



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

**INFORMATION
ON THE MICRO-CREDIT SYSTEM
OF THE FEDERATION OF BOSNIA AND HERZEGOVINA
AS OF 31.03.2010.**

Sarajevo, June 2010.

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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. Performance trend of MCOs in BiH Federation in the 1st quarter of 2010

There is a continuation of decline of the gross portfolio of MCOs during the first quarter of 2010, due to incapability of completing the loan payment plans and significant write off of loans. The surplus of expenses over income, that is the loss on the level of the sector during the first quarter was 9,9 million KM, which along with the realized loss during 2009, in the amount of 39,5 million KM significantly impacts the net property/ capital of MCOs. As a consequence, certain MCOs are not establishing prescribed conditions for the needed minimum for net property. Interest income, as a most significant income of MCOs, was realized in a significantly lower amount in the first quarter of 2010 in comparison to the first quarter of the previous year, while the operating expenses and the expenses from the provisioning for loans are at approximately the same level. During the first quarter, MCOs wrote off 19 million KM, which presents a significant amount as the total receivables from charged off loans as of 31.03.2010., are 104,7 million KM. From the above mentioned, it can be concluded that due to the inadequate systems of internal controls during the ambitious growth of most of the MCOs in the previous periods that lead to the deterioration of the overexposure of clients that use the micro crediting services, the MCOs realized significant losses, and it is estimated that the loss trend will continue in the coming period, until the reconstructing of the MCOs sector.

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

The Banking Agency of the Federation of BiH is considering, as an urgent measure for eradicating the negative effects of the business operations and protection of the donated funds, the consolidation on the level of micro-credit organizations, 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 micro credits, increase of the employment and providing support for the development of the entrepreneurship.

Additionally, the Agency will insist that in the microcredit granting process the MCOs primarily focus on determining the financial viability of the prime debtor, and not the guarantor, as well as on establishing boards for objections and complaints in the MCOs that will take care of complying the operations of the MCOs with the Article 2 of the Law on MCOs, in order to consistently implement the aims of micro crediting and overcome and prevent the actual problems of over-indebtedness created through inadequate evaluation of the financial viability of the main debtor.

1.3. 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 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.*

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.*

2. THE STRUCTURE OF MICRO-CREDIT ORGANIZATIONS

As of 31.03.2010., there are 18 MCOs (licenses have been issued to 19 MCOs) in the Federation of Bosnia and Herzegovina, of that 17 MCFs (18 MCFs were granted licenses) as nonprofit organizations and 1 MCC as a profit organization, as well as 40 MCCs' organization units which head offices are in Republic Srpska. All MCFs that received the Agency's operating license performed the registration in compliance with the Law on MCOs, that is they were created through the change of MCOs form established in accordance with the Law on micro-credit organizations („Official Gazette of the Federation of BiH, number: 24/00) (Law on MCOs from 2000.). Therefore, all the MCFs 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 of 31.03.2010., MCFs with head office in the Federation of BiH have a total of 388 organizational units, of which in the Federation of BiH 251, Republic Srpska 134 and District Brčko 3. A total of 218 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 trend of closing of the organizational units, especially those that are registered in the registry continued in the first quarter of 2010, due to poor performing results of the micro-credit sector.

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

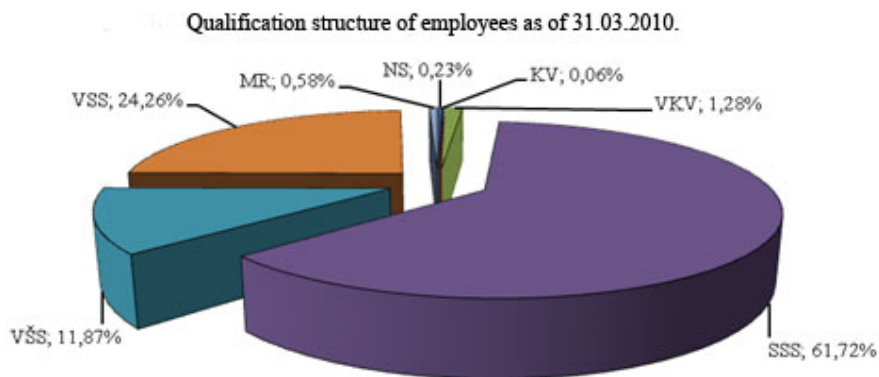
2.1. Personnel

Table 1. Qualification structure of employees

No.	Qualification ¹	31.12.2009.		Total	Participation	31.03.2010.		Total	Participation	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	4	0	4	0	100
2.	KV	2	0	2	0	1	0	1	0	50
3.	VKV	23	0	23	1	22	0	22	1	96
4.	SSS	1137	3	1140	64	1058	3	1061	62	93
5.	VŠS	214	0	214	12	204	0	204	12	95
6.	VSS	394	3	397	22	414	3	417	24	105
7.	MR	10	0	10	1	10	0	10	1	100
TOTAL		1784	6	1790	100	100	6	1719	100	96

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

As of 31.03.2010., micro-credit sector employed a total of 1.719 employees, which is for 89 employees or 5% less than as of 31.03.2009. That is a decrease in comparison to the end of 2009 by 71 employee, or 4%. MCFs employ 1.713 employees or 99,65%, and MCCs 6 employees or 0,35%. In the structure of employees the largest participation is of SSS of 66%, VSS of 24% and VŠS of 12%. Evident is an increase in strengthening the qualification structure through employment of individuals with higher education, that is increase of number of employees with VSS and MR (19 %), and decrease of number of employees with NS, KV, VKV and SSS (12 %).



3. FINANCIAL INDICATORS OF MCOs PERFORMANCE

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 MCO

in 000 KM

DESCRIPTION	31.12.2009.					31.03.2010.					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
ASSETS											
1. Cash	64.748	8	13	1	64.761	69.094	10	56	5	69.150	107
2. Placements to banks	41.084	5	0	0	41.084	25.993	4	0	0	25.993	63
3. Loans	640.886		1.080		641.966	576.601		1.059		577.660	90
4. Less: reserves for loan losses	50.924		75		50.999	50.023		67		50.090	98
5. Net loans	589.962	77	1.005	90	590.967	526.578	76	992	85	527.570	89
6. Business premises and other fixed assets	51.927	7	91	8	52.018	51.455	7	105	9	51.560	99
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	15.964	2	6	1	15.970	78
9. Less: reserves for other assets, except loans	1.610		0	0	1.610	1.680		0	0	1.680	100
TOTAL ASSETS	768.557	100	1.123	100	769.680	690.904	100	1.159	100	692.063	90
LIABILITIES											
10. Liabilities for loans taken	590.749	77	433	39	591.181	526.405	76	470	40	526.875	89
11. Other liabilities	24.142	3	44	4	24.186	21.421	3	41	4	21.462	89
12. Capital	153.666	20	646	58	154.312	143.078	21	648	56	143.726	83
TOTAL LIABILITIES	768.557	100	1.123	100	769.680	690.904	100	1.159	100	692.063	90
Off-balance sheet records	79.269		34		79.303	104.709		43		104.752	132

As of 31.03.2010., the MCOs' balance sheet amount is 692,1 million KM and it decreased by 22% in relation to the amount as of 31.03.2009., and in comparison to the end of 2009, the balance sheet level declined by 10%. The balance sheet growth is recorded by 2 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 10 MCFs. The highest participation in the total MCOs balance sheet is by six MCFs with assets in the amount of 642,8 million KM or 93%.

In the asset structure of MCOs, the cash funds are 69,1 million KM or 10% with a growth rate of 34% in comparison to 31.03.2009., and mainly relate to cash funds of MCF. Currently, three MCFs are faced with the liquidity risk since the ratio of the liquidity sources in relation to the potential claims is not adequate, and the investors are 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 527,6 million KM or 76% of the total assets and are 31% in decline in comparison to the same quarter of last year. The decline of the net loans higher than 10% is recorded by 12 MCOs (of which 1 MCC has a decline higher than 30%), and only 2 MCOs have the same or higher level of net loans in comparison to the end of last year. The business premises and other fixed assets are 51,6 million KM or 7% of total assets

Four MCFs have a percentage of fixed assets in the total assets higher than the prescribed amount. This percentage will grow in the coming period due to the expected trend of decline of the portfolio and the decrease of assets, as well as the stagnation of the real estate market.

The other assets are 16,0 million KM or 2%, and are composed of accrued interest, advance payments, active time reconciliation assets and other.

In the liability structure of MCOs, the liabilities on acquired loans are the basic source of funds and amount to 526,9 million KM or 76% of total liabilities and decreased for 22% in comparison to 31.03.2009.

Table 3. Maturity Structure of the loans taken

in 000 KM

DESCRIPTION	31.12.2009.				31.03.2010.				Index
	MCF	MCC	TOTAL	%	MKF	MCC	TOTAL	%	
1	2	3	4=(2+3)	5	6	7	8=(6+7)	9	10=8/4
1. Liabilities on short term loans taken	124.041	433	124.474	21	106.996	470	107.466	20	86
2. Liabilities on long term loans taken	466.708	0	466.708	79	419.409	0	419.409	80	90
TOTAL	590.749	433	591.181	100	526.405	470	526.875	100	89

Of total liabilities on loans taken 419,4 million KM or 80% are long term loans, with a decline rate of 24% in relation to the same quarter of the last year that is a decline rate of 10% in relation to the end of last year. Of total liabilities on loans taken 107,5 million KM or 20% are short term loans, with a decline of 14% in comparison to the same quarter of last year, and 14% decline rate in comparison to the end of the last year. The taken loans of MCFs amount to 526,4 million KM or 99,9% of total loans.

The most significant MCOs creditors are:

1.) EFSE – European fund for southeast Europe, Luxemburg (65,1 million KM); **2.)** EBRD – European bank for reconstruction and development, Great Britain (55,4 million KM); **3.)** AECI – Agency for international cooperation of Kingdom of Spain (51,8 million KM); **4.)** Blue Orchard Finance S.A., Switzerland (37,4 million KM); **5.)** DWM – Developing World Markets, USA (32,3 million KM); **6.)** Development Bank of Federation of BiH² (27,3 million KM); **7.)** ICO – Instituto di Credito Oficial, Spain (17,6 million KM); **8.)** Symbiotics, Switzerland (15,7 million KM); **9.)** Triodos-Doen, Netherlands (15,6 million KM); **10.)** Triple Jump, Netherlands (15,6 million KM); **11)** Dexia Micro-credit, Switzerland (13,9 million KM); and other.

Other liabilities are 21,5 million KM or 3% of the total liabilities, and are made of liabilities towards employees, suppliers, passive time reconciliements and other.

Capital of MCOs as of 31.03.2010., is 143,7 million KM or 21% of total liabilities and declined for 25% in relation to the same quarter of last year, and is by 17% less than the end of the last year.

² The funds are allocated within the framework of the Local initiatives project LIP and LIP II, which management has been, by a Decision of the Government of F BiH, („Official Gazette of FBiH, number: 78/06 and 34/07), transferred to Development Bank of Federation of BiH.

The off-balance sheet is 104,7 million KM, and it is almost 5 times higher than as of 31.03.2009. In relation to the end of last year, the off balance sheet is by 32% higher. Such significant increase in the amount of the off-balance sheet records in the first quarter of 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, are litigated and charged off from balance sheet to off-balance sheet until their collection.

3.2. Capital

The total capital of MCOs as of 31.03.2010., is 143,7 million KM, of which amount the capital of MCFs is 143,1 million MCF or 99,5%, and the capital of one MCC is 0,6 million KM or 0,5%.

Table 4. Capital structure of MCOs

in 000 KM

DESCRIPTION	31.12.2009.					31.03.2010.					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	43.273	30	0	0	43.273	100
Core Capital	5.770	4	600	93	6.370	10.237	7	600	93	10.837	170
Surplus/deficit of income over expenses	98.843	64	0	0	98.843	85.177	60	0	0	85.177	86
Issue premium	0	0	0	0	0	0	0	0	0	0	0
Undistributed income	0	0	46	7	46	0	0	48	7	48	104
Regulatory provisions	0	0	0	0	0	0	0	0	0	0	0
Other reserves	5.841	4	0	0	5.841	4.391	3	0	0	4.391	75
TOTAL CAPITAL	153.666	100	646	100	154.312	143.078	100	648	100	143.726	93

Currently, two MCFs do not fulfill the prescribed minimum of the core capital paid in cash which is 50.000 KM.

The most significant capital source for MCFs is the surplus of income over expenses which is 85,2 million KM, and constitutes 59% of total capital of MCFs, and is in decline for 39% in comparison to the end of the same quarter of last year, it is by 7% in decline in relation to the end of previous year. The total realized surplus of income over expenses of MCFs is 122,0 million KM, of which 121,8 million KM refers to previous years and 0,2 million KM for the current year, from which subtracted is the deficit of income over expenses in the amount of 36,8 million KM, which for the previous years is 26,8 million KM and 10,0 million KM for the current year. The deficit of income over expenses in the current year is realized by 14 MCF, and surplus of income over expenses only 3 MCF, while only the MCC realized a net profit.

One of three MCFs that reported profit, has, according to the reports of the external auditor, reprogrammed its portfolio in the amount of 18,5 million KM, which is significantly higher than the prescribed percentage for renegotiated loans, and has not allocated adequate reserves

for renegotiated loans according to the Decision on amount and manner for establishing and maintaining reserves for loan losses of MCOs.

Undivided profit of one MCC is 48 thousand KM or 7% of the total capital of MCC.

The significant source of capital of MCF is the donated capital which is 43,3 million KM or 30% of the total capital, whereas one MCC does not have donated capital. Other reserves are 4,4 million KM and refer to four MCFs.

3.3. Credit portfolio quality

The core activity of MCOs is the micro-lending that refers to the amount of 577,7 million KM or 83% of 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 576,6 million KM or 99,8% of total loans, whereas MCCs relate to 1,1 million KM or 0,2% 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.			31.03.2010.			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	576.601	1.059	577.660	90
2.	Reserves for loan losses	50.924	75	50.999	50.023	67	50.090	98
3.	Net loans (1.-2.)	589.962	1.005	590.967	526.578	992	527.570	89

Net loans are 527,6 million KM and decreased by 31% in comparison to the same quarter of the previous year, that is, it decreased by 11% in comparison to the end of previous year, while the loans on gross basis decreased by 28% in relation to the same quarter of the previous year, that is by 10% in relation to the end of the previous year. Loan loss reserves are 50,1 million KM and have increased by 67% in relation to the same quarter of the previous year, that is, by 2% in relation to the end of the previous year.

Table 6. Department and maturity structure of micro-credit MCOs as of 31.03.2010.
in 000 KM

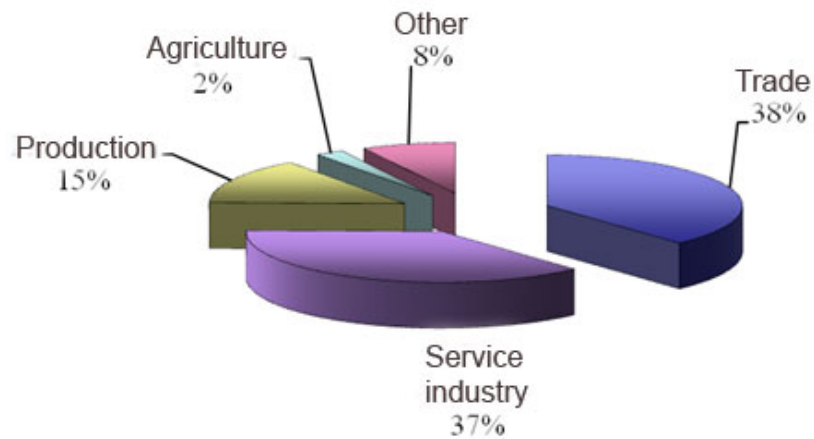
No.	Micro-credits	Short term loans	Long term loans	Past due receivables	TOTAL	%
1	2	3	4	5	6=(3+4+5)	7
1.	Legal entities					
a.)	Service industry	576	2.689	108	3.373	37
b.)	Trade	661	2.620	191	3.472	38
c.)	Agriculture	29	170	7	206	2
d.)	Production	222	1.072	40	1.334	15
e.)	Other	78	566	59	703	8
	TOTAL 1:	TOTAL 1:	7.117	405	9.088	100
2.	Individuals					
a.)	Service industry	10.757	112.944	3.185	126.886	22
b.)	Trade	8.719	82.208	2.702	93.629	16
c.)	Agriculture	9.784	172.136	3.729	185.649	33
d.)	Production	3.674	33.138	835	37.647	7
e.)	Housing needs	1.830	58.049	1.216	61.095	11
f.)	Other	12.946	49.327	1.393	63.666	11
	TOTAL 2:	TOTAL 2:	507.802	13.060	568.572	100
	TOTAL (1+2):	TOTAL (1+2):	514.919	13.465	577.660	

According to the department structure of the micro-credits, 568,6 million KM or 98% of total loans are granted to the individuals, and 9,1 million or 2% to legal entities.

In the maturity structure of the micro-credits, short term loans, which include the past due receivables, are 49,3 million KM or 9%, and long term loans are 514,9 million KM or 89%. The total past due receivables are 13,5 million KM or 2% of the total loans.

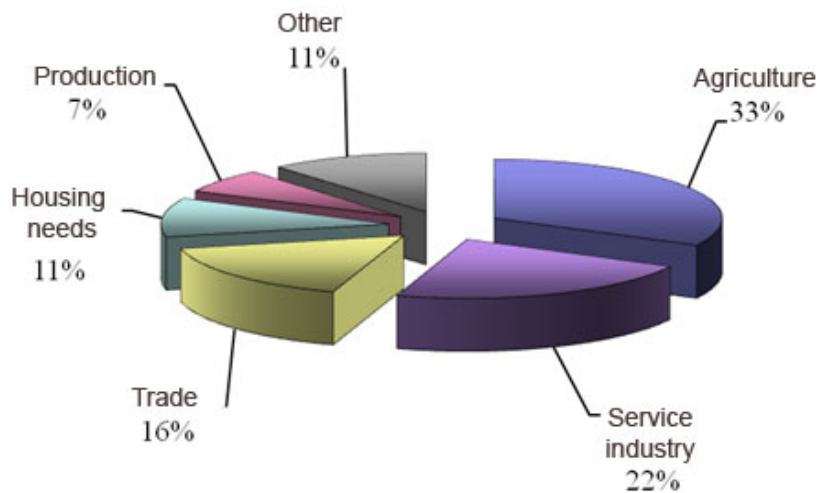
According to the sector structure the largest amount of total amount of micro-credits to **legal entities** has been allocated in the trade and service sector -trade 3,5 million, or 38%, and service industry 3,4 million KM or 37%. A 1,3 million KM has been allocated for production, which is 15%, then 0,2 million KM for agriculture or 2%, and 0,7 million or 8% for other purposes.

Sector structure of micro-credit placements to legal entities



In regard to loans to **individuals**, 185,6 million KM or 33% was granted to agriculture, then 126,9 million KM or 22% for service industry, whereas 93,6 million KM or 16% was granted to the sector of trade, for housing needs 61,1 million KM or 11%, and for production 37,7 million KM or 7%, and for other 63,7 million KM or 11%.

Sector structure of micro-credit placements to individuals



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 (55%) and mainly relates to long term loans to individuals.

The Micro-credit foundations cannot originate loans to related entities in accordance to Law on MCOs. It is determined that one MCF still has loans granted to related entities in the first quarter of this year.

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 31.03.2010.:

Table 7. Report on amount and manner of establishing the reserves for loan losses as of 31.03.2010.

in 000 KM

No.	Days of default	Reserve rates	Loan amount	Past due interest		Amount of other assets items	Provisioning			Total Provisioning
				Reserve rates	Amount of interest		For loans	For past due interest	For other items of assets	
1	2	3	4	5	6	7	8=(4x3)/100	9=(5x6)/100	10=(7x3)/100	11=(8+9+10)
1.	1 - 15	2%	15.513	2%	334	755	309	5	15	329
2.	16 - 30	15%	23.697	100%	416	0	3.554	416	0	3.970
3.	31 - 60	50%	18.806	100%	643	0	9.406	643	0	10.049
4.	61 - 90	80%	12.131	100%	624	0	9.703	624	0	10.327
5.	91 - 180	100%	24.457	100%	1.953	0	24.458	1.952	0	26.410
6.	over 180	charge off	19.500		2.877	0	425	76	0	501
TOTAL			114.104		6.847	755	47.855	3.716	15	51.586

Defaults in payment of longer than one day have loans in the amount of 114,1 million KM or 19,8% of total loans. This leads to conclude that the loan collection rate has significantly deteriorated in relation to the same quarter of last year. The largest amounts of loans have default in payment of 16 to 30 days (23,7 million KM or 4,1% of total loans), or 91 to 180 days (24,5 million KM or 4,2% of total loans).

The total amount of past due interest is 6,8 million KM, of that amount 1,9 million KM or 29% is in the default group of 91 to 180 days, while 2,9 million KM or 42% refers to default of over 180 days.

The amount of the other items of assets for which the reserves were accrued is 0,8 million KM and refers solely on one MCF.

Total amount of accrued reserves on all bases is 51,6 million KM.

The total amount of reserves from Table 7 is for the amount of 184 thousand different from the amount presented in the Table 2, since one MCF has not included data for renegotiated loans that are not in default in the Table 7.

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.

Risk-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

No.	DESCRIPTION	Risk-weighted nominal interest rate (average)	Risk-weighted effective interest rate (average)
1.	Short term loans for:		
1.1.	Service industry	27,35 %	36,83 %
1.2.	Trade	24,59 %	35,00 %
1.3.	Agriculture	24,69 %	33,18 %
1.4.	Production	26,20 %	33,85 %
1.5.	Housing needs	24,07 %	28,51 %
1.6.	General purpose – basic needs	35,95 %	44,29 %
1.7.	Other	25,08 %	34,71 %
2.	Long term loans for:		
2.1.	Service industry	24,81 %	28,85 %
2.2.	Trade	25,08 %	29,46 %
2.3.	Agriculture	22,81 %	26,43 %
2.4.	Production	23,99 %	27,40 %
2.5.	Housing needs	23,48 %	27,19 %
2.6.	General purpose - basic needs	30,15 %	35,61 %
2.7.	Other	25,88 %	32,13 %

For short term loans, average nominal interest rates are in the range between 24,07% for housing needs to 35,95% for general purpose loans, and for the effective interest rate in the range of 28,51% for housing needs to 44,29% for general purpose loans.

For long term loans, the average nominal interest rates are in the range between 22,81% for agriculture to 30,15% for general purpose loans, and effective interest rate in the range of 26,43% for agriculture to 35,61% for general purpose loans.

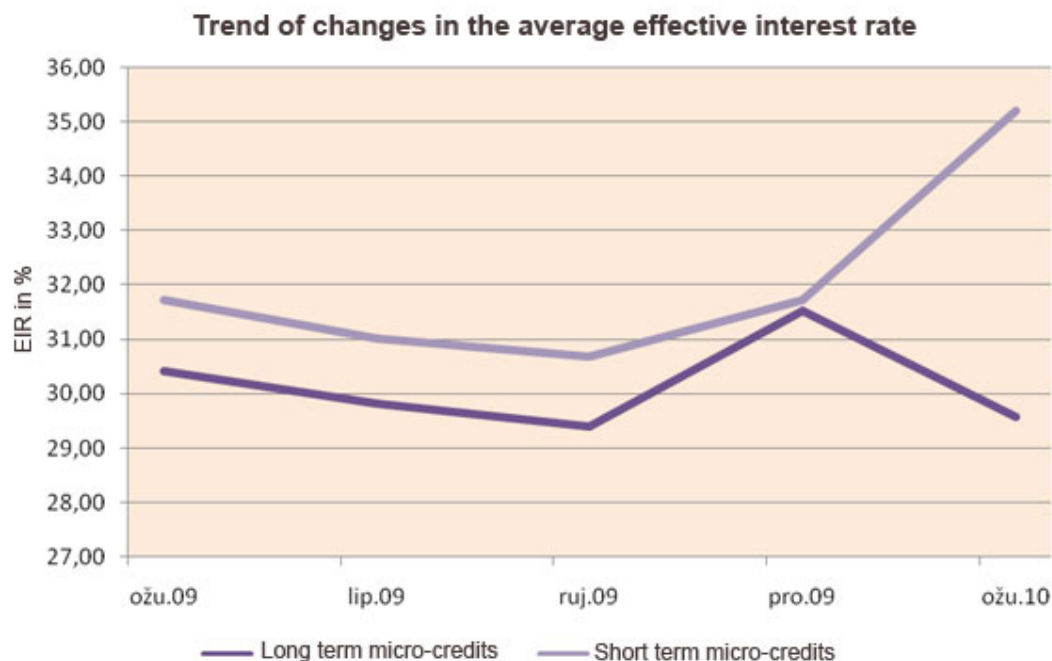
The largest effective interest rate adequately reported in one MCF is 54% for general purpose basic needs. The lowest effective interest rate adequately reported is 9,49% for general purpose in one MCF.

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

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

AVERAGE EIR in %	03/2009	06/2009	09/2009	12/2009	03/2010
Short term micro-credits	31,72	31,02	30,69	31,73	35,2
Long term micro-credits	30,41	29,81	29,39	31,52	29,58

Graphic illustration of the average effective interest rates for short term and long term loans through quarters.



The forming of the interest rates for micro-credits is determined on the basis of the high capital expenses that MCOs use for funding the portfolio (Eurolibor +4,5%), high administration expenses (around 15%), expenses of provisioning for debt losses that are in constant incline since 2007, as well as the expense of the capitalization. The price of capital and provisioning are proportional to the granted loans, while the administrative expenses are not proportional to the debt and present the highest item on each given loan. 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.

MCF that had significant payouts (22,7) during the first quarter, in relation to other MCOs, has, with a high rate of short term loans (54%), significantly impacted the average effective interest rates for the short term loans.

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 9.

Table 9. Income Statement MCOs for the period from 01.01. to 31.03.2010.

No.	DESCRIPTION	For the period 01.01. - 31.03.2009.				For the period 01.01. - 31.03.2010.				Index
		MCF	MCC	Total	%	MCF	MCC	Total	%	
1	2	1	2	3=(1+2)	4	5	6	7=(5+6)	8	9
1.	INTEREST INCOME AND SIMILAR TYPES OF INCOME									
1.1.	Interest income and similar types of income	45.462	48	45.510	96	34.099	63	34.162	95	75
1.2.	Operating income	1.884	53	1.937	4	1.728	8	1.736	5	90
2.	TOTAL INCOME (1.1.+1.2.)	47.346	101	47.447	100	35.827	71	35.898	100	76
3.	EXPENSES									
3.1.	Income expenses and similar expenses	12.350	2	12.352	25	9.979	9	9.988	21	81
3.2.	Operating expenses	18.171	38	18.208	37	17.883	54	17.937	39	99
3.3.	Expenses for reserves for loan and other losses	18.925	63	18.988	38	18.374	1	18.375	40	97
4.	TOTAL EXPENSES (3.1.+3.2.+3.3.)	49.446	103	49.549	100	46.236	64	46.300	100	93
5.	EXTRAORDINARY INCOME	723	0	723		1.449	0	1.449		
6.	EXTRAORDINARY EXPENSES	50	0	50		896	0	896		
7.	TOTAL INCOME -EXPENSES (2+5-4-6)	-1.427	-2	-1.429		-9.856	7	-9.849		
8.	SURPLUS/DEFICIT OF INCOME OVER EXPENSES	-1.427				-9.856				
9.	INCOME BEFORE TAXES		-2				7			
10.	TAXES		0				1			
11.	NET INCOME/LOSS		-2				6			
12.	TOTAL FINANCIAL RESULT			-1.429				-9.850		

The total income of MCOs for the period of 01.01. - 31.03.2010., is 35,9 million KM, of which 35,8 million KM or 99,8% refers to income of MCFs, and 0,1 million KM or 0,2% on income of one MCC (01.01.-31.03.2009.; 47,4 million KM, of which 47,3 million or 99,8% refers to income of MCFs, and 0,1 million KM or 0,2% to income of one MCC). In comparison to the same period of last year, total income of MCOs is in decline by 24,3%.

The core income is interest income and it is 34,2 million KM or 95,16 % of total income (01.01. - 31.03.2009: 45,5 million KM or 96% of total income). In relation to the same period of last year the interest income is in decline by 24,8%.

The total expenses are 46,3 million KM, of which 46,236 million or 99,9% relates to expenses of MCF, and 0,064 million KM or 0,1% to expenses of one MCC (1.01.-31.03.2009.: 49,5 million KM of which 49,4 million or 99,8 refer to expenses of MCF, and 0,103 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 6,5%.

In the structure of expenses, 10 million KM or 21,6% of total expenses are interest expenses for loans taken and other similar expenses (01.01.-31.03.2009: 12,4 million KM or 25% of total interest expenses on loans taken and other similar expenses). Operating expenses are 17,9 million KM or 38,7 % of total expenses (01.01.-31.03.2009.: 18,2 million KM or 37% of total expenses), and refer to salary expenses and contributions in the amount of 9,4 million KM (01.01.-31.03.2009.: 10,2 million KM), business premises expenses, other fixed assets and utilities in the amount of 4,3 million KM (01.01.-31.03.2009.: 4,2 million KM), and other operating expenses in the amount of 4,2 million KM (01.01.-31.03.2009.: 3,8 million KM). The expenses related to the reserves for loan losses and other losses are 18,3 million KM or 39,7 % of total expenses. (01.01.-31.03.2009.: 18,9 million KM or 38% of total expenses). In relation to the same period of last year, interest expenses have declined by 19,4%, operating expenses declined by 1,6%, and losses related to reserves by 3,2%.

For the period of 01.01.-31.03.2009., the net income of one MCC was 6 thousand KM (01.01. – 31.03.2009.: net loss of one MCC was 2 thousand KM). In the same period MCF realized a deficit of income over expenses in a total amount of 9,9 million KM, of which 13 MCF have an income deficit over expenses in a total amount of 10,1 million KM, and 3 MCF realized an income surplus over expenses in the amount of 0,2 million KM (01.01.-31.03.2009.: income deficit over expenses in the amount of 1,4 million KM, of which 9 MCF realized an income surplus in the amount of 1,8 million KM). On the level of the microcredit sector in the Federation of BiH, there is realized a negative financial result in the amount of 9,9 million KM (01.01.-31.03.2009.; realized is a negative financial result in the amount of 1,4 million KM). In the relation to the same period of the last year the income deficit over the expenses is more than 7 times higher).

4. CONCLUSION

Analyzing the reports of MCOs as of 31.03.2010., we can conclude the following:

- Aggregate balance sheet of MCOs as of 31.03.2010. is 692,1 million KM, of which 690,9 million KM refers to MCFs or 99,8%, and 1,2 million KM to MCCs or 0,2% of the total balance sheet of MCOs;
- In the first quarter, the aggregate balance sheet of MCOs decreased by 200,2 million KM or 22% in comparison to the same quarter of the last year, that is it decreased by 77,6 million KM or 10% in comparison to the end of last year;
- The total loans of MCOs as of 31.03.2010. are 577,7 million that is 83% of total assets of MCOs;
- The basic source of funds for MCOs are liabilities on acquired loans that, as of 31.03.2010., are 526,9 million KM or 76% of total liabilities of MCOs;

- The total capital of MCOs as of 31.03.2010., is 143,7 million KM, of which the capital of MCF is 143,1 million KM, and MCC 648 thousand KM. The most significant items of capital of MCFs are the surplus of income over expenses in the amount of 85,2 million KM, which constitutes 60% of the total capital of MCF. The total realized surplus of income over the expenses for MCF is 122,0 million KM decreased for the income deficit over expenses in the amount of 36,8 million KM. A significant source of capital of MCFs is the donated capital, which is 43,3 million KM or 30% of total capital of MCFs, while the core capital of MCFs is 10,2 million or 7% of total capital of MCF. Undivided profit of MCCs is 48 thousand KM or 7% of total capital of MCCs, while the core capital is 0,6 million KM or 93% of total capital of MCCs.
- In the first quarter of 2010, MCFs realized a surplus in income over expenses in the amount of 0,2 million KM, while the deficit of income over expenses was 10,1 million KM, which means that MCFs in the first quarter of 2010 with deficit income over expenses in the total amount of 9,9 million KM. In the first quarter of 2010, MCCs realized a net profit in the amount of 6 thousand KM.
- By the end of the reporting period, the comprehensive examination of the microcredit foundation and in process is revoking of two licenses for microcredit foundations for which it was determined that were not operating in compliance with the regulations.

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	31.03.2009.	
						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	1.123	6
2.	MKF "BOSANSKO SELO" Srebrenik	21. Srebreničke brigade bb 75 350 SREBRENİK	Zijad Smajić	035/ 644-898 tel/fax	mobossel@bih.net.ba	633	6
3.	MKF "EKI" Sarajevo	Džemala Bijedića bb 71 000 SARAJEVO	Sadina Bina	033/ 754-370, 754-388 fax	sbina@mkoeki.com www.mkoeki.com	156.938	294
4.	MKF "KARTAGINA" Sarajevo	Ferde Hauptmana 7 71 000 SARAJEVO	Davor Pozojević	033/ 523-395, 613-334 fax	mkokartagina@gmail.com	246	6
5.	MKF "LIDER" Sarajevo	Skenderija 68 71 000 SARAJEVO	Zijad Hasović	033/ 250-580, 250-581 fax	zijadh@lider.ba www.lider.ba	11.798	43
6.	"LOK MKF" Sarajevo	Skenderija 13 71 000 SARAJEVO	Nusret Čaušević	033/ 564-200, 564-201 fax	central.office@lok.ba www.lok.ba	102.002	296
7.	MKF "MELAHA" Sarajevo	Hamdije Kreševljakovića 59 71 000 SARAJEVO	Iso Abinun	033/ 205-737 tel/fax	iso@melaha.ba	906	3
8.	MKF "MIBA" Tuzla	Đorđa Mihajlovića 4/III 75 000 TUZLA	Mirsad Bahić	035/ 277-455 tel/fax	miba@vesta.ba www.miba.ba	811	6
9.	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	54.348	142
10.	MKF "MIKRA" Sarajevo	Marka Marulića 2/VI 71 000 SARAJEVO	Sanin Čampara	033/ 616-162, 717-141 fax	mikra@mikra.ba www.mikra.ba	14.261	102
11.	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	5.250	24
12.	"PARTNER MKF" Tuzla	15. maja bb 75 000 TUZLA	Senad Sinanović	035/ 300-250, 300-269 fax	partner@partner.ba www.partner.ba	154.571	283
13.	MKF "PRIZMA" Sarajevo	Bistrik Medresa 43 71 000 SARAJEVO	Kenan Crnkčić	033/ 573-320, 446-583 fax	hq@prizma.ba www.prizma.ba	94.428	222
14.	"PRVA ISLAMSKA MKF" Sarajevo	Jukićeva 75 71 000 SARAJEVO	Samir Bajraktarević	033/ 666-224, 268-350 fax	info@islamic-relief.ba	1.681	9
15.	MKF "SANI" Zenica	Mehmedalije Tarabara 10 72 000 ZENICA	Sulejman Haračić	032/ 405-606 tel/fax	mikrosanizenica@yahoo.com	591	3
16.	MKF "SUNRISE" Sarajevo	Hamdije Kreševljakovića 51 71 000 SARAJEVO	Zoran Dučić	033/ 278-020, 278-032 fax	sunrise@microsunrise.ba www.microsunrise.ba	80.492	206
17.	MKF "VORTT-INVEST" Sarajevo	Azize Šaćirbegović 128 71 000 SARAJEVO	Mustafa Kapić	033/720-949, 720-941 fax	vorttdoo@yahoo.com	639	1
18.	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	11.309	67
TOTAL						692.027	1.719

Attachment 2.

BALANCE SHEET MCF*in 000 KM*

No.	DESCRIPTION	31.12.2009.	%	31.03.2010.	%	Index
1	2	3	4	5	6	7=5/3
ASSETS						
1.	Cash (1a+1b)	64.748	8	69.094	10	107
1a)	Cash and noninterest –bearing deposit accounts	17.274	2	23.555	3	137
1b)	Interest-bearing deposit accounts	47.474	6	45.539	7	96
2.	Placement to banks	41.084	5	25.993	4	63
3.	Loans	640.886		576.601		90
3a)	Reserves for loan losses	50.924		50.023		98
3b)	Net loans (3-3a)	589.962	77	526.578	76	89
4.	Premises and other fixed assets	51.927	7	51.455	7	99
5.	Long term investments	2.000	0	3.500	1	175
6.	Other assets	20.446	3	15.964	2	78
7.	Less: reserves for other items of the assets, except loans	1.610		1.680		104
8.	TOTAL ASSETS	768.557	100	690.904	100	90
LIABILITIES						
9.	Liabilities on taken short term loans	124.041	16	106.996	15	86
10.	Liabilities on taken long term loans	466.708	61	419.409	61	90
11.	Other liabilities	24.142	3	21.421	3	89
12.	TOTAL LIABILITIES	614.891	80	547.826	79	89
13.	Donated capital	43.212		43.273		100
14.	Core capital	5.770		10.237		177
15.	Surplus of income over expenses	140.934		121.980		87
15a)	For previous years	139.202		121.786		87
15b)	For current year	1.733		194		11
16.	Deficit of income over expenses	42.091		36.803		87
16a)	For previous years	905		26.781		2959
16b)	For current year	41.186		10.022		24
17.	Other reserves	5.841		4.391		75
18.	TOTAL CAPITAL	153.666	20	143.078	21	93
19.	TOTAL LIABILITIES	768.557	100	690.904	100	90
OFF BALANCE SHEET						
	- written off loans	62.703		88.523		141
	- commission contracts	16.566		16.186		100

Attachment 3.

BALANCE SHEET MCC

in 000 KM

No.	DESCRIPTIONS	31.12.2009.	%	31.03.2010.	%	Index
1	2	3	4	5	6	7=5/3
ASSETS						
1.	Cash (1a+1b)	13	1	56	5	430
1a)	Cash and noninterest –bearing deposit accounts	13	1	56	5	430
1b)	Interest-bearing deposit accounts	0	0	0	0	0
2.	Placements to banks	0	0	0	0	0
3.	Loans	1.080		1.059		98
3a)	Reserves for loan losses	75		67		89
3b)	Net loans (3-3a)	1.005	90	992	85	99
4.	Premises and other fixed assets	91	8	105	9	115
5.	Long term investments	0	0	0	0	0
6.	Other assets	14	1	6	1	43
7.	Less: reserves for other items of the assets, except loans	0		0		0
8.	TOTAL ASSETS	1.123	100	1.159	100	103
LIABILITIES						
9.	Liabilities on taken short term loans	433	39	470	41	109
10.	Liabilities on taken long term loans	0	0	0	0	0
11.	Other liabilities	44	4	41	3	93
12.	TOTAL LIABILITIES	477	42	511	44	107
13.	Donated capital	0		0		0
14.	Core capital	600		600		100
15.	Issue premium	0		0		0
16.	Undistributed profit (16a+16b)	46		48		104
16a)	Previous years	24		42		175
16b)	Current year	23		6		26
17.	Regulatory reserves	0		0		0
18.	Other reserves	0		0		0
19.	TOTAL CAPITAL	646	58	648	56	100
20.	TOTAL LIABILITIES	1.123	100	1.159	100	103
OFF BALANCE SHEET						
	- written off loans	34		43		126
	- commission contracts	0		0		0

Attachment 4.

INCOME STATEMENT MCF

in 000 KM

No.	DESCRIPTION	31.03.2009.	%	31.03.2010.	%	Index
1	2	3	4	5	6	7=(5/3)
I	FINANCIAL INCOME AND EXPENSES					
1.	Interest income and similar income					
1.1.	Interest from interest bearing deposit accounts with depositary institutions	66	0	434	1	658
1.2.	Interest from placements to banks	19	0	178	1	937
1.3.	Loan interest	45.318	100	32.774	96	72
1.4.	Other financial income	60	0	713	2	1188
1.5.	Total interest income and similar income (1.1. to 1.4.)	45.462	100	34.099	100	75
2.	Interest expenses and similar expenses					
2.1.	Interest on borrowings	11.862	96	9.261	93	78
2.2.	Other financial expenses	488	4	718	7	147
2.3.	Total interest expenses and similar expenses (2.1. to 2.2.)	12.350	100	9.979	100	81
3.	Net financial income (1.5. - 2.3.)	33.112		24.120		73
II	OPERATING INCOME AND EXPENSES					
4.	Operating income					
4.1.	Fees for completed services	1.676	89	1.547	90	92
4.2.	Other operating income	208	11	181	10	87
4.3.	Total operating income (4.1. to 4.2.)	1.884	100	1.728	100	92
5.	Operating expenses					
5.1.	Cost of salaries and benefits	10.214	56	9.363	52	92
5.2.	Costs of business premises, other fixed assets and utilities	4.221	23	4.320	24	102
5.3.	Other operating expenses	3.735	21	4.200	23	112
5.4.	Total operating expenses (5.1.to 5.3.)	18.171	100	17.883	100	98
6.	Cost of provisioning for loan and other losses	18.925		18.374		97
7.	Surplus/deficit of income over expenses from direct business operations (3.+4.3.-5.4.-6.)	-2.100		-10.409		496
8.	Extraordinary income	723		1.449		200
9.	Extraordinary expenses	50		896		1792
10.	Surplus/deficit of income over expenses (7.+8.-9.)	-1.427		-9.856		691

Attachment 5.

INCOME STATEMENT MCC

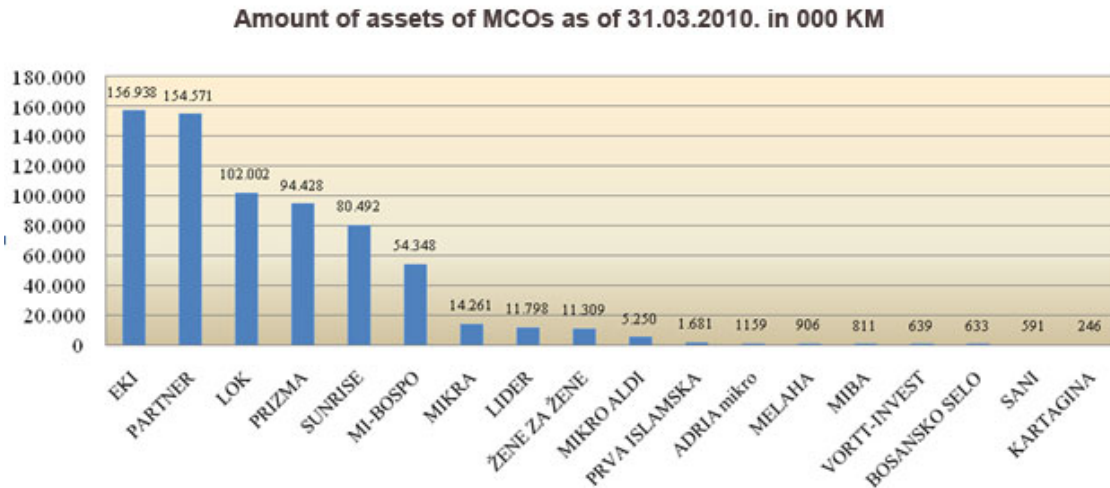
in 000 KM

No.	DESCRIPTION	31.03.2009.	%	31.03.2010.	%	Index
1		3	4	5	6	7=(5/3)
I	2					
1.	FINANCIJSKI PRIHODI I RASHODI					
1.1.	Interest income and similar income	0	0	0	0	100
1.2.	Interest from interest bearing deposit accounts with depositary institutions	0	0	0	0	100
1.3.	Interest from placements to banks	48	100	62	98	129
1.4.	Interest from loans	0	0	1	2	n/a
1.5.	Other financial income	48	100	63	100	131
2.	Total interest income and similar income (1.1. to 1.4.)					
2.1.	Interest expenses and similar expenses	2	100	9	100	450
2.2.	Interest on borrowings	0	0	0	0	100
2.3.	Other financial expenses	2	100	9	100	450
3.	Total interest expenses and similar expenses (2.1. to 2.2.)	46		54		117
	Net financial income (1.5. - 2.3.)					
II						
4.	OPERATIONAL INCOME AND EXPENSES					
4.1.	Operating income	5	9	6	75	120
4.2.	Fees for completed services	48	91	2	25	4
4.3.	Other operating income	53	100	8	100	15
5.	Total operating income (4.1. to 4.2.)					
5.1.	Operating expenses	21	55	23	42	110
5.2.	Costs of salaries and benefits	10	27	22	41	220
5.3.	Costs of business premises, other fixed assets and utilities	7	18	9	17	129
5.4.	Other operating expenses	38	100	54	100	142
6.	Total operating expenses (5.1. to 5.3.)	63		1		2
7.	Cost of provisioning for loan and other losses	-2		7		n/a
8.	PROFIT/LOSS FROM DIRECT BUSINESS OPERATIONS (3.+4.3.-5.4.-6.)	0		0		100
9.	Extraordinary income	0		0		100
10.	Extraordinary expenses	-2		7		n/a
11.	INCOME/LOSS BEFORE TAXES	0		1		n/a
12.	TAXES	-2		6		n/a

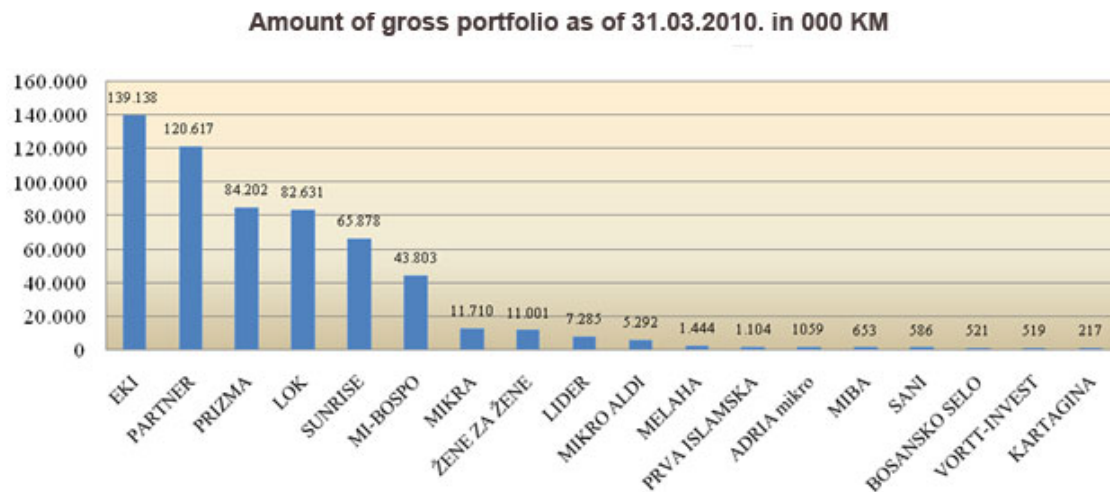
GRAPHS

- Graph 1. Amount of assets of MCOs as of 31.03.2010., in 000 KM
- Graph 2. Amount of gross portfolio as of 31.03.2010., in 000 KM
- Graph 3. Amount of capital of MCOs as of 31.03.2010., in 000 KM
- Graph 4. Income surplus/deficit over the expenses of MCFs,
that is net profit/losses of MCCs as of 31.03.2010., in 000 KM
- Graph 5. Number of employees of MCOs as of 31.03.2010.

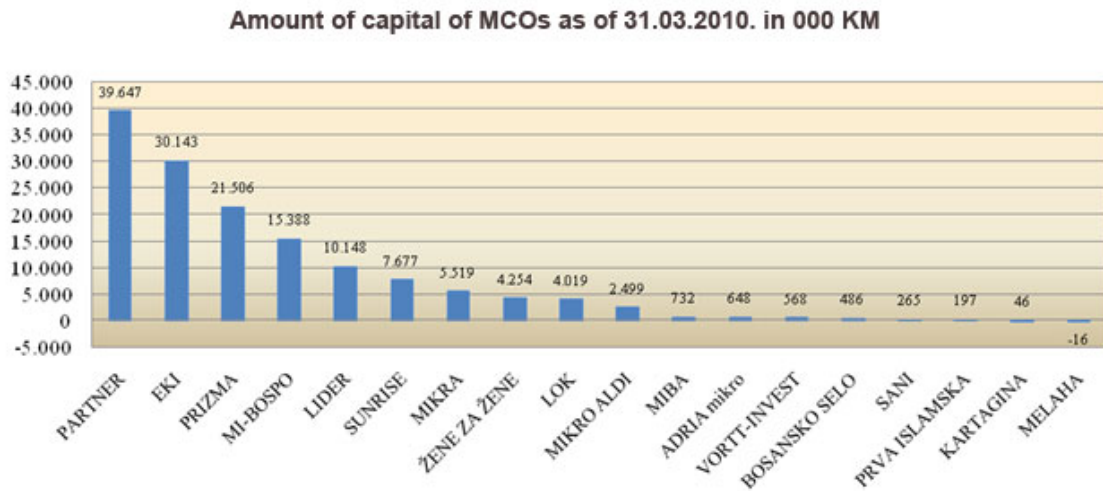
Graph 1.



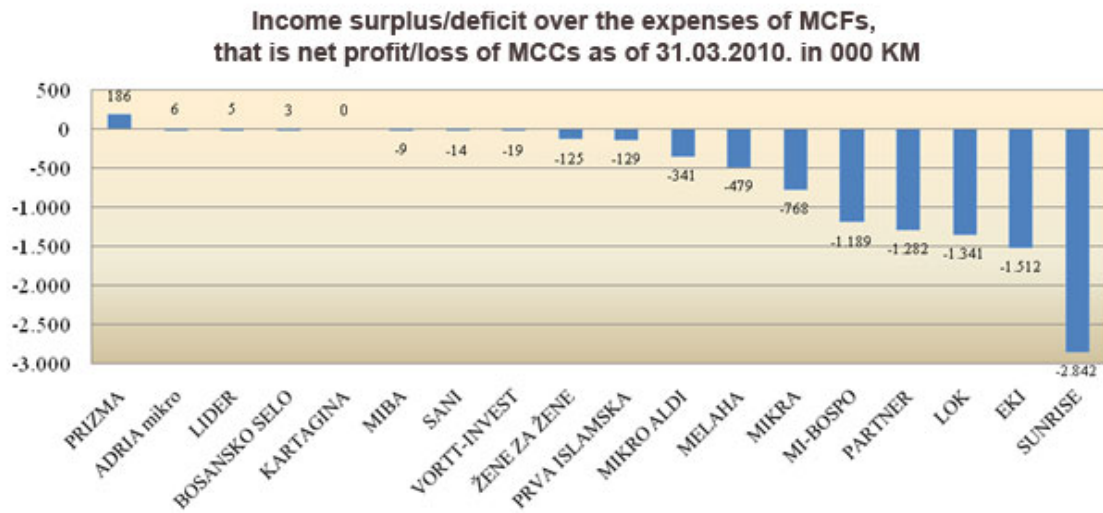
Graph 2.



Graph 3.



Graph 4.



Graph 5.

