MCC are 101 thousand KM or 14% of total capital of MCCs, while the core capital is 0,6 million KM or 86% of total capital of MCCs.
- In the period from 01.01. to 31.12.2010, the MCFs realized a surplus in income over expenses in the amount of 0,9 million KM, while the deficit of income over expenses was 11,7 million KM, which means that MCFs as of 31.12.2010., performed with a

deficit income over expenses in the total amount of 10,8 million KM. As of 31.12.2010., one MCC realized a net profit in the amount of 3 thousand KM.

In the following period, the MCOs need to intensely work on:

- Applying and implementing the law and regulations of the Agency;
- Improving the performance efficiency and optimization of resources of MCOs;
- Responsible lending and implementing the mission and aims of the micro-credit sector;
- Overcoming the problems that occurred in the credit portfolio quality;
- Exchange of information on the level of department and the Central credit registry;
- Improving the institutional capacity and adjusting the systems of loan payout and collection;
- Preserving the donated funds; and
- Finding possibilities for the consolidation of MCOs within the departments in order to provide for the strengthening of the departments, stabilization of the market conditions and use of the potential for further development and preserving the sector sustainability.

## **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 1

## BASIC DATA ON MCOs

No.	Micro-credit organization name	Address and main office	Director	Tel/Fax	E-mail and Web	31.12.2010.	
						Amount of assets in 000 KM	Number of employees
1.	MKD "ADRIA mikro" d.o.o. Mostar	Kneza Višeslava 14 88 000 MOSTAR	Duška Begović	036/ 348-891, 348-890 fax	adria.mikro@tel.net.ba	1.369	6
2.	MKF "BOSANSKO SELO" Srebrenik	21. Srebreničke brigade bb 75 350 SREBRENİK	Hajrudin Husanović	035/ 644-898 tel/fax	mobossel@bih.net.ba	552	5
3.	MKF "EKI" Sarajevo	Džemala Bijedića bb 71 000 SARAJEVO	Sadina Bina	033/ 754-370, 754-388 fax	sbina@mkoeki.com www.mkoeki.com	126.013	264
4.	MKF "LIDER" Sarajevo	Skenderija 68 71 000 SARAJEVO	Zijad Hasović	033/ 250-580, 250-581 fax	zijadh@lider.ba www.lider.ba	10.759	46
5.	"LOK MKF" Sarajevo	Skenderija 13 71 000 SARAJEVO	Nusret Čaušević	033/ 564-200, 564-201 fax	central.office@lok.ba www.lok.ba	77.008	227
6.	MKF "MELAHA" Sarajevo	Hamdije Kreševljakovića 59 71 000 SARAJEVO	Iso Abinun	033/ 205-737 tel/fax	iso@melaha.ba	950	3
7.	MKF "MIBA" Tuzla	Đorđa Mihajlovića 4/III 75 000 TUZLA	Mirsad Bahić	035/ 277-455 tel/fax	miba@vesta.ba www.miba.ba	620	4
8.	MKF "MI-BOSPO" Tuzla	Bosne srebrene bb 75 000 TUZLA	Nejira Nalić	035/ 270-283, 252-448 fax	mi-bospo@mi-bospo.org www.mi-bospo.org	40.198	129
9.	MKF "MIKRA" Sarajevo	Marka Marulića 2/VI 71 000 SARAJEVO	Sanin Čampara	033/ 616-162, 717-141 fax	mikra@mikra.ba www.mikra.ba	14.527	83
10.	MKF "MIKRO ALDI" Goražde	Panorama bb 73 000 GORAŽDE	Ferida Softić	038/ 226-456, 221-004 fax	mka.aldi@bih.net.ba www.mikroaldi.org	3.745	23
11.	"PARTNER MKF" Tuzla	15. maja bb 75 000 TUZLA	Senad Sinanović	035/ 300-250, 300-269 fax	partner@partner.ba www.partner.ba	130.177	261
12.	MKF "PRIZMA" Sarajevo	Bistrik Medresa 43 71 000 SARAJEVO	Kenan Crnkić	033/ 573-320, 446-583 fax	hq@prizma.ba www.prizma.ba	103.361	233
13.	"PRVA ISLAMSKA MKF" Sarajevo	Jukićeva 75 71 000 SARAJEVO	Edina Hadžimurtezić	033/ 666-224, 268-350 fax	info@islamic-relief.ba	1.532	11
14.	MKF "SANI" Zenica	Mehmedalije Tarabara 10 72 000 ZENICA	Sulejman Haračić	032/ 405-606 tel/fax	mikrosanizenica@yahoo.com	510	3
15.	MKF "SUNRISE" Sarajevo	Hamdije Kreševljakovića 51 71 000 SARAJEVO	Zoran Dučić	033/ 278-020, 278-032 fax	sunrise@microsunrise.ba www.microsunrise.ba	56.888	174
16.	MKF "VORTT-INVEST" Sarajevo	Azize Šaćirbegović 128 71 000 SARAJEVO	Mustafa Kapić	033/720-949, 720-941 fax	vorttdoo@yahoo.com	547	2
17.	MKF "ŽENE ZA ŽENE International" Sarajevo	Džemala Bijedića 130 71 000 SARAJEVO	Seida Sarić	033/ 770-010, 770-012 fax	general@zenezazene.ba www.womenforwomen.org	7.461	54
<b>TOTAL</b>						<b>576.217</b>	<b>1.528</b>

## Attachment 2

## BALANCE SHEET OF MCFs

in 000 KM

No.	DESCRIPTION	31.12.2009.	%	31.12.2010.	%	Ratio
1	2	3	4	5	6	7=5/3
<b>ASSETS</b>						
<b>1.</b>	<b>Cash (1a+1b)</b>	<b>64.748</b>	<b>8</b>	<b>47.527</b>	<b>8</b>	<b>73</b>
1a)	Cash and noninterest –bearing deposit accounts	17.274	2	18.252	3	106
1b)	Interest-bearing deposit accounts	47.474	6	29.275	5	62
2.	Placement to banks	41.084	5	28.751	5	70
3.	Loans	640.886		458.551		72
3a)	Reserves for loan losses	50.924		26.214		51
<b>3b)</b>	<b>Net loans (3-3a)</b>	<b>589.962</b>	<b>77</b>	<b>432.337</b>	<b>75</b>	<b>73</b>
4.	Premises and other fixed assets	51.927	7	49.115	9	95
5.	Long term investments	2.000	0	3.500	0	175
6.	Other assets	20.446	3	14.319	2	70
7.	Less: reserves for other items of the assets, except loans	1.610		701		44
<b>8.</b>	<b>TOTAL ASSETS</b>	<b>768.557</b>	<b>100</b>	<b>574.848</b>	<b>100</b>	<b>75</b>
<b>LIABILITIES</b>						
9.	Liabilities on taken short term loans	124.041	16	88.871	15	72
10.	Liabilities on taken long term loans	466.708	61	321.027	56	69
11.	Other liabilities	24.142	3	23.025	4	95
<b>12.</b>	<b>TOTAL LIABILITIES</b>	<b>614.891</b>	<b>80</b>	<b>432.924</b>	<b>75</b>	<b>70</b>
13.	Donated capital	43.212		42.619		99
14.	Core capital	5.770		9.957		173
<b>15.</b>	<b>Surplus of income over expenses</b>	<b>140.934</b>		<b>110.607</b>		<b>78</b>
15a)	For previous years	139.202		109.641		79
15b)	For current year	1.733		967		56
<b>16.</b>	<b>Deficit of income over expenses</b>	<b>42.091</b>		<b>25.751</b>		<b>61</b>
16a)	For previous years	905		13.997		0
16b)	For current year	41.186		11.754		29
17.	Other reserves	5.841		4.493		77
<b>18.</b>	<b>TOTAL CAPITAL</b>	<b>153.666</b>	<b>20</b>	<b>141.924</b>	<b>25</b>	<b>92</b>
<b>19.</b>	<b>TOTAL LIABILITIES</b>	<b>768.557</b>	<b>100</b>	<b>574.848</b>	<b>100</b>	<b>75</b>
<b>OFF-BALANCE SHEET</b>						
	- charged-off loans	79.269		143.250		181
	- agent contracts					

Attachment 3

**BALANCE SHEET OF MCCs**

*in 000 KM*

No.	DESCRIPTION	31.12.2009.	%	31.12.2010.	%	Ratio
1	2	3	4	5	6	7=5/3
<b>ASSETS</b>						
<b>1.</b>	<b>Cash (1a+1b)</b>	<b>13</b>	<b>1</b>	<b>36</b>	<b>3</b>	<b>279</b>
1a)	Cash and noninterest –bearing deposit accounts	13	1	36	3	279
1b)	Interest-bearing deposit accounts	0	0	0	0	0
2.	Placements to banks	0	0	0	0	0
3.	Loans	1.080		1.276		118
3a)	Reserves for loan losses	75		36		48
<b>3b)</b>	<b>Net loans (3-3a)</b>	<b>1.005</b>	<b>90</b>	<b>1.240</b>	<b>91</b>	<b>123</b>
4.	Premises and other fixed assets	91	8	84	6	93
5.	Long term investments	0	0	0	0	0
6.	Other assets	14	1	9	1	0
7.	Less: reserves for other items of the assets, except loans	0		0		0
<b>8.</b>	<b>TOTAL ASSETS</b>	<b>1.123</b>	<b>100</b>	<b>1.369</b>	<b>100</b>	<b>122</b>
<b>LIABILITIES</b>						
9.	Liabilities on taken short term loans	433	39	513	37	118
10.	Liabilities on taken long term loans	0	0	86	6	
11.	Other liabilities	44	4	71	5	161
<b>12.</b>	<b>TOTAL LIABILITIES</b>	<b>477</b>	<b>42</b>	<b>669</b>	<b>49</b>	<b>140</b>
13.	Donated capital	0		0		0
14.	Core capital	600		600		100
15.	Issue premium	0		0		0
<b>16.</b>	<b>Undistributed profit (16a+16b)</b>	<b>46</b>		<b>3</b>		<b>6</b>
16a)	Previous years	24		0		0
16b)	Current year	23		3		11
17.	Regulatory reserves	0		98		
18.	Other reserves	0		0		0
<b>19.</b>	<b>TOTAL CAPITAL</b>	<b>646</b>	<b>58</b>	<b>700</b>	<b>51</b>	<b>108</b>
<b>20.</b>	<b>TOTAL LIABILITIES</b>	<b>1.123</b>	<b>100</b>	<b>1.369</b>	<b>100</b>	<b>122</b>
<b>OFF-BALANCE SHEET</b>						
	- <b>charged-off loans</b>	34		88		259
	- <b>agent contracts</b>	0		0		0

Attachment 4

INCOME STATEMENT OF MCFs

in 000 KM

No.	DESCRIPTION	For the period from 01.01. - 31.12.2009.	%	For the period from 01.01. - 31.12.2010.	%	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 from interest bearing deposit accounts with depositary institutions	687	0	788	1	115
1.2.	Interest from placements to banks	307	0	1.275	1	415
1.3.	Loan interest	164.760	99	111.727	98	68
1.4.	Other financial income	532	0	732	1	137
<b>1.5.</b>	<b>Total interest income and similar income (1.1. to 1.4.)</b>	<b>166.287</b>	<b>100</b>	<b>114.522</b>	<b>100</b>	<b>69</b>
<b>2.</b>	<b>Interest expenses and similar expenses</b>					
2.1.	Interest on borrowings	42.930	94	30.263	92	70
2.2.	Other financial expenses	2.861	6	2.491	8	87
<b>2.3.</b>	<b>Total interest expenses and similar expenses (2.1. to 2.2.)</b>	<b>45.791</b>	<b>100</b>	<b>32.754</b>	<b>100</b>	<b>72</b>
<b>3.</b>	<b>Net financial income (1.5. - 2.3.)</b>	<b>120.496</b>		<b>81.768</b>		<b>68</b>
<b>II</b>	<b>OPERATING INCOME AND EXPENSES</b>					
<b>4.</b>	<b>Operating income</b>					
4.1.	Fees for completed services	6.794	91	6.692	92	98
4.2.	Other operating income	647	9	613	8	95
<b>4.3.</b>	<b>Total operating income (4.1. to 4.2.)</b>	<b>7.441</b>	<b>100</b>	<b>7.305</b>	<b>100</b>	<b>98</b>
<b>5.</b>	<b>Operating expenses</b>					
5.1.	Cost of salaries and benefits	41.232	55	38.428	54	93
5.2.	Costs of business premises, other fixed assets and utilities	17.075	23	17.960	25	105
5.3.	Other operating expenses	17.286	23	15.192	21	88
<b>5.4.</b>	<b>Total operating expenses (5.1. to 5.3.)</b>	<b>75.593</b>	<b>100</b>	<b>71.580</b>	<b>100</b>	<b>95</b>
6.	Cost of provisioning for loan and other losses	98.349		36.085		37
<b>7.</b>	<b>Surplus/deficit of income over expenses from direct business operations (3.+4.3.-5.4.-6.)</b>	<b>-46.005</b>		<b>-18.592</b>		<b>40</b>
8.	Extraordinary income	10.026		13.057		130
9.	Extraordinary expenses	3.474		5.332		153
<b>10.</b>	<b>Surplus/deficit of income over expenses (7.+8.-9.)</b>	<b>-39.453</b>		<b>-10.868</b>		<b>28</b>

Attachment 5

**INCOME STATEMENT OF MCCs**

in 000 KM

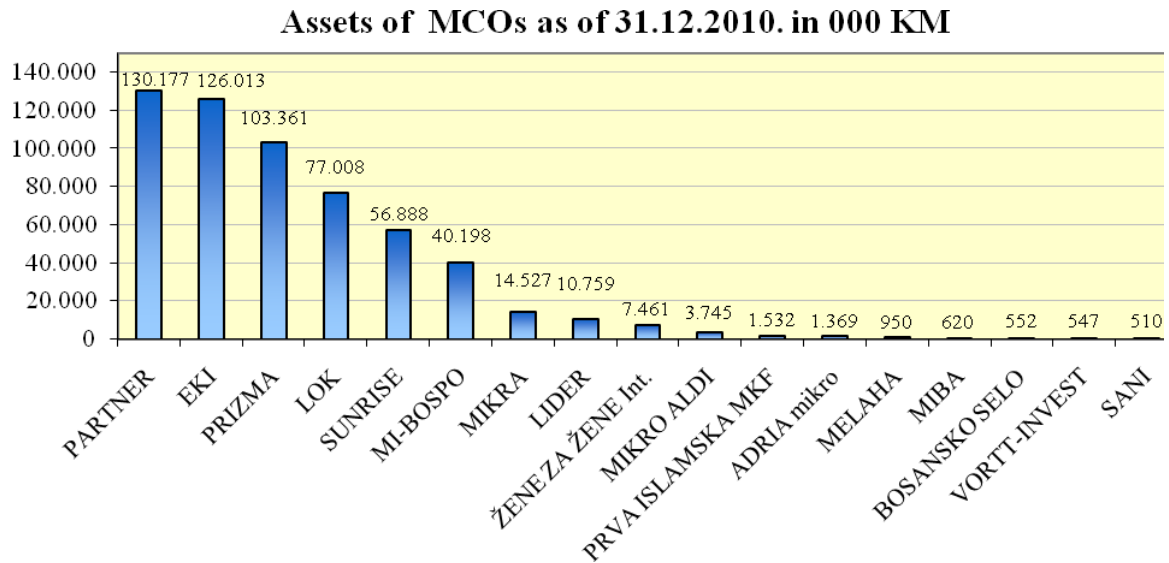
No.	DESCRIPTION	For the period from 01.01. - 31.12.2009.	%	For the period from 01.01. - 31.12.2010.	%	Ratio
1	2	3	4	5	6	7=(5/3)
<b>I</b>	<b>FINANCIJSKI PRIHODI I RASHODI</b>					
<b>1.</b>	<b>Interest income and similar income</b>					
1.1.	Interest from interest bearing deposit accounts with depositary institutions	0	0	0	0	0
1.2.	Interest from placements to banks	0	0	0	0	0
1.3.	Interest from loans	214	99	290	99	135
1.4.	Other financial income	2	1	2	1	87
<b>1.5.</b>	<b>Total interest income and similar income (1.1. to 1.4.)</b>	<b>216</b>	<b>100</b>	<b>292</b>	<b>100</b>	<b>135</b>
<b>2.</b>	<b>Interest expenses and similar expenses</b>					
2.1.	Interest on borrowings	25	100	56	98	228
2.2.	Other financial expenses	0	0	1	2	0
<b>2.3.</b>	<b>Total interest expenses and similar expenses (2.1. to 2.2.)</b>	<b>25</b>	<b>100</b>	<b>57</b>	<b>100</b>	<b>233</b>
<b>3.</b>	<b>Net financial income (1.5. - 2.3.)</b>	<b>192</b>		<b>235</b>		<b>122</b>
<b>II</b>	<b>OPERATIONAL INCOME AND EXPENSES</b>					
<b>4.</b>	<b>Operating income</b>					
4.1.	Fees for completed services	36	86	32	70	90
4.2.	Other operating income	6	14	14	30	230
<b>4.3.</b>	<b>Total operating income (4.1. to 4.2.)</b>	<b>42</b>	<b>100</b>	<b>46</b>	<b>100</b>	<b>110</b>
<b>5.</b>	<b>Operating expenses</b>					
5.1.	Costs of salaries and benefits	79	42	88	34	112
5.2.	Costs of business premises, other fixed assets and utilities	72	38	72	28	100
5.3.	Other operating expenses	36	19	98	38	270
<b>5.4.</b>	<b>Total operating expenses (5.1. to 5.3.)</b>	<b>187</b>	<b>100</b>	<b>258</b>	<b>100</b>	<b>138</b>
6.	Cost of provisioning for loan and other losses	28		33		122
<b>7.</b>	<b>PROFIT/LOSS FROM DIRECT BUSINESS OPERATIONS (3.+4.3.-5.4.-6.)</b>	<b>19</b>		<b>-11</b>		<b>-55</b>
8.	Extraordinary income	3		14		421
9.	Extraordinary expenses	0		0		0
10.	INCOME/LOSS BEFORE TAXES	23		3		14
11.	TAXES	2		1		24
<b>12.</b>	<b>NET PROFIT/LOSS</b>	<b>20</b>		<b>3</b>		<b>13</b>

## **GRAPHS**

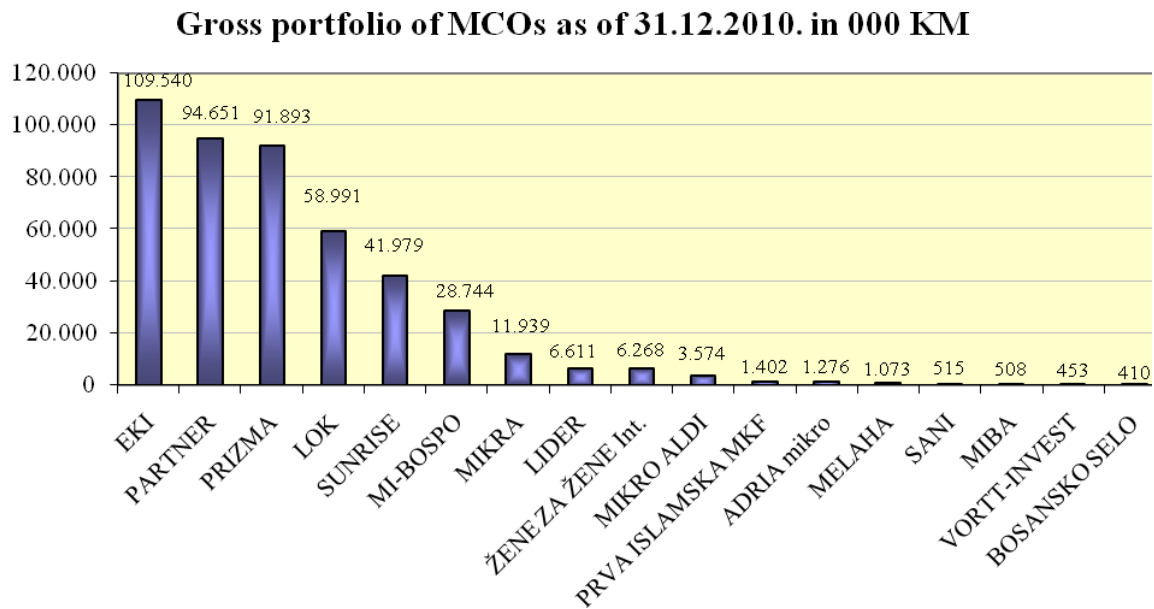
- Graph 1. Amount of MCOs assets as of 31.12.2010 in 000 KM.
- Graph 2. Amount of MCOs gross portfolio as of 31.12.2010. in 000 KM
- Graph 3. Amount of MCOs capital as of 31.12.2010.
- Graph 4. Income surplus/deficit over the expenses of MCFs,  
that is net profit/loss of MCCs as of 31.12.2010. in 000 KM
- Graph 5. Number of MCOs employees as of 31.12.2010.
- Graph 6. Average risk weighted EIR for short term loans for MCOs in the 4<sup>th</sup> quarter  
of 2010.
- Graph 7. Average risk weighted EIR for long term loans for MCOs in the 4<sup>th</sup>  
quarter of 2010.



**Graph 1**

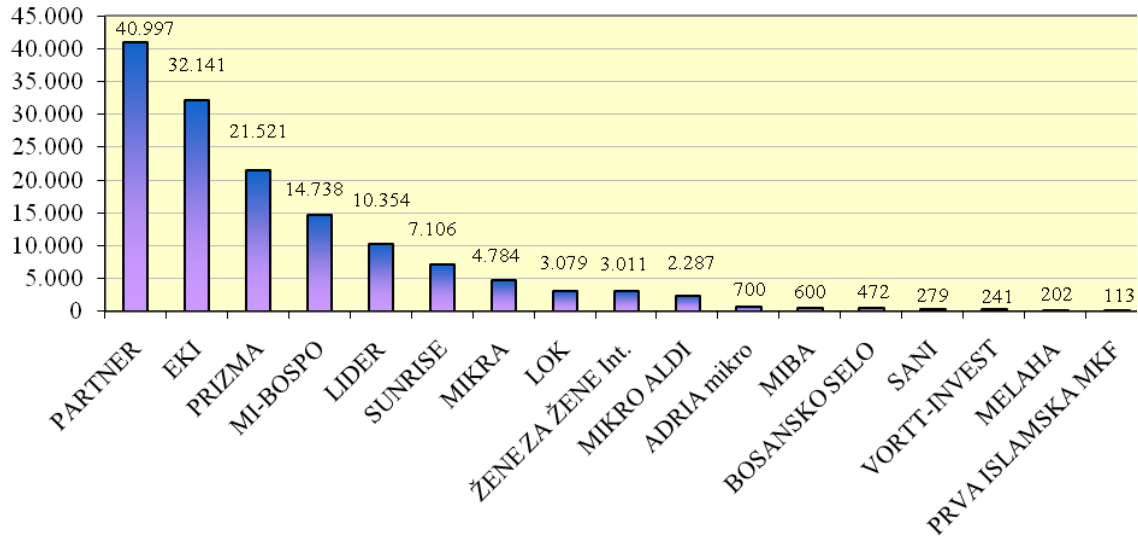


**Graph 2**



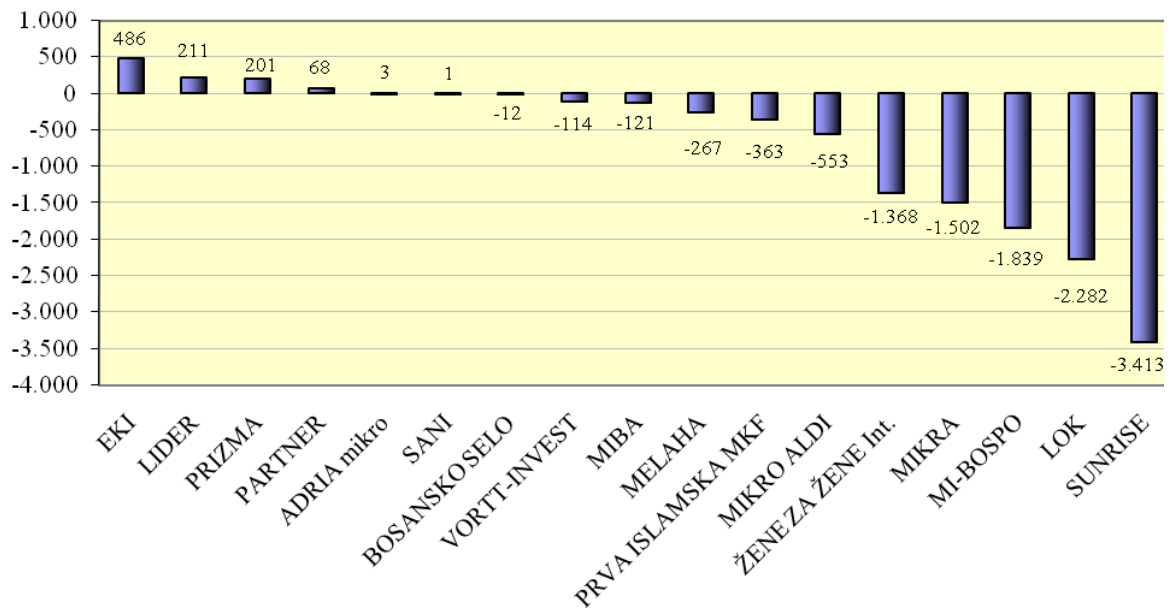
Graph 3

Capital of MCOs as of 31.12.2010. in 000 KM



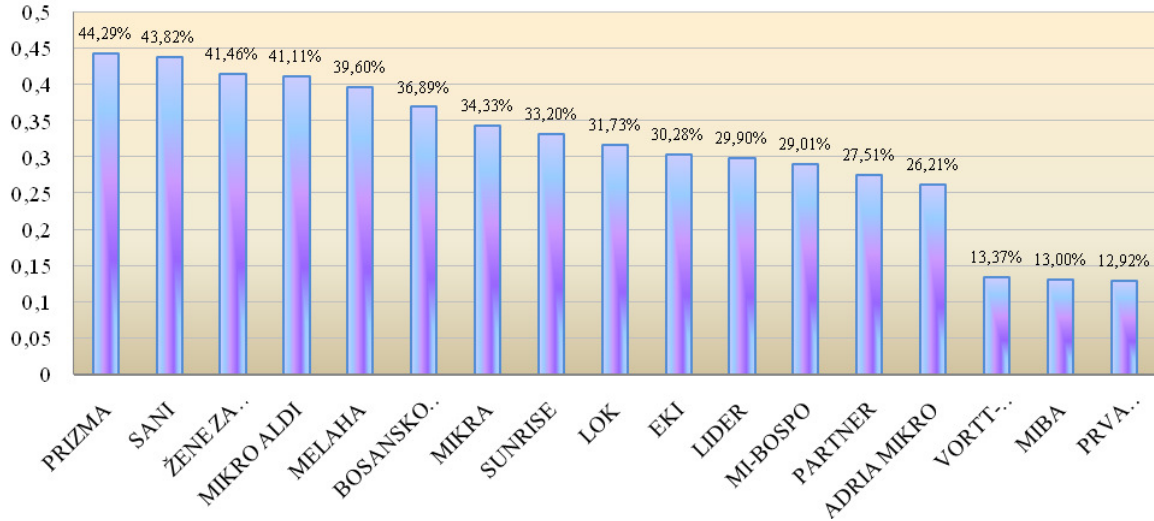
Graph 4

Surplus/shortage of revenues over expenses of MCFs, that is net profit (loss) of MCCs for period 01.01. - 31.12.2010. in 000 KM



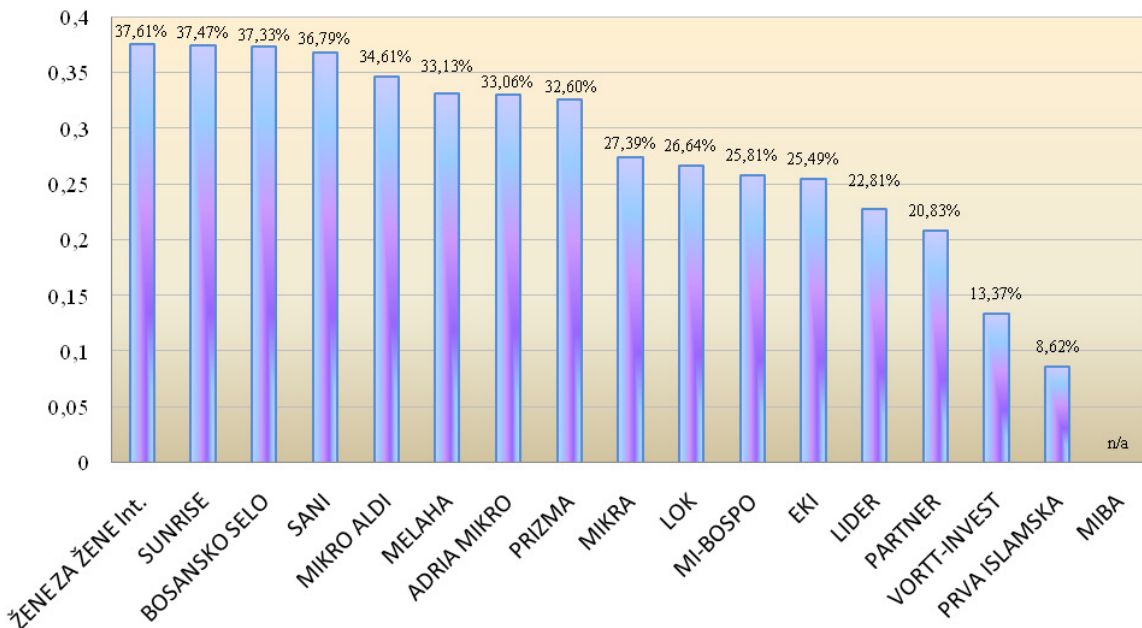
**Graph 5**

**Average risk-weighted EIR for short term loans based on the MCOs reports in IV quarter of 2010**



**Graph 6**

**Average risk-weighted EIR for long term loans based on the MCOs reports in IV quarter of 2010**



**Graph 7**

**Number of employees as of 31.12.2010.**

