



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

**INFORMATION
ON THE MICROCREDIT SYSTEM
OF THE FEDERATION OF BOSNIA AND HERZEGOVINA
30.06.2017**

Sarajevo, August 2017

The Banking Agency of the Federation of B&H (the Agency), as a regulatory institution conducting supervision of microcredit organizations, prepared the Information on the Microcredit System of the Federation of Bosnia and Herzegovina as of 30.06.2017 based on the analysis of monthly and quarterly reports on business operations, information and data submitted to the Agency by microcredit organisations (off-site supervision) and data obtained during on-site examinations (on-site supervision). The Information was drafted on the basis of final data from reports submitted to the Agency by MCOs on 30.06.2017.

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I INTRODUCTION

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

As of 30.06.2017, 12 MCOs, 11 of which are MCFs (non-profit organisations) and 1 of which is an MCC (profit organisation), had the Agency's operating licence in the Federation of B&H. They operated through 285 organisational units. As of 30.06.2017, the total headcount of the microcredit system was 1 390, which is up by 139 employees or 11% compared to 31.12.2016. However, we emphasise that this figure does not represent the real increase in employees, but is the result of the fact that 104 employees of one MCF were hired part-time as employees of the MCC in the first six months of 2017, with the aforementioned being recorded in reports on the qualification structure of employees of both the MCF and MCC. When excluding the aforementioned fact as well as the fact that the number of these employees was 42 as of 31.12.2016, the real number of employees as of 30.06.2017 amounted to 1 244 employees, which is 35 employees or 3% more compared to 31.12.2016.

As of 30.06.2017, the balance sheet total of MCOs amounted to KM 463 million, KM 407.6 million or 88% of which relate to MCFs and KM 55.4 million or 12% to the MCC. The balance sheet total at the end of the second quarter of 2017 was up by KM 22.9 million or 5% compared to the balance as of 31.12.2016.

As of 30.06.2017, total MCO gross loans, as the most significant item of MCO assets, amounted to KM 396.1 million and made up 86% of total assets of MCOs, therefore being up by 5% compared to the end of the previous year, while net loans amounted to KM 392.8 million and are up by 5% compared to the balance as of 31.12.2015. Microlending is largely directed toward agriculture (34%), housing needs (21%), and other (20%), and is mostly related to long-term loans to natural persons.

Average weighted effective interest rates on total loans in the microcredit system amounted to 24.94% in the second quarter of 2017, down by 0.70 percentage points compared to the fourth quarter of 2016. In order to reduce interest rates on microloans in the context of protecting consumers-clients of microcredit organisations, and fulfilling the mission of microlending, during examinations, the Agency particularly values and controls all types of operating costs of MCOs that have a significant impact on the setting of interest rates and assesses their necessity, pursuant to which it issues appropriate orders. The focus of the Agency's examinations in the period to come, along with the constant monitoring of asset quality, will be to control MCO costs, their justification and effectiveness, with the aim of reducing interest rates on microloans placed by MCOs in the Federation of B&H.

Compared to the end of the previous year, as of 30.06.2017, the microcredit portfolio saw an increase of 5% (KM 18.2 million) and also recorded a slight improvement of quality indicators of the active loan portfolio. The slight improvement of the quality indicators of the active loan portfolio was recorded by decreasing the loan loss provisioning rate from 0.89%, which is what it amounted to as of 31.12.2016, to 0.83%. The portfolio at risk exceeding 30 days past due amounted to 0.88% and is down by 0.12 percentage points compared to the end of the previous year. The total system result with

respect to the portfolio at risk is within the framework of the prescribed standard (below 5%). The portfolio at risk exceeding more than one day past due recorded a slight deterioration, thus being up from 2.23%, which is what it amounted to at the end of the previous year, to 2.43%. At system level, the percentage of write-offs amounted to 1.04% as of 30.06.2017 and this indicator was lower by 0.07 percentage points compared to the end of the previous year and is within the framework of the prescribed standard.

The main source of funding of MCOs are loan commitments, which amounted to KM 222.7 million or 48% of total MCO liabilities as of 30.06.2017 and are up by KM 14.8 million or 7% compared to the balance as of 31.12.2016. Total MCO capital as of 30.06.2017 amounted to KM 217.4 million or 47% of total MCO liabilities, which is up by KM 9.7 million or 5% compared to the end of the previous year, with the capital of MCFs amounting to KM 213.6 million or 98.2% and the capital of one MCC amounting to KM 3.8 million or 1.8%. The most significant MCF capital items are excess income over expenses in the amount of KM 162.1 million, which constitutes 76% of total MCF capital, followed by donated capital, which amounted to KM 45.9 million or 21% of total MCF capital. Core capital and other MCF reserves amounted to KM 5.6 million, i.e. 3% of total MCF capital. The core capital of one MCD amounts to KM 600 thousand, and unallocated profit and current profit to KM 1 308 thousand.

In the period from 01.01. to 30.06.2017, out of a total of 11 MCFs, 8 MCFs had excess income over expenses in the total amount of KM 9 510 thousand, while 3 MCFs recorded less income over expenses in the total amount of KM 54 thousand. In the period from 01.01. to 30.06.2017, one MCC recorded net profit in the amount of KM 291 thousand (01.01. to 30.06.2016: KM 447 thousand net profit).

At the level of the microcredit system in the Federation of B&H, a positive financial result in the amount of KM 9 747 thousand was recorded, which is up by KM 2 262 thousand or 30% compared to the same period of the previous year.

With respect to operational sustainability, out of 12 MCOs, 6 MCFs and 1 MCC can cover all expenses with the recorded income from regular activities.

After examining the submitted reports of the external auditor for 2016, it was determined that, out of 12 MCOs, 10 MCFs and 1 MCC had unqualified reports, with there being highlighted facts in the reports of 3 MCFs, which were mainly related to non-compliance with operating conditions prescribed by the Agency's decisions and to non-compliance with lending conditions. In the case of one MCF, the external auditor issued a qualified opinion, since it did not have the minimum amount of core capital (KM 50 000) on 31.12.2015, which is required for MCF operations in accordance with the Law on Microcredit Organisations. In the case of two MCFs, external auditors stated that there were significant doubts regarding the ability of the MCFs to continue their operations on a going concern basis.

In Annex 3 of this Information, more detailed data on the auditor's reports by individual MCOs for the year that ended on 31.12.2016 is provided.

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

1. MICROCREDIT SYSTEM STRUCTURE

1.1. Status, Number and Network of Branches

As of 30.06.2017, 12 MCOs have operating licences of the Agency, 11 of which are MCFs (non-profit organisations) and 1 of which is an MCC (profit organisation), as well as 39 organisational units of the MCC seated in Republika Srpska.

All MCFs that have obtained the operating licence from the Agency have performed a re-registration in accordance with the LoMCO, i.e. they came to be as a result of the change in the form of MCOs established in accordance with the Law on Microcredit Organisations („Official Gazette of the Federation of B&H, No.: 24/00). Therefore, all MCFs are legal successors of the property, rights and obligations of MCOs established in accordance with the Law on Microcredit Organisations from 2000. Annex 2 includes the main data on MCFs and MCC, which have the Agency's operating licence for microlending business operations as of 30.06.2017.

As of 30.06.2017, there was a total of 285 organisational units of MCOs seated in the Federation of B&H according to the Registry of Microcredit Organisations and their organisational units, which is maintained by the Agency in line with Article 13 of the LoMCO. Out of this number, a total of 185 organisational units of microcredit organisations are seated in the Federation of B&H, 96 in Republika Srpska and 4 in Brčko District. The total number of organisational units of MCOs seated in the Federation of B&H is up by 6 organisational units or 2% compared to the end of the previous year. A total of 152 organisational units of MCOs seated in the Federation of B&H have the authority to assign microloans and are therefore registered in the competent registry. 8 MCOs have organisational units outside the Federation of B&H, and 3 MCOs operate exclusively from their seat, i.e. they have no open organisational units in either the Federation of B&H or in Republika Srpska. The Agency has issued operating licences for the business operations of the organisational units of two MCCs, which are seated in Republika Srpska and operate in the Federation of B&H through 39 branches and field offices.

1.2. Ownership Structure

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

1.3. Human Resources

As of 30.06.2017, the total headcount of the microcredit system was 1 390, which is up by 139 employees or 11% compared to 31.12.2016. MCFs employ 1 222 employees or 87.9% and the MCC 168 employees or 12.1%.

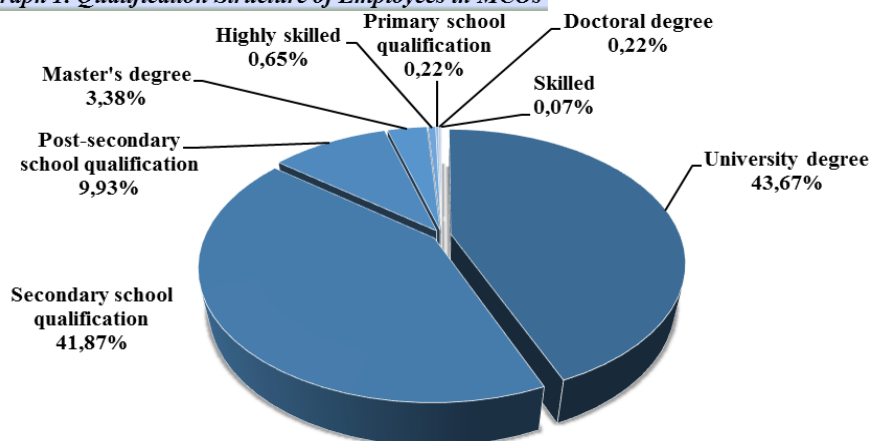
Table 1. Qualification Structure of Employees

No.	Qualification	31.12.2016		Total	Share (%)	3.06.2017		Total	Share (%)	Index
		MCFs	MCCs			MCFs	MCCs			
1	2	3	4	5=(3+4)	6	7	8	9=(7+8)	10	11=9/5
1.	PSQ	3	0	3	0.24	3	0	3	0.22	100
2.	S	1	0	1	0.08	1	0	1	0.07	100
3.	HS	10	0	10	0.80	9	0	9	0.65	90

4.	SSQ	509	21	530	42.37	512	70	582	41.87	110
5.	PSSQ	110	5	115	9.19	111	27	138	9.93	120
6.	CD	518	29	547	43.73	541	66	607	43.67	111
7.	MR	41	2	43	3.44	43	4	47	3.38	109
8.	DR	2	0	2	0.16	2	1	3	0.22	150
TOTAL		1 194	57	1 251	100.00	1 222	168	1 390	100.00	111

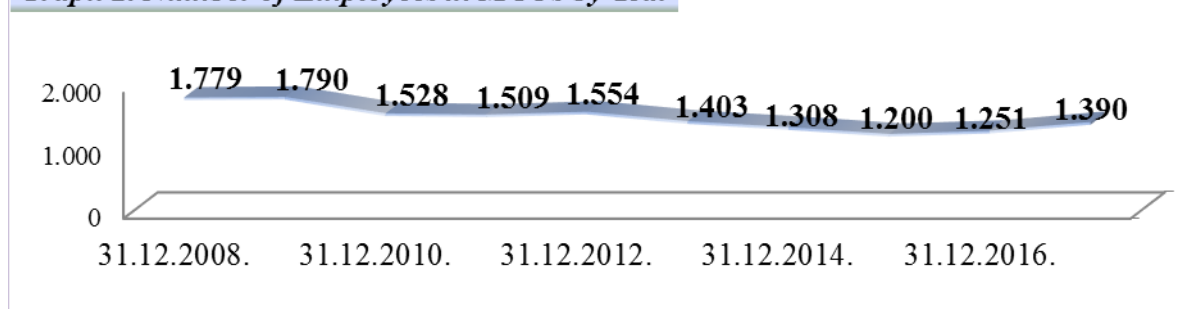
However, we emphasise that this figure does not represent the real increase in employees, but is the result of the fact that 104 employees of one MCF were hired part-time as employees of the MCC in the first six months of 2017, with the aforementioned being recorded in reports on the qualification structure of employees of both the MCF and MCC. When excluding the aforementioned fact as well as the fact that the number of these employees was 42 as of 31.12.2016, the real number of employees as of 30.06.2017 amounted to 1 244 employees, which is 35 employees or 3% more compared to 31.12.2016. The employees structure is dominated by university degrees with 43.67%, secondary school qualification with 41.87%, and two-year post-secondary school qualification with 9.93%. The share percentage of employees with Master's degrees is up by 9%, with secondary school qualification by 10%, with university degrees by 11%, with two-year post-secondary school qualification by 20%, while the share percentage of employees with doctoral degrees is up by 50%.

Graph 1. Qualification Structure of Employees in MCOs



An overview of the number of MCO employees throughout the years reveals that the biggest number of employees was recorded at the end of 2009, when the total headcount of MCOs was 1 790. As of 30.06.2017, MCOs had 1 390 employees, down by 22% compared to the end of 2009. A comparison of these two periods in the case of individual MCOs reveals that two MCFs recorded the largest drop in the number of employees by even 70% and 33%, respectively.

Graph 2. Number of Employees in MCOs by Year



2. FINANCIAL PERFORMANCE INDICATORS

2.1. Balance Sheet

As of 30.06.2017, the balance sheet total of MCOs amounts to KM 463 million, which is up by KM 22.9 million or 5% compared to the balance as of 31.12.2016. The balance sheet total increased with 9 MCFs and 1 MCC compared to the end of the previous year, while 2 MCFs recorded a drop.

A drop in the balance sheet total of up to 10% was recorded with 1 MCF compared to 31.12.2016, while one MCF reduced its assets by KM 2.9 million in the first six months of 2017 and recorded a drop of even 14% compared to the end of the previous year.

Five MCFs and one MCC with assets in the amount of KM 418 million or 90% have the largest share in the total MCO balance.

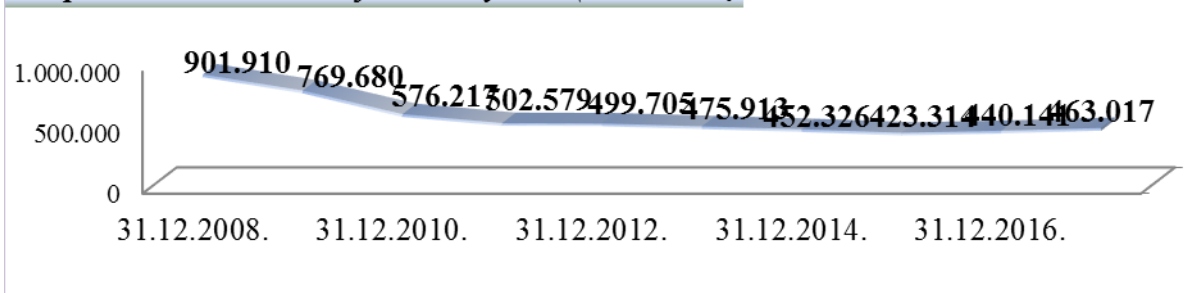
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Table 2. Balance Sheet MCOs

DESCRIPTION	31.12.2016			30.06.2017					Ind.
	Balance for MCFs	Balance for MCCs	TOTAL	Balance for MCFs	%	Balance for MCCs	%	TOTAL	
1	2	4	6=(2+4)	7	8	9	10	11=(7+9)	12
ASSETS									
1. Cash	22 227	4 496	26 723	27 344	6	2 822	5	30 166	113
2. Facilities to banks	733	0	733	350	0	0	0	350	48
3. Loans	349 791	28 081	377 872	344 300		51 797		396 097	105
4. Loan loss provisions	3 193	176	3 369	3 061		246		3 307	98
5. Net loans	346 598	27 905	374 503	341 239	84	51 551	93	392 790	105
6. Business premises and other fixed assets	28 734	115	28 849	28 541	7	250	0	28 791	100
7. Long-term investments	3 061	0	3 061	3 061	1	0	0	3 061	100
8. Other assets	6 008	455	6 463	7 264	2	795	2	8 059	125
9. Provisions for other assets items, except loans	182	9	191	186		14		200	105
TOTAL ASSETS	407 179	32 962	440 141	407 613	100	55 404	100	463 017	105
LIABILITIES									
10. Loan commitments	179 808	28 100	207 908	173 472	43	49 220	89	222 692	107
11. Other liabilities	23 258	1 337	24 595	20 591	5	2 367	4	22 958	93
12. Capital	204 113	3 525	207 638	213 550	52	3 817	7	217 367	105
TOTAL LIABILITIES	407 179	32 962	440 141	407 613	100	55 404	100	463 017	105
Off-balance sheet records	115 630	220	115 850	113 173		308		113 481	98

An overview of the balance sheet total of MCOs throughout the years reveals that the largest amount of the aforementioned was recorded at the end of 2008, when it amounted to KM 901.9 million. The balance sheet total of MCOs as of 30.06.2017 amounted to KM 463 million and it is lower by even 49% compared to the end of 2008. A comparison of these two periods in the case of individual MCOs shows that two MCFs recorded the largest drop in the balance sheet total, with even 87% and 61%, respectively.

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

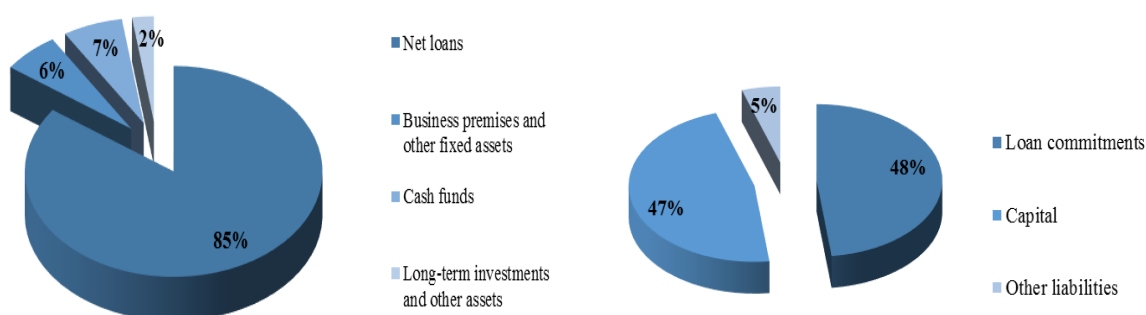


In the assets structure of MCOs, cash funds amount to KM 30.2 million or 7%. They are thus up by 13% compared to 31.12.2016 and largely related to cash funds of MCFs. Facilities to banks amount to KM 0.4 million and are down by KM 0.3 million or 52%.

Net loans, i.e. gross loans net of loan loss provisions amount to KM 392.8 million or 85% of total assets and are up by KM 18.3 million or 5% compared to 31.12.2016. Net loan growth compared to the end of the previous year was recorded by 7 MCFs and 1 MCC, while a drop was recorded by 4 MCFs.

Business premises and other fixed assets amount to KM 28.8 million or 6% of total assets and are at approximately the same level compared to the end of the previous year. The fixed assets percentage compared to total assets (net of donated capital) is 6.90% at system level, which is within the framework of the allowed amount (up to 10%). Individually, two MCFs violate this standard. Only one MCF recorded long-term investments in the amount of KM 3.1 million, while other assets (net of provisions for other assets items except loans) amount to KM 7.9 million, which include calculated interest, advances, accrued and deferred items, etc. These two balance sheet items make up 2% of total assets of the microcredit system. The percentage of other assets at system level compared to total assets is 1.74% and individually, this item is above 10% in the case of no MCF.

Graph 4. Assets and Liabilities Structure of MCOs



Loan commitments amounted to KM 222.7 million or 48% of total liabilities as of 30.06.2017, thus being up by KM 14.8 million or 7% compared to the balance as of 31.12.2016. As of 30.06.2017, total MCO capital amounted to KM 217.4 million or 47% of total MCO liabilities and it is up by KM 9.7 million or 5% compared to the end of the previous year.

2.1.1. Liabilities

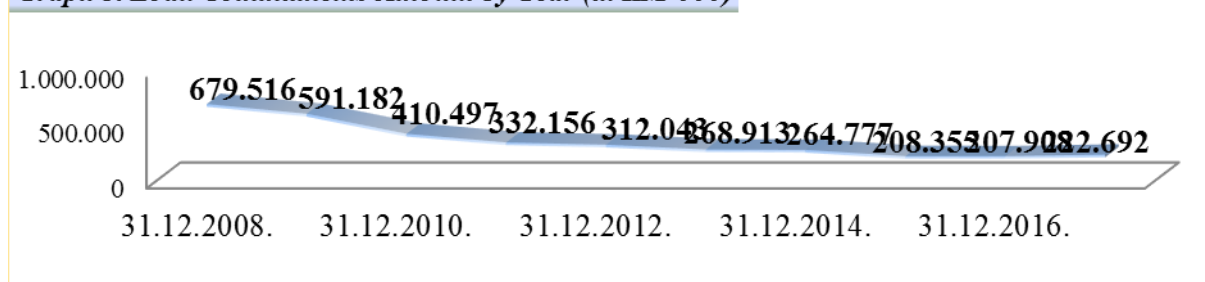
Loan commitments in the MCO liabilities structure are the main source of funding, amounting to KM 222.7 million or 48% of total liabilities. They are up by KM 14.8 million or 7% compared to 31.12.2016.

DESCRIPTION	31.12.2016				30.06.2017				Index
	MCFs	MCCs	TOTAL	%	MCFs	MCCs	TOTAL	%	
1	2	3	4=(2+3)	5	6	7	8=(6+7)	9	10=8/4
1. Liabilities on short-term loans	73 903	5 549	79 452	38	78 752	12 648	91 400	41	115
2. Liabilities on long-term loans	105 905	22 551	128 456	62	94 720	36 572	131 292	59	102
TOTAL	179 808	28 100	207 908	100	173 472	49 220	222 692	100	107

Out of total loan commitments, long-term loans (of which there is no record in the case of 2 MCFs) amount to KM 131.3 million or 59% and are up by 2% compared to the end of the previous year. Out of total loan commitments, short-term loans (of which there is no record in the case of 1 MCF) amount to KM 91.4 million or 41% and are up by 15% compared to the end of the previous year. As of 30.06.2017, one MCF did not have loan commitments.

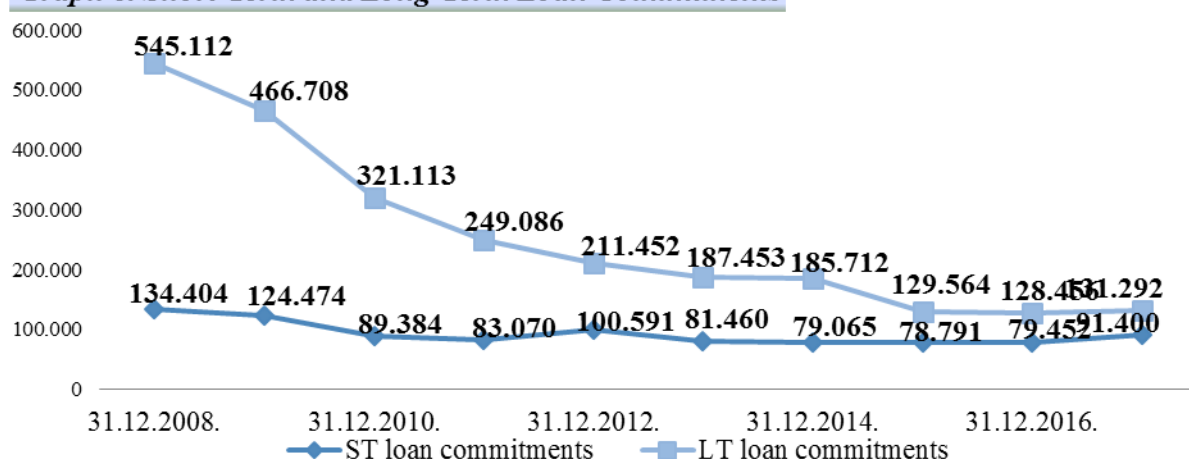
Looking at the total loan commitments amount of MCOs throughout the years of MCO operations, the biggest amount was recorded at the end of 2008 when they amounted to KM 679.5 million. Total loan commitments of MCOs as of 30.06.2017 amounted to KM 222.7 million, and are lower by even 67% compared to the end of 2008. A comparison of these two periods in the case of individual MCOs shows that two MCFs recorded the biggest drop in total loan commitments by even 89% and 82%, respectively.

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



In addition to the fact that loan commitments are lower by 67% compared to 2008 and higher by 7% compared to the end of the previous year, looking at loan commitments by maturity, long-term loans have dropped by even 76% compared to 2008 and are up by 2% compared to the end of 2016, while short-term loans are lower by 32% compared to 2008, but recorded an increase in the amount of 15% compared to the end of 2016.

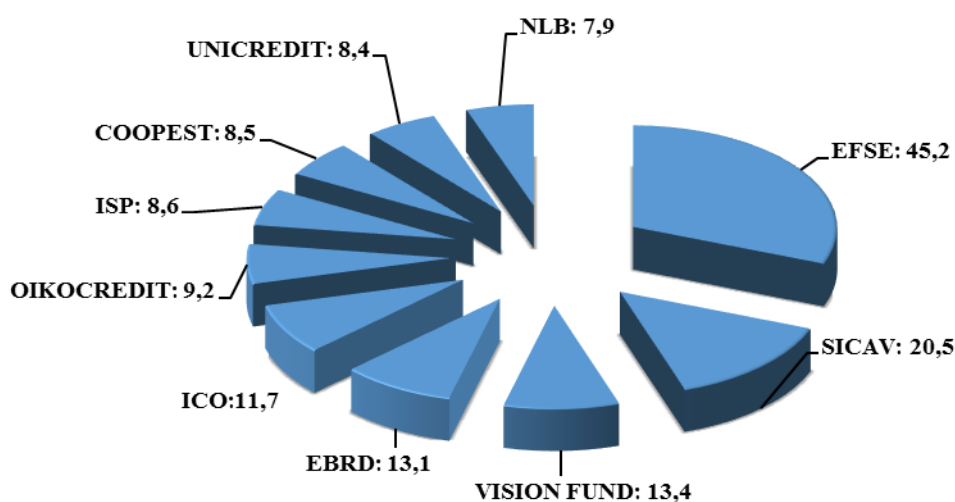
Graph 6. Short-Term and Long-Term Loan Commitments



The ten most significant creditors of MCOs are:

- 1.) EFSE – European Fund for Southeast Europe, Luxembourg (KM 45.2 million);
- 2.) Responsibility SICAV, Switzerland (KM 20.5 million);
- 3.) Vision Fund, USA (KM 13.4 million);
- 4.) EBRD – European Bank for Reconstruction and Development, Great Britain (KM 13.1 million);
- 5.) ICO – Instituto de Credito Oficial, Spain (KM 11.7 million);
- 6.) Oikokredit, Netherlands (KM 9.2 million);
- 7.) Intesa Sanpaolo Bank d.d., Bosnia and Herzegovina (KM 8.6 million);
- 8.) Coopest, Netherlands (KM 8.5 million);
- 9.) UniCredit Bank d.d. Mostar, Bosnia and Herzegovina (KM 8.4 million);
- 10.) NLB Banka d.d. Sarajevo, Bosnia and Herzegovina (KM 7.9 million).

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



Other liabilities amount to KM 23 million or 5% of total liabilities. These include income tax liabilities, liabilities to employees, suppliers, accrued expenses and others. The percentage of other liabilities at system level compared to total liabilities is 9.35%, and individually, a total of 7 MCFs recorded more than 10% of other liabilities compared to total liabilities.

Off-balance records as of 30.06.2017 amount to KM 113.5 million and are down by 2% compared to the end of the previous year.

2.1.2. Capital

The total capital of MCOs as of 30.06.2017 amounts to KM 217.4 million or 47% of total liabilities, which is up by KM 9.7 million or 5% compared to the end of 2016. The capital of MCFs amounts to KM 213.6 million or 98.2%, and the capital of one MCC to KM 3.8 million or 1.8%.

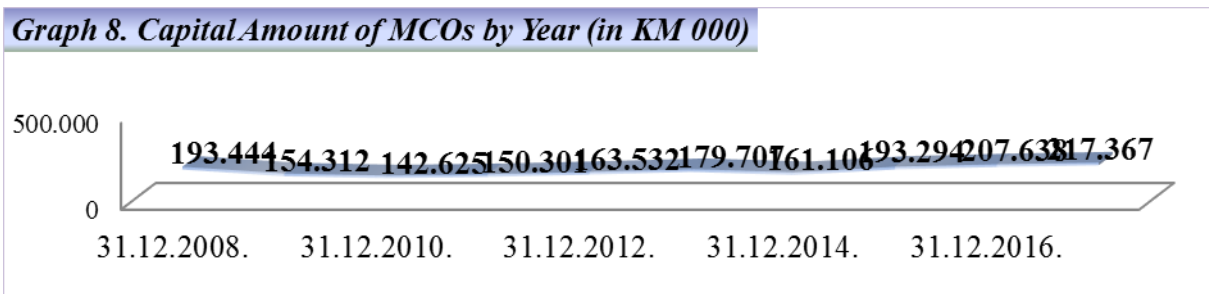
The total capital of the microcredit system (net of donated capital) amounts to 37.04% of total assets, with 2 MCFs and 1 MCC having a percentage of capital amount (net of donated capital) compared to total assets that is lower than the allowed amount, i.e. less than 10% of total assets.

- KM 000 -

Table 4. Capital Structure of MCOs			
DESCRIPTION	31.12.2016	30.06.2017	Index

	Balance for MCFs	%	Balance for MCCs	%	TOTAL	Balance for MCFs	%	Balance for MCCs	%	TOTAL	
1	2	3	4	5	6=2+4	7	8	9	10	11=7+9	12=11/6
Donated capital	45 851	22	0	0	45 851	45 851	21	0	0	45 851	100
Core capital	3 820	2	600	17	4 420	3 820	2	600	16	4 420	100
Surplus/deficit of income over expenses	152 598	75	0	0	152 598	162 068	76	0	0	162 068	106
Issue premiums	0	0	0	0	0	0	0	0	0	0	0
Unallocated profit	0	0	1 016	29	1 016	0	0	1 308	34	1 308	129
Legal reserves	0	0	1 909	54	1 909	0	0	1 909	50	1 909	100
Other reserves	1 844	1	0	0	1 844	1 811	1	0	0	1 811	98
TOTAL CAPITAL	204 113	100	3 525	100	207 638	213 550	100	3 817	100	217 367	105

An overview of the capital amount of MCOs throughout the years reveals that the biggest amount was recorded at the end of 2008, when it amounted to KM 193.4 million. The capital of MCOs as of 30.06.2017 amounted to KM 217.4 million and is up by KM 23.9 million or 12% compared to the end of 2008.



In the capital structure of MCFs, the excess of income over expenses is the most important, and it amounts to KM 162.1 million and makes up 76% of total MCF capital, which is up by KM 9.5 million or 6% compared to the end of the previous year. A deficit of income over expenses for the period from 01.01. to 30.06.2017 was recorded by 3 MCFs, while 8 MCFs recorded an excess of income over expenses and one MCC recorded a net profit. As of 30.06.2017, an excess of income over expenses, i.e. a profit from regular operations was recorded by 6 MCFs and 1 MCC, while 5 MCFs recorded a deficit of income over expenses from regular operations. Out of those 5 MCFs, 2 MCFs recorded a positive result at the end of the second quarter of 2017 due to extraordinary income. Extraordinary income is a direct result of the increased collection of receivables for written-off loans.

A significant source of MCF capital is donated capital, which amounts to KM 45.9 million or 21% of total MCF capital. The amount of donated capital, as reported by MCOs, is at the same level compared to the end of the previous year. In accordance with Article 11 of the Decision on General Conditions for Operations of Microcredit Organisations, MCOs shall keep records on donated funds and treat them as donated capital on which they have to report to the Agency. As per official quarterly reports, being submitted to the Agency, 9 MCFs include the amount of donated capital in their reports and keep records on its balance.

The core capital of MCFs as of 30.06.2017 amounts to KM 3.8 million or 2% of total MCF capital. Other reserves, which relate to 2 MCFs, amount to KM 1.8 million or 1% of total MCF capital. The core capital of one MCC amounts to KM 600 thousand and its unallocated and current profit to KM 1 308 thousand.

2.1.3. Assets and Asset Quality

The main activity of MCOs is microlending, to which the amount of KM 396.1 million or 86% of total assets of the microcredit system is related. The level of total system loans depends on loans of MCFs,

which account for KM 344.3 million or 86.9% of total loans, while the MCC accounts for KM 51.8 million or 13.1% of total loans. Net loans, which make up total loans net of loan loss provisions are presented in Table 5.

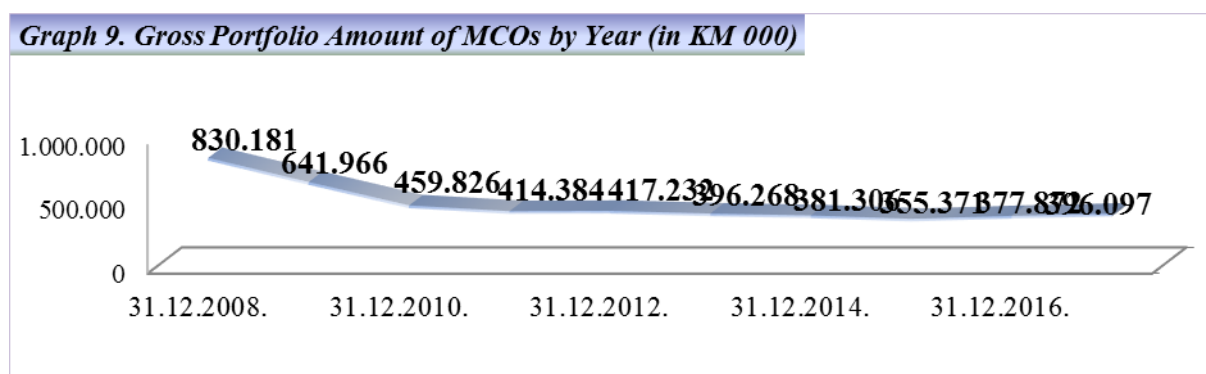
- KM 000 -

Table 5. Net Loans

No.	DESCRIPTION	31.12.2016			30.06.2017			Index
		MCFs	MCCs	Total	MCFs	MCCs	Total	
1	2	3	4	5=(3+4)	6	7	8=(6+7)	9=8/5
1.	Loans	349 791	28 081	377 872	344 300	51 797	396 097	105
2.	Loan loss provisions	3 193	176	3 369	3 061	246	3 307	98
3.	Net loans (1.-2.)	346 598	27 905	374 503	341 239	51 551	392 790	105

Net loans amount to KM 392.8 million and are up by 5% compared to 31.12.2016, while gross loans are also up by 5% compared to the end of the previous year.

Loan loss provisions amount to KM 3.3 million and are down by 2% compared to 31.12.2016. The loan loss provisions to total loan portfolio ratio amounts to 0.83% and recorded an improvement of 0.06% compared to 31.12.2016.



An overview of the gross portfolio of MCOs throughout the years of MCO operations shows that the largest amount was recorded at the end of 2008, when it amounted to KM 830.2 million. The total gross portfolio as of 30.06.2017 amounted to KM 396.1 million and dropped by 52% compared to the end of 2008. A comparison of these two periods in the case of individual MCOs reveals that two MCFs recorded the biggest gross portfolio drop, by even 90% and 65%, respectively.

- KM 000 -

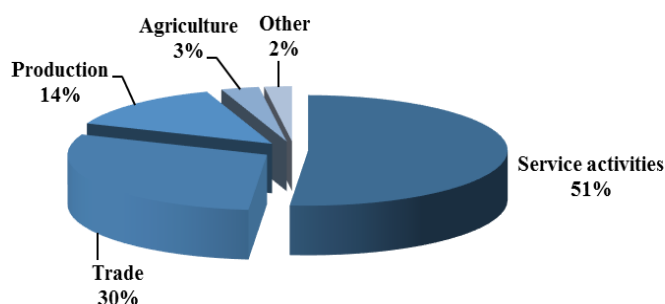
Table 6. Sector and Maturity Structure of Microloans as of 30.06.2017

No.	Microloans	Short-term loans	Long-term loans	Receivables due	TOTAL	%
1	2	3	4	5	6=(3+4+5)	7
1.	Legal entities					
a.)	Service activities	195	5 055	14	5 264	51%
b.)	Trade	237	2 763	15	3 015	30%
c.)	Agriculture	23	292	0	315	3%
d.)	Production	123	1 268	4	1 395	14%
e.)	Other	43	182	3	228	2%
	TOTAL 1:	621	9.560	36	10 217	100%
2.	Natural persons					
a.)	Service activities	4 852	61 868	255	66 975	17%
b.)	Trade	1 666	16 191	85	17 942	5%
c.)	Agriculture	8 771	124 828	320	133 919	35%
d.)	Production	582	6 536	31	7 149	2%
e.)	Housing needs	3 010	78 221	168	81 399	21%
f.)	Other	12 671	65 454	371	78 496	20%
	TOTAL 2:	31 552	353 098	1 230	385 880	100%

TOTAL (1+2):	32 173	362 658	1 266	396 097
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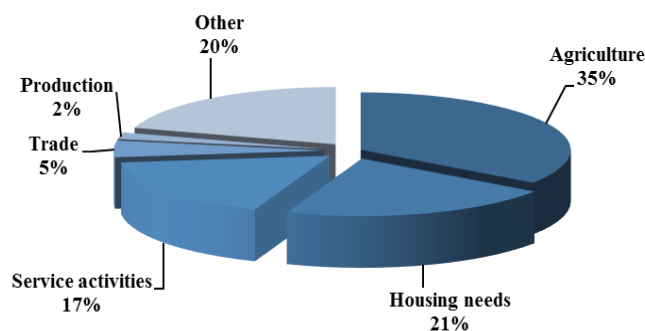
Out of the total number of microloans, KM 10.2 million or 3% were granted to legal entities and KM 385.9 million or 97% were granted to natural persons. In the maturity structure of microloans, short-term loans with receivables due account for KM 33.4 million or 8% and long-term loans for KM 362.7 million or 92%. Receivables due total KM 1.3 million and are almost completely related to loans granted to natural persons.

Graph 10. Sector Structure of Microloans to Legal Entities



The largest amount of total microloans to **legal entities** was placed for service activities and trade – KM 5.3 million or 51% for service activities and KM 3 million or 30% for trade. Out of the total microloan amount to legal entities, KM 1.4 million or 14% were granted for production, while KM 0.3 million or 3% were granted for agriculture and KM 0.2 million or 2% for other purposes.

Graph 11. Sector Structure of Microloans to Natural Persons



As for loans to **natural persons**, KM 133.9 million or 35% was placed for agriculture, followed by KM 81.4 million or 21% for housing needs, KM 67 million or 17% for service activities, KM 17.9 million or 5% for trade, KM 7.2 million or 2% for production, and KM 78.5 million or 20% for other purposes.

- KM 000 -

Microloans for:	31.12.2016	30.06.2017	Share	Index
Agriculture	126 352	134 234	34%	106
Housing	76 643	81 399	21%	106
Other	69 336	78 724	20%	114

Services	73 333	72 239	18%	99
Trade	22 441	20 957	5%	93
Production	9 767	8 544	2%	87
Total	377 872	396 097	100%	105

Based on the analysis of the industry, it can be concluded that microlending is largely directed toward lending of agriculture (34%), housing needs (21%), and other purposes (20%), and that it mostly includes long-term loans for natural persons. This means that loans are, in the majority of cases, approved to persons who do not have an access to traditional sources of funding due to both the riskiness of the business operations they perform and due to the lack of proper collaterals.

Compared to the end of the previous year, the total loan percentage for all loan products shows an increase between 6% and 14%, with the exception of loans for services activities, trade and production, which decreased by 1% to 13% in the reporting period. In terms of microloan maturity, long-term microloans are up by 6% compared to the end of the previous year, while short-term microloans (including receivables due) are down by 3% in the reporting period.

- KM 000 -

DESCRIPTION	31.12.2016	30.06.2017	Share	Index
Long-term microloans	343 405	362 658	92%	106
Short-term microloans with receivables due	34 467	33 439	8%	97
TOTAL	377 872	396 097	100%	105

According to reports that microcredit organisations submitted to the Agency in relation to the amount of risk portfolio as a result of the May 2014 natural disasters, as of 30.06.2017, the active loan portfolio, which was not past due as of 30.04.2014 and which was at risk as a result of the natural disasters, amounted to KM 0.8 million. The loan portfolio that was past due as of 30.04.2014 and was additionally at risk as a result of the natural disasters, amounted to KM 30 thousand as of 30.06.2017. The loan portfolio that was renegotiated – rescheduled as a result of the natural disasters amounted to KM 0.2 million as of 30.06.2017. Loans for agriculture (33%) and loans for housing needs (27%) have the largest share in the amount of rescheduled loans as a result of the natural disasters.

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

Receivables amounts divided into the set groups and calculated reserves by these groups with the balance as of 30.06.2017 are shown in the following table.

- KM 000 -

No.	Days past due	Provisioning rates	Loan amount	Share (%)	Interest due		Amount of other assets items	Provisions			Total provisions
					Provisioning rate	Interest amount		By loans	By interest due	By other assets items	
1	2	3	4	5	6	7	8	9=(4x3)/100	10=(7x6)/100	11=(8x3)/100	12=(9+10+11)
1.	0	0%	386 484	97.57	0%	0	311	0	0	0	0

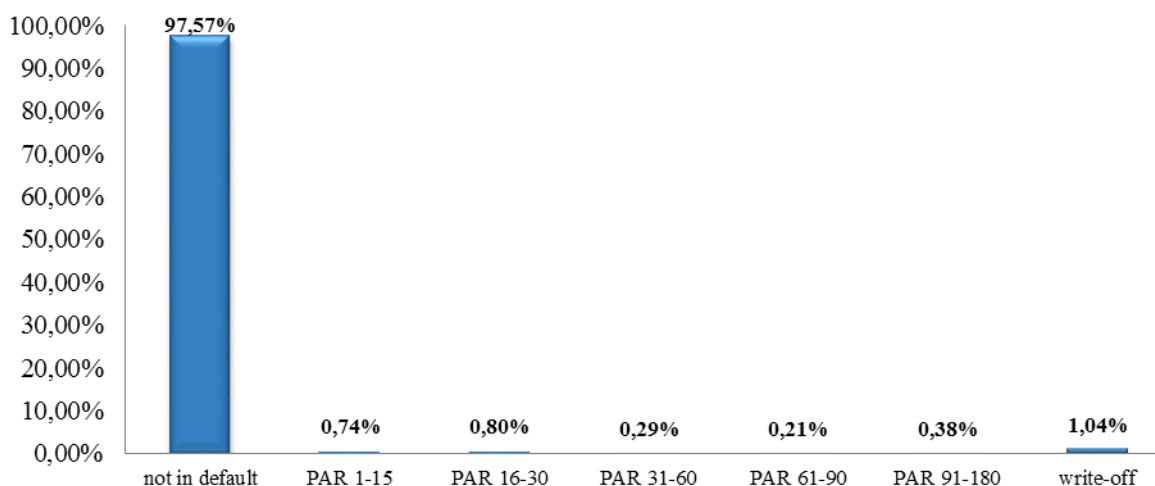
2.	1 – 15	2%	2 944	0.74	2%	45	0	59	1	0	60
3.	16 – 30	15%	3 178	0.80	100%	54	0	477	54	0	531
4.	31 – 60	50%	1 153	0.29	100%	33	0	577	33	0	610
5.	61 – 90	80%	828	0.21	100%	30	0	662	30	0	692
6.	91 – 180	100%	1 510	0.38	100%	83	0	1 531	83	0	1 614
TOTAL			396 097	100.00		245	311	3 306	201	0	3 507
7.	More than 180	Write-off	1 070		100%	94					

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

The amount of defaulted loans for more than one day is KM 9.6 million or 2.43%, while 97.57% of loans are not defaulted. The total amount of interest due by current loans which are defaulted for more than one day is KM 0.2 million. The total amount of calculated reserves on all bases is KM 3.5 million and they are down by KM 0.1 million or 1% compared to 31.12.2016.

In the first six months of 2017, the MCO write-off amounted to KM 2 million of principal and KM 0.2 million of interest.

Graph 12. Portfolio Quality of MCOs

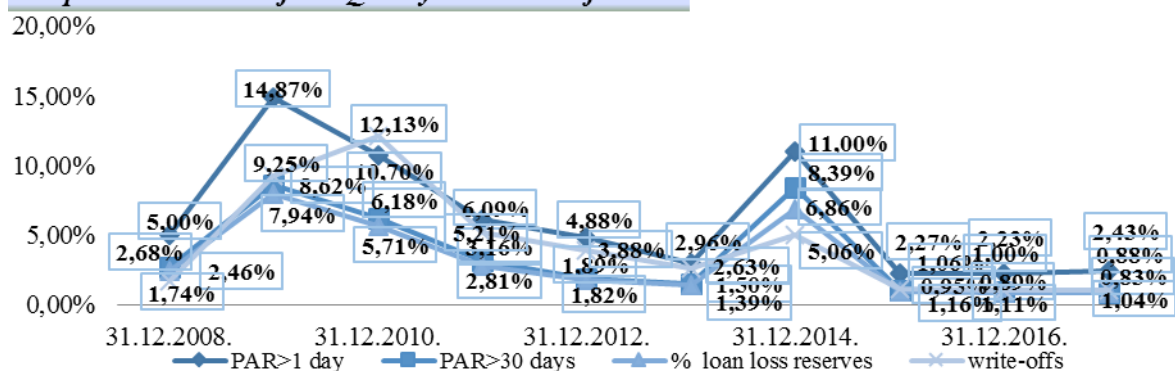


2.1.3.1. Key Indicators of Loan Portfolio Quality

Compared to the end of the previous year, as of 30.06.2017, the microcredit portfolio saw an increase of 5% (KM 18.2 million) and recorded a slight improvement of quality indicators of the active loan portfolio. The majority of MCOs is exposed to the pressure of competition both from larger MCOs and from banks. Many smaller MCOs are thus faced with a lack of funds for financing the loan portfolio.

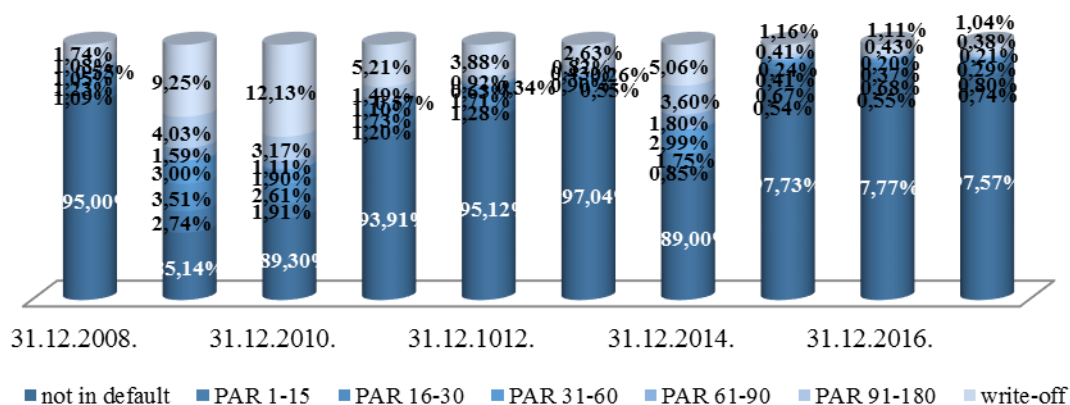
The slight improvement of active loan portfolio quality indicators was rendered by a decrease of the loan loss provisioning rate from 0.89%, which is what it amounted as of 31.12.2015, to 0.83%. Similarly, the portfolio at risk exceeding 30 days past due recorded a slight improvement, thus being down from 1.00%, to which it amounted at the end of the previous year, to 0.88%. The total system result based on the portfolio at risk is within the framework of the prescribed standard (below 5%), with two MCFs violating the prescribed standard if observed individually. The portfolio at risk for more than one day past due recorded a slight deterioration, thus being up from 2.23%, to which it amounted at the end of the previous year, to 2.43%.

Graph 13. Active Portfolio Quality Indicators of MCOs



In the first six months of 2017, MCOs wrote off 1 160 loan accounts (1 143 write-offs relate to natural persons and 17 to legal entities) in the total amount of KM 2.2 million, KM 2 million of which relate to the written-off principal.

Graph 14. Gross Portfolio Classification of MCOs by Year



As of 30.06.2017, the percentage of write-offs at system level amounted to 1.04%, with this indicator being down by 0.07 percentage points compared to the end of the previous year and thus being within the framework of the prescribed standard. Three MCFs do not meet the Agency's standard in terms of the write-off percentage, which must be below 3%.

Microcredit organisations continued with their efforts to collect receivables by write-offs and managed to collect KM 4.1 million of written-off principal and KM 0.4 million of written-off interest in the first six months of 2017, while the permanent write-off in the same reporting period amounted to KM 48 thousand of principal and KM 6 thousand of interest. Regarding the efficiency of the collection of write-offs in the first six months of 2017, 2 MCFs had a collection efficiency percentage ranging from 6% to 7% compared to the total amount of receivables by write-offs, while 9 MCFs and 1 MCC had a collection efficiency percentage ranging from 3% to 5%.

- KM 000 -

Table 10. Receivables by Written off Principal and Interest

DESCRIPTION	NATURAL PERSONS		LEGAL ENTITIES		TOTAL	
	Written-off principal	Written-off interest	Written-off principal	Written-off principal	Written-off interest	Written-off principal
1	2	3	4	5	6	7
Initial balance as of 01.01.2017.	100 145	10 731	2 807	298	102 952	11 029
Changes in 2017:						

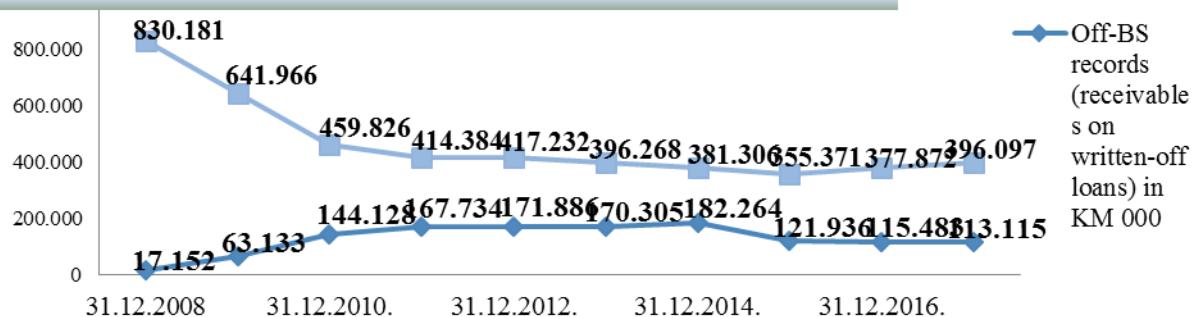
New write-off in the current year	1 951	166	67	8	2 018	174
Write-off in the period 01.01.-31.03.	905	74	43	6	948	80
Write-off in the period 01.04.-30.06.	1 046	92	24	2	1 070	94
Write-off in the period 01.07.-30.09.	0	0	0	0	0	0
Write-off in the period 01.10.-31.12.	0	0	0	0	0	0
Collected in the current year	4 090	347	50	3	4 140	350
Collection of write-offs in the period 01.01.-31.03.	1 999	173	27	1	2 026	174
Collection of write-offs in the period 01.04.-30.06.	2 091	174	23	2	2 114	176
Collection of write-offs in the period 01.07.-30.09.	0	0	0	0	0	0
Collection of write-offs in the period 01.10.-31.12.	0	0	0	0	0	0
Permanent write-off in the current year	48	6	0	0	48	6
Permanent write-off in the period 01.01.-31.03.	36	2	0	0	36	2
Permanent write-off in the period 01.04.-30.06.	12	4	0	0	12	4
Permanent write-off in the period 01.07.-30.09.	0	0	0	0	0	0
Permanent write-off in the period 01.10.-31.12.	0	0	0	0	0	0
Balance as of 30.06.2017	97 958	10 544	2 824	303	100 782	10 847

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

As of 30.06.2017, total receivables by write-offs, which are in the off-balance sheet records, amount to as KM 113.1 million, down by 2% compared to the end of the previous year.

Compared to 2008, the gross portfolio of MCOs is lower by 52%, while receivables by write-offs are almost 7 times higher and make up 29% of the total loan portfolio as of 30.06.2017. There are significant deviations in the quality of the portfolio between different MCOs, which are evident from the data that three MCFs have over 60% of total write-offs compared to the total gross portfolio (total receivables by write-offs, which are in the off-balance records, are higher than total gross loans by 148% in the case of one MCF), which is a direct consequence of past loan expansion and the improper management of assets by MCFs. One MCF and one MCC showed total write-offs below 10% of the total gross portfolio.

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



MCOs are obligated to start court disputes for the collection of write-offs which fell due and have not been collected for more than 180 days.

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

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

According to the loan repayment reports of MCOs with guarantorship as a security instrument, as of 30.06.2017 in the Federation of B&H, the total number of loan accounts in the active loan portfolio of MCOs was 154 396, 1.26% of which were being repaid by guarantors, which is up by 0.03 percentage points compared to the percentage of loans being paid off by guarantors out of the total number of loans as of 31.12.2016 (2016: 1.23%). According to quarterly reports, the total gross loan portfolio in the MCO system as of 30.06.2017 amounted to KM 396 097 thousand KM, with the share of the outstanding loan debt being paid off by guarantors amounting to 1.36%, up by 0.07 percentage points compared to the share of outstanding loan debt being paid off by guarantors out of the total gross loan portfolio at the end of 2016 (2016: 1.29%).

According to MCO reports and pursuant to the Decision on Manner of Customer Complaint Management of Banks, MCOs and Leasing Companies („Official Gazette of the Federation of B&H“, No. 23/14 and 62/14), in the period from 01.04. to 30.06.2017, a total of 67 complaints was filed against MCOs. In the case of 6 MCFs, there is no evidence of complaints.

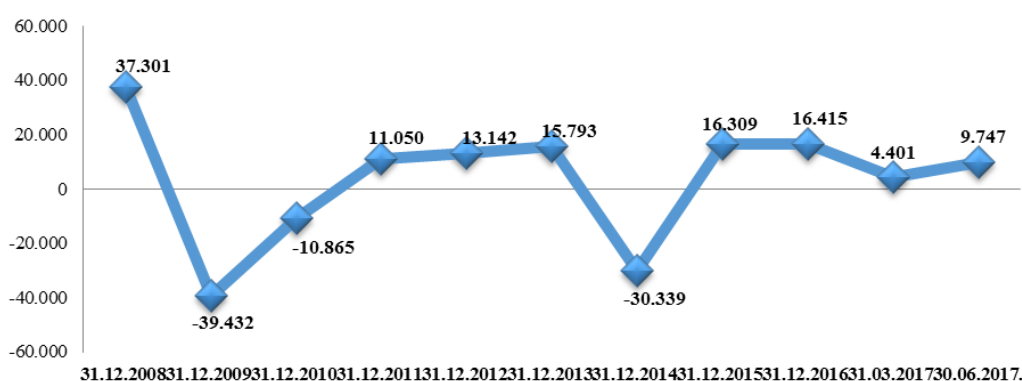
Co-debtors/guarantors have filed 4 complaints, debtors 26 complaints, while other stakeholders filed 37 complaints. The MCOs resolved 6 complaints positively, 57 complaints negatively, while 4 complaints are in the process of being handled and commented on.

2.2. Profitability

In the period from 01.01. to 30.06.2017, one MCC recorded a net profit in the amount of KM 291 thousand (01.01. to 30.06.2016: KM 447 thousand net profit). In that period, MCFs recorded more income over expenses in the total amount of KM 9 456 thousand, while they recorded more income over expenses in the total amount of KM 7 038 thousand in the same period of the previous year.

In the period from 01.01. to 30.06.2017, out of a total of 11 MCFs, 8 MCFs had more income over expenses in the total amount of KM 9 510 thousand, while 3 MCFs recorded less income over expenses in the total amount of KM 54 thousand.

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



At the level of the microcredit system in the Federation of B&H, a positive financial result in the amount of KM 9 747 thousand has been recorded, which is up by KM 2 262 thousand or 30% compared to the same period of the previous year.

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

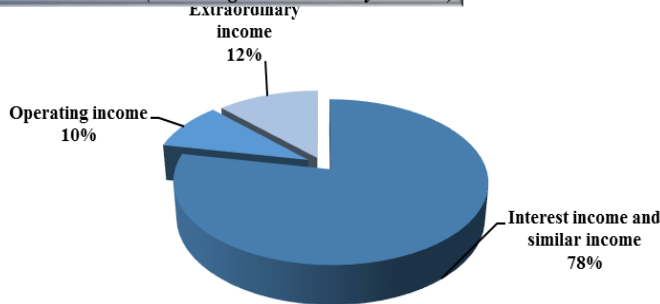
- KM 000 -

Table 11. Income Statement MCOs

No.	OPIS	For the period 01.01. to 30.06.2016				For the period 01.01. to 30.06.2017				Index
		MCFs	MCCs	Total	%	MCFs	MCCs	Total	%	
1	2	1	2	3=(1+2)	4	5	6	7=(5+6)	8	9=(7/3)
1.	INCOME									
	Interest-based									
1.1.	income and similar income	32 955	1 658	34 613	89	34 090	3 244	37 334	89	108
1.2.	Operating income	4 124	125	4 249	11	4 271	276	4 547	11	107
2.	TOTAL INCOME (1.1.+1.2.)	37 079	1 783	38 862	100	38 361	3 520	41 881	100	108
3.	EXPENSES									
	Interest-based									
3.1.	expenses and similar expenses	4 899	579	5 478	15	4 484	1 031	5 515	14	101
3.2.	Operating expenses	28 073	583	28 656	78	27 951	2 051	30 002	80	105
3.3.	Expenses for loan loss provisions and other losses	2 233	176	2 409	7	1 967	177	2 144	6	89
4.	TOTAL EXPENSES (3.1.+3.2.+3.3.)	35 205	1 338	36 543	100	34 402	3 259	37 661	100	103
5.	EXTRAORDINARY INCOME	5 575	5	5 580		5 870	34	5 904		106
6.	EXTRAORDINARY EXPENSES	411	3	414		373	4	377		91
7.	TOTAL INCOME - EXPENSES (2+5-4-6)	7 038	447	7 485		9 456	291	9 747		130
8.	SURPLUS/DEFICIT OF INCOME OVER EXPENSES	7 038		7 038		9 456		9 456		134
9.	PROFIT BEFORE TAXES		447	447			291	291		
10.	TAXES		0	0			0	0		
11.	NET PROFIT/LOSS		447	447			291	291		
12.	TOTAL FIN. RESULT			7 485				9 747		

The total income of MCOs in the period from 01.01. to 30.06.2017 amounts to KM 41.9 million, which mainly account for MCF income. The total income is up by KM 3 million or 8% compared to the same period of the previous year. The biggest income portion is contributed by interest income, which amounts to KM 37.3 million or 89% of total income and is up by KM 2.7 million or 8% compared to the same period of the previous year, while operating income amounts to KM 4.6 million or 11% of total income and is up by KM 0.3 million or 7% compared to the same period of the previous year.

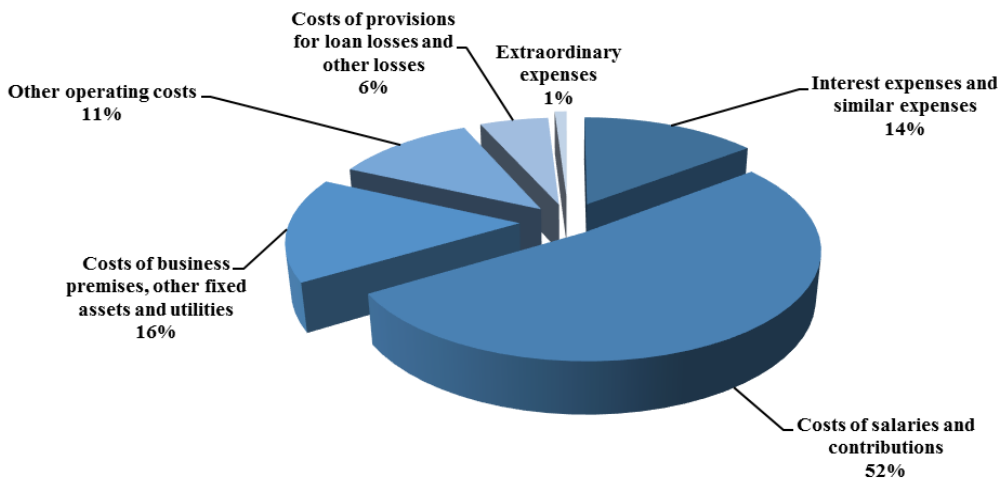
Graph 17. Income Structure (Including Extraordinary Income)



Extraordinary income of MCOs generated in the period from 01.01. to 30.06.2017 amounts to KM 5.9 million, which is up by KM 0.3 million or 6% compared to the same period of the previous year. Extraordinary income is dominated by the collection of receivables from written-off loans. Extraordinary income of MCOs generated in the first six months of 2017 amounts to KM 0.4 million and is down by 9% compared to the same period of the previous year.

Total expenses amount to KM 37.7 million, 34.4 million or 91% of which account for the expenses of MCFs, and KM 3.3 million or 9% for the expenses of one MCC. Compared to the same period of the previous year, total expenses are up by KM 1.1 million or 3%. In the expenses structure, KM 5.5 million or 14% of total expenses account for interest expenses on taken loans and other similar expenses and are up by 1% compared to the same period of the previous year. Operating expenses amount to KM 30 million or 80% of total expenses and are up by KM 1.3 million or 5% compared to the same period of the previous year. Operating expenses include salary and contributions' expenses in the amount of KM 19.7 million (01.01. to 30.06.2016: KM 19.1 million), costs of business premises, other fixed assets and utilities in the amount of KM 5.9 million (01.01. to 30.06.2016: KM 5.4 million) and other operating expenses in the amount of KM 4.4 million (01.01. to 30.06.2016: KM 4.2 million). Expenses for loan loss provisions and other losses amount to KM 2.1 million or 6% of total expenses and are down by 11% compared to the same period of the previous year.

Graph 18. Expenses Structure (Including Extraordinary Expenses)



With respect to operational sustainability¹, out of 12 MCOs, 6 MCFs and 1 MCC can cover all expenses with the recorded income from regular activities.

¹ Operational sustainability calculated according to the formula: (Total interest income and similar income + Total operating income) / (Total interest expenses and similar expenses + Total operating expenses + Costs of provisions for loan losses and other losses + Extraordinary expenses).

2.3. Weighted Nominal and Effective Interest Rates

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

In accordance with monthly statements on weighted nominal and effective interest rates by loan, in the second quarter of 2017, MCOs placed microloans in the total amount of KM 105 million, which is up by KM 8.2 million or 8% compared to the microloan amount placed in the same period of the previous year. As of 30.06.2017, MCOs had 154 396 active loan accounts, which is up by 1 122 loan accounts or 1% compared to the end of the previous year. As of 30.06.2017, the average amount of microloans at system level was KM 2 565, the average amount of microloans in MCFs was KM 2 388, while the average amount of microloans in the MCC was KM 5 059.

Table 12. Average Weighted Nominal and Effective Interest Rates on Microloans for Q2 2017 – by Product

No.	DESCRIPTION	Total amount of microloan payment in Q2 2017 (in KM 000)	Weighted nominal interest rate (average)	Weighted effective interest rate (average)
1.	Short-term microloans for:	15 155	19.57%	29.88%
1.1.	Service activities	2 258	20.11%	29.87%
1.2.	Trade	842	20.47%	29.83%
1.3.	Agriculture	4 020	17.27%	26.98%
1.4.	Production	316	19.26%	26.63%
1.5.	Housing needs	1 740	21.28%	28.54%
1.6.	Non-purpose – basic needs	1 081	23.71%	33.84%
1.7.	Other	4 898	19.20%	31.58%
2.	Long-term microloans for:	89 886	20.31%	24.11%
2.1.	Service activities	15 111	20.48%	24.40%
2.2.	Trade	3 830	20.15%	23.97%
2.3.	Agriculture	30 573	19.16%	22.54%
2.4.	Production	1 672	19.42%	23.16%
2.5.	Housing needs	18 589	19.72%	23.03%
2.6.	Non-purpose – basic needs	1 993	22.33%	27.65%
2.7.	Other	18 118	22.52%	27.27%
TOTAL		105 041	20.20%	24.94%

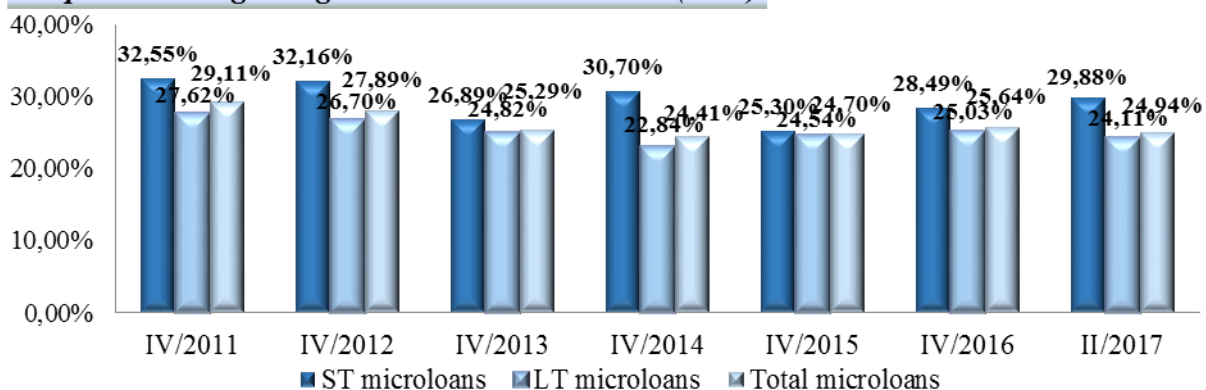
The average weighted nominal interest rate on short-term loans ranges from 17.27% for agriculture up to 23.71% for non-purpose loans, and the effective interest rate ranges from 26.63% for production up to 33.84% for non-purpose loans. The average weighted nominal interest rate on long-term loans ranges from 19.16% for agriculture up to 22.52% for other loans, and the effective interest rate ranges from 22.54% for agriculture up to 27.65% for non-purpose loans. When analysing the effective interest rates of MCOs by loan product, it can be concluded that the most favourable loans are placed for agriculture and production, while the most expensive loans are non-purpose and other loans.

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

AVERAGE WEIGHTED EIR on:	IV/2011	IV/2012	IV/2013	IV/2014	IV/2015	IV/2016	I/2017	II/2017
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Short-term microloans	32.55%	32.16%	26.89%	30.70%	25.30%	28.49%	26.56%	29.88%
Long-term microloans	27.62%	26.70%	24.82%	22.84%	24.54%	25.03%	24.52%	24.11%
Total microloans	29.11%	27.89%	25.29%	24.41%	24.70%	25.64%	24.90%	24.94%

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



Microcredit organisations decreased effective interest rates on total microloans, so that, at the end of the second quarter of 2017, average weighted effective interest rates on total loans in the microcredit system amounted to 24.94% and recorded a decrease of 0.70 percentage points compared to the fourth quarter of 2016. Compared to the same period, average weighted effective interest rates on short-term loans amounted to 29.88% and recorded an increase of 1.39 percentage points. Average weighted effective interest rates on long-term loans amounted to 24.11% at the end of the second quarter of 2017 and are down by 0.92 percentage points compared to the fourth quarter of the previous year.

2.4. Liquidity

Creditors, local commercial banks and various international socially-oriented commercial funds still abstain from lending to a large number of MCOs, due to which many MCOs are deprived of more favourable financial assets with which they would finance their activity. According to submitted reports on the liquidity of MCOs as of 30.06.2017, one MCF had significant problems with maintaining liquidity. The aforementioned will, according to information provided in the report, record a decrease in the active loan portfolio in the reporting periods to come.

2.5. FX Risk

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

2.6. Transactions with Related Entities

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

the funds that were employed in the transaction were transferred to a related entity or were used so that a related entity would profit. With reference to this, all MCOs must establish a register of related entities, which is to be regularly updated.

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

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

When conducting transactions with related entities of an MCO, no such conditions may be offered that would be more favourable to any other entities, and MCOs shall report to the Agency through quarterly reports on all transactions conducted by the MCO with its related entities in the reporting quarter. In the first six months of 2017, out of 12 MCOs, 7 MCFs and 1 MCC submitted reports, in the prescribed form, to the Agency on transactions conducted with related entities in the total amount of KM 750 522 million. One MCF and 1 MCC have a 77% share in the total amount of transactions with related entities.

- in KM -

Table 13. Transactions with Related Entities			
No.	Description of transaction	Transaction amount in the period 01.01.-30.06.2017	Share (%)
1.	Payment of joint expenses of a related person	286 997	38.24%
2.	Cost reimbursement	194 386	25.90%
3.	Transactions with the founder and founder-related persons	129 643	17.27%
4.	Payment by invoices for delivered goods/services	77 967	10.39%
5.	Borrowings from legal entities and natural persons	56 729	7.56%
6.	Lease of business premises	4 800	0.64%
7.	Loan annuities	0	0.00%
8.	Short-term loans from banks	0	0.00%
9.	Regular and penalty interest, management fees	0	0.00%
10.	Legal services	0	0.00%
11.	Short-term deposits to banks	0	0.00%
12.	Receivables based on lease	0	0.00%
TOTAL		750 522	100.00%

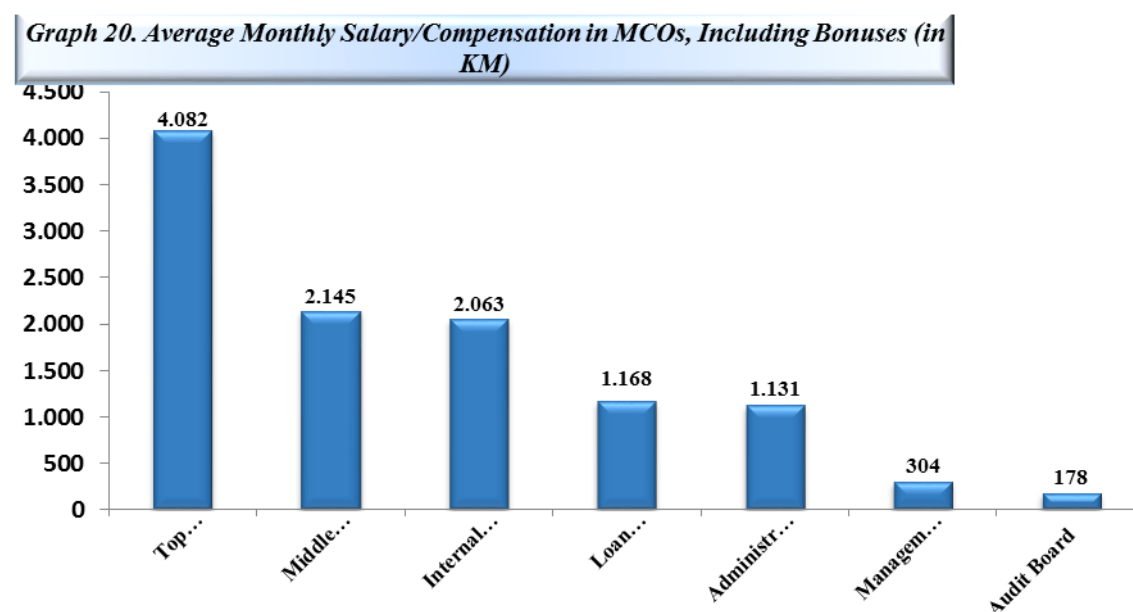
Table 13 provides a breakdown of transactions with related entities in the period from 01.01. to 30.06.2017, which shows that the largest share in transactions with related entities belongs to payments of joint expenses of a related person (38.24%), followed by cost reimbursement (25.90%) and transactions with the MCOs' founders and their related persons (17.27%). In addition to the aforementioned transactions, MCOs also reported transactions with related entities based on borrowings from legal entities and natural persons, the lease of business premises, and other transactions.

The reported transactions of MCOs with related entities refer to transactions conducted with entities related to the MCOs' founders and their related persons (90%), members of the management board (6%), and members of the audit board (4%). During the examinations in the period to come, the Agency will focus on the compliance with business policies for the MCOs' transactions with related entities, and it will evaluate the benefits the MCOs have when performing such transactions and order adequate measures to be taken in the interest of eliminating irregularities found in the MCOs' business operations with related entities.

2.6.1. Standard Monthly Income in Microcredit Activities

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

Salary and contributions' expenses generated in the period 01.01. to 30.06.2017 are up by 3% compared to the same period of the previous year. According to MCO reports, as of 30.06.2017, the average monthly net salary of MCO employees was KM 1 251 and the average monthly net amount of incentives, stimulations and bonuses was KM 54. This means that the average monthly net salary with bonuses was KM 1 305 in the microcredit system. As of 30.06.2017, the average monthly net salary of a senior management member in the microcredit system was KM 4 082 including bonuses, while average monthly net compensations paid to management board members in MCOs were KM 304 and to audit board members KM 178. As of the reporting date, the average monthly net salaries of internal auditors in MCOs were KM 2 063 including bonuses, of middle and lower management KM 2 145, of loan officers KM 1 168 and of administration and other staff KM 1 131.



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

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

2.7. Independent External Auditor's Reports

Article 18 of the Law on MCOs stipulates that MCOs shall appoint, with the Agency's approval, an external auditor that will audit the annual financial statements and prepare an auditor's report in accordance with the law and other rules regulating the area of accounting and auditing, which MCOs submit to the Agency no later than five months after the end of the business year to which the report relates. MCOs are required to publish auditor's reports in abbreviated form in one or more daily newspapers available throughout Bosnia and Herzegovina within 30 days of receiving the report and notify the Agency of the aforementioned immediately, along with submitting a copy of the publication. In accordance with Article 19 of the Decision on Conditions and Process of Issuance and Revocation of Operating License and Other Approvals to/from Microcredit Organisations („Official Gazette of B&H“, No: 27/07 and 46/11), MCOs are required to obtain the Agency's approval for the appointment of an external auditor. The selection of the audit firm is made exclusively by the managing body of an MCO at the proposal of the audit committee, while the request for the issuance of approval together with supporting documentation and the decision of the managing body on the choice of audit firm is submitted to the Agency. In accordance with Article 23 of the Law on the Banking Agency of the Federation of B&H („Official Gazette of B&H“, No. 9/96, 27/98, 20/00, 45/00, 58/02, 13/03, 19/03, 47/06, 59/06, 48/08, 34/12 and 77/12), the Agency can reject the independent auditor's report and request a new report that will be prepared by a certified auditor appointed by the Agency, at the expense of the MCO.

After examining the submitted auditor's reports for 2016, it was determined that, out of 12 MCOs, 10 MCFs and 1 MCC had unqualified reports, with there being highlighted facts in the reports of 3 MCFs, which were mainly related to non-compliance with operating conditions prescribed by the Agency's decisions and to non-compliance with lending conditions. In the case of one MCF, the external auditor issued a qualified opinion, since it did not have the minimum amount of core capital (KM 50 000) on 31.12.2015, which is required for MCF operations in accordance with the Law on Microcredit Organisations. In the case of two MCFs, external auditors stated that there were significant doubts regarding the ability of the MCFs to continue their operations on a going concern basis.

In Annex 3 of this Information, more detailed data on the auditor's reports by individual MCOs for the year that ended on 31.12.2016 is provided.

III CONCLUSIONS AND RECOMMENDATIONS

When analysing MCO reports as of 30.06.2017, it can be concluded that the business operations of microcredit organisations in the Federation of B&H show a slight improvement compared to the end of the previous year. The balance sheet total recorded an increase in the amount of 5%, the loan portfolio is up by 5%, with improvements of certain quality indicators. A real increase was also recorded with respect to the number of employees (by 3%), capital (by 5%) and loan commitments (by 7%).

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

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

Within its responsibilities under the Law, the Agency will continue to take all available supervision measures and initiate necessary procedures for the purpose of sanctioning MCOs and leading their business operations into the legal framework in order to fulfill the basic role of microlending.

All MCOs are to work on the following:

- Fully implementing Article 2 of the LoMCO, which prescribes performing activities for the purpose of improving the material status of beneficiaries of microloans, increasing employment and providing support to the development of entrepreneurship;
- Reducing interest rates on microloans;
- Controlling interest rates and achieving objectives from the LoMCO through the active involvement of managing bodies in the process of approving policies on establishing prices of microloans;
- Cutting operating costs, the full implementation of the principles of due care for the assets of the foundation and the implementation of principles of good corporate practices, which should influence the reduction of interest rates;
- Establishing mechanisms to check the justification of projects and materially significant costs of operations, including salaries and bonuses of the management, and all other benefits of the management and members of the boards of directors, which the aforementioned exercise at the expense of the assets of MCOs and which are directly compensated by high interest rates;
- Increasing the responsibilities of management boards, ensuring independence from the management and control of the management by management boards;
- Improving the system of internal controls, improving efficiency of business operations and optimising MCO resources as well as implementing the principles of responsible credit financing;
- Establishing an internal audit that is fully independent from the MCO management and will also supervise the management segment and regularly report to the management board;
- The mandatory exchange of information at the level of the system and the Central Credit Registry;

- Taking all required actions in the interest of solving the problems of overindebted customers and guarantors;
- Improving institutional capacities,
- Fully implementing valid regulations and increasing the transparency of business operations; and Finding partners for mergers and acquisitions; MCOs with smaller amounts of capital and a high degree of written-off loans should adopt a clear strategy for merging with bigger and stronger MCOs to optimise resources, preserve donated funds, ensure support of foreign creditors and secure the future of MCO employees.

No.: U.O. -06-03/17
Sarajevo, 30.08.2017

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

Annex 2. Main Data on MCOs

Annex 3. External Auditor's Reports for the Year That Ended on 31.12.2016

Annex 4. Balance Sheet of MCFs

Annex 5. Balance Sheet of MCCs

Annex 6. Income Statement of MCFs

Annex 7. Income Statement of MCCs

Annex 8. Overview of Donated Funds of MCFs

Annex 9. Graphs – Other Business Performance Indicators of MCOs

Annex 1.

REGULATIONS OF THE BANKING AGENCY FOR MCO BUSINESS OPERATIONS AS OF 30.06.2017

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

Instructions of the Banking Agency related to MCO Operations

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

Annex 2.

MAIN DATA ON MCOs

No	Name of microcredit organisation	Address and seat	Director	Tel/Fax	E-mail and Web	30.06.2017			
						Assets amount in KM 000	Capital amount in KM 000	No. of employees	No. of org. units
1.	MKD "EKI" d.o.o. Sarajevo	ul. Džemala Bijedića 129 71 000 SARAJEVO	Sead Mucić	033/ 754-380, 754-388 fax	sead.mucic@eki.ba www.eki.ba	55 404	3 817	168	11
2.	MKF "EKI" Sarajevo	ul. Džemala Bijedića 129, 71 000 SARAJEVO	Sadina Bina	033/ 754-380, 754-388 fax	sadina.bina@eki.ba www.eki.ba	102 978	66 344	267	70
3.	MKF "LIDER" Sarajevo	ul. Turhanija 2 71 000 SARAJEVO	Džavid Sejfović	033/ 250-580, 250-581 fax	dzavids@lider.ba www.lider.ba	17 592	10 743	68	14
4.	"LOK MKF" Sarajevo	ul. Skenderija 13 71 000 SARAJEVO	Elma Čardaklija - Bašić	033/ 564-200, 564-201 fax	central.office@lok.ba www.lok.ba	17 875	2 554	92	22
5.	MKF "MELAHA" Sarajevo	ul. Hamdije Kreševljakovića 59 71 000 SARAJEVO	Jakob Finci	033/ 205-737 tel/fax	info@melaha.ba www.melaha.ba	1 302	508	6	0
6.	MKF "MI-BOSPO" Tuzla	ul. Bosne srebrene bb 75 000 TUZLA	Nejira Nalić	035/ 270-283, 252-448 fax	mi-bospo@mi-bospo.org www.mi-bospo.org	56 466	21 375	176	32
7.	MKF "MIKRA" Sarajevo	ul. Marka Marulića 2/VI 71 000 SARAJEVO	Sanin Čampara	033/ 616-162, 717-141 fax	mikra@mikra.ba www.mikra.ba	27 759	7 254	122	27
8.	MKF "MIKRO ALDI" Goražde	ul. Panorama bb 73 000 GORAŽDE	Ferida Softić	038/ 226-456, 221-004 fax	info@mikroaldi.org www.mikroaldi.org	6 057	4 680	28	7
9.	"PARTNER MKF" Tuzla	ul. 15. maja bb 75 000 TUZLA	Senad Sinanović	035/ 300-250, 300-269 fax	partner@partner.ba www.partner.ba	133 926	74 060	297	60
10.	"PRVA ISLAMSKA MKF" Sarajevo	ul. Jukićeva 75 71 000 SARAJEVO	Edina Hadžimurtezić	033/ 666-233, 666-224 fax	info@mfi.ba	1 791	1 672	8	0
11.	MKF "SANI" Zenica	ul. Mehmedalije Tarabara 10 72 000 ZENICA	Sulejman Haračić	032/ 405-606 tel/fax	mikrosanizenica@yahoo.com	409	200	5	0
12.	MKF "SUNRISE" Sarajevo	ul. Zagrebačka 50 71 000 SARAJEVO	Samir Bajrović	033/ 727-350, 812-231 fax	sunrise@microsunrise.ba www.microsunrise.ba	41 458	24 160	153	42
TOTAL						463 017	217 367	1 390	285

Annex 3.

EXTERNAL AUDITOR'S REPORT FOR THE YEAR THAT ENDED ON 31.12.2016

No.	Name of MCO	Year	Name of audit firm that audited the MCO	Date of report	Daily newspaper and date of publication	Auditor's opinion	Highlighted facts
UNQUALIFIED REPORTS							
1.	MKD EKI d.o.o. Sarajevo	31.12.2016	Deloitte d.o.o. Sarajevo	31.03.2017	Oslobodenje 28.04.2017	UNQUALIFIED REPORT	none
2.	MKF LIDER Sarajevo	31.12.2016	Revik d.o.o. Sarajevo	24.03.2017	Oslobodenje 19.05.2017	UNQUALIFIED REPORT	none
3.	MKF MELAHA Sarajevo	31.12.2016	Baker Tilly Re Opinion d.o.o. Sarajevo	08.03.2017	Oslobodenje 28.04.2017	UNQUALIFIED REPORT	none
4.	MKF MI-BOSPO Tuzla	31.12.2016	Deloitte d.o.o. Sarajevo	21.04.2017	Oslobodenje 24.05.2017	UNQUALIFIED REPORT	none
5.	MKF MIKRA Sarajevo	31.12.2016	Deloitte d.o.o. Sarajevo	04.04.2017	Dnevni avaz 28.04.2017	UNQUALIFIED REPORT	none
6.	MKF MIKRO ALDI Gorazde	31.12.2016	Baker Tilly Re Opinion d.o.o. Sarajevo	03.03.2017	Oslobodenje 27.04.2017	UNQUALIFIED REPORT	none
7.	PARTNER MKF Tuzla	31.12.2016	KPMG B-H d.o.o. Sarajevo	18.04.2017	Oslobodenje 18.05.2017	UNQUALIFIED REPORT	none
8.	MKF SANI Zenica	31.12.2016	Reviform d.o.o. Sarajevo	10.05.2017	Oslobodenje 27.05.2017	UNQUALIFIED REPORT	none

UNQUALIFIED REPORTS WITH HIGHLIGHTED FACTS							
9.	MKF EKI Sarajevo	31.12.2016	Deloitte d.o.o. Sarajevo	31.03.2017	Oslobodenje 28.04.2017	UNQUALIFIED REPORT	<i>Highlighted facts</i> , without qualified opinion, the external auditor drew attention to Note 17, which describes the fact that the VisionFund International loan commitments matured on 31.12.2016, and given the position of the Banking Agency of the FB&H, they were not repaid on the date of the report. The Management of the Foundation informed VisionFund International and the Banking Agency of the FB&H of the aforementioned and the Management's position is that these circumstances will not have a negative impact on the liquidity, solvency and operations of the Foundation.
10.	LOK MKF Sarajevo	31.12.2016	KPMG B-H d.o.o. Sarajevo	05.05.2017	Oslobodenje 29.05.2017	UNQUALIFIED REPORT	<i>Highlighted facts</i> , without qualified opinion, the external auditor drew attention to Note 2(b), which indicates that the Foundation does not comply with lending conditions for a loan in the amount of KM 7 911 thousand and that it has other liabilities in the total amount of KM 2 371 thousand, which are due within 12 months from the reporting date and for which the Foundation does not have a maturity adjustment. Furthermore, the external auditor drew attention to the fact that the Foundation was not in compliance with certain regulatory requirements prescribed by the Banking Agency of the Federation of Bosnia and Herzegovina, and that the above circumstances indicate that there is significant uncertainty creating significant doubt regarding the Foundation's ability to continue its operations on a going concern basis.
11.	MKF SUNRISE Sarajevo	31.12.2016	Deloitte d.o.o. Sarajevo	10.04.2017	Oslobodenje 05.05.2017	UNQUALIFIED REPORT	<i>Highlighted facts</i> , the external auditor drew attention to Note 24, which describes that the Foundation did not comply with the regulator's requirement regarding the fixed assets limit of 10% in relation to total assets net of donated funds, and it was stated that, bearing in mind that the regulator's request regarding this limit amounted to 15.23% for 2015 and to 13.32% for 2016, a trend of decrease of this indicator is evident. The Management regularly informed the Banking Agency of the Federation of Bosnia and Herzegovina of this fact and is not familiar with the circumstances or information that the failure to meet this requirement will have a materially negative impact on the overall financial position of the Foundation.

QUALIFIED OPINION						
12.	PRVA ISLAMSKA MKF Sarajevo	31.12.2016	Revik d.o.o. Sarajevo	15.04.2017	Dnevni avaz 24.05.2017	<p><i>Basis for qualified opinion</i> – The Foundation does not have the minimum amount of core capital (KM 50 000) required for MCF operations in accordance with the Law on Microcredit Organisations.</p> <p>QUALIFIED OPINION – In the external auditor's opinion, in addition to possible effects as a consequence of what was stated in the paragraph „Basis for qualified opinion“, the financial statements present the financial position of the Foundation as of 31.12.2016, the results of business operations and changes in cash flows for the year that ended in a fair and objective manner in all material respects and in accordance with International Financial Reporting Standards that have been modified to comply with the regulatory requirements of the Banking Agency of the Federation of Bosnia and Herzegovina.</p> <p><i>Highlighted facts</i>, without qualified opinion, the external auditor drew attention to Note 1c, which describes that the financial statements have been drafted on the assumption of operating on a going concern basis, which implies that the Foundation will be able to collect receivables and settle liabilities in the normal course of business. The Foundation continuously incurs significant losses, which resulted in the Foundation's core capital dropping below the legal minimum prescribed by the Law on Microcredit Organisations. The aforementioned indicates significant uncertainty and doubt regarding the Foundation's ability to continue its operations on a going concern basis. In the notes accompanying the financial statements, the Foundation announced that capital had increased and that a plan for increasing the category of capital over a period of 5 years had been proposed and adopted. Without qualified opinion, the external auditor drew attention to Note 16, which gives an overview of the general business conditions that the Foundation did not fulfill in accordance with Article 16 of the Decision on Other General Business Conditions of the Banking Agency of the Federation of Bosnia and Herzegovina.</p>

Annex 4.

BALANCE SHEET OF MCFs

in KM 000

No.	DESCRIPTION	31.12.2016	%	30.06.2017	%	Index
1	2	3	4	5	6	7=5/3
ASSETS						
1.	Cash (1a+1b)	22 227	6	27 344	6	123
1a)	Cash and non-interest bearing deposit accounts	11 698	3	18 194	4	156
1b)	Interest-bearing deposit accounts	10 529	3	9 150	2	87
2.	Facilities to banks	733	0	350	0	48
3.	Loans	349 791		344 300		98
3a)	Loan loss reserves	3 193		3 061		96
3b)	Net loans (3-3a)	346 598	85	341 239	84	98
4.	Business premises and other fixed assets	28 734	7	28 541	7	99
5.	Long-term investments	3 061	1	3 061	1	100
6.	Other assets	6 008	1	7 264	2	121
7.	Minus: provisions for other assets items, except loans	182		186		102
8.	TOTAL ASSETS	407 179	100	407 613	100	100
LIABILITIES						
9.	Short-term loan commitments	73 903	18	78 752	19	107
10.	Long-term loan commitments	105 905	26	94 720	23	89
11.	Other liabilities	23 258	6	20 591	5	89
12.	TOTAL LIABILITIES	203 066	50	194 063	47	96
13.	Donated capital	45 851		45 851		100
14.	Core capital	3 820		3 820		100
15.	Surplus of income over expenses	213 906		223 356		104
15a)	For previous years	199 850		214 042		107
15b)	For current year	14 056		9 314		66
16.	Deficit of income over expenses	61 308		61 288		100
16a)	For previous years	61 268		61 234		100
16b)	For current year	40		54		135
17.	Other reserves	1 844		1 811		98
18.	TOTAL CAPITAL	204 113	50	213 550	53	105
19.	TOTAL LIABILITIES	407 179	100	407 613	100	100
OFF-BALANCE SHEET RECORDS						
	- written-off loans	115 263		112 807		98
	- agent business	367		366		100

Annex 5.

BALANCE SHEET OF MCCs

in KM 000

No.	DESCRIPTION	31.12.2016	%	30.06.2017	%	Index
1	2	3	4	5	6	7=5/3
ASSETS						
1.	Cash (1a+1b)	4 496	14	2 822	5	63
1a)	Cash and non-interest bearing deposit accounts	4 496	14	2 822	5	63
1b)	Interest-bearing deposit accounts	0	0	0	0	n/a
2.	Facilities to banks	0	0	0	0	n/a
3.	Loans	28 081		51 797		184
3a)	Loan loss reserves	176		246		140
3b)	Net loans (3-3a)	27 905	85	51 551	93	185
4.	Business premises and other fixed assets	115	0	250	1	217
5.	Long-term investments	0	0	0	0	n/a
6.	Other assets	455	1	795	1	175
7.	Minus: provisions for other assets items, except loans	9		14		156
8.	TOTAL ASSETS	32 962	100	55 404	100	168
LIABILITIES						
9.	Short-term loan commitments	5 549	17	12 648	23	228
10.	Long-term loan commitments	22 551	68	36 572	66	162
11.	Other liabilities	1 337	4	2 367	4	177
12.	TOTAL LIABILITIES	29 437	89	51 587	93	175
13.	Donated capital	0		0		n/a
14.	Core capital	600		600		100
15.	Issue premiums	0		0		n/a
16.	Unallocated profit (16a+16b)	1 016		1 308		129
16a)	Of previous years	331		1 017		307
16b)	Of current year	685		291		42
17.	Legal reserves	1 909		1 909		100
18.	Other reserves	0		0		n/a
19.	TOTAL CAPITAL	3 525	11	3 817	7	108
20.	TOTAL LIABILITIES	32 962	100	55 404	100	168
OFF-BALANCE SHEET RECORDS						
	- written-off loans	220		308		140
	- agent business	0		0		n/a

Annex 6.

INCOME STATEMENT OF MCFs

in KM 000

No.	DESCRIPTION	For the period 01.01. - 30.06.2016	%	For the period 01.01. - 30.06.2017	%	Index
1	2	3	4	5	6	7=(5/3)
I	FINANCIAL INCOME AND EXPENSES					
1.	Interest income and similar income					
1.1.	Interest by interest-bearing deposit accounts with deposit institutions	17	0	9	0	53
1.2.	Interest on facilities to banks	1	0	1	0	100
1.3.	Loan interest	32 367	98	33 403	98	103
1.4.	Other financial income	570	2	677	2	119
1.5.	Total interest income and similar income (1.1. to 1.4.)	32 955	100	34 090	100	103
2.	Interest expenses and similar expenses					
2.1.	Interest on borrowed funds	4 479	91	4 087	91	91
2.2.	Other financial expenses	420	9	397	9	95
2.3.	Total interest expenses and similar expenses (2.1. to 2.2.)	4 899	100	4 484	100	92
3.	Net financial income (1.5. - 2.3.)	28 056		29 606		106
II	OPERATING INCOME AND EXPENSES					
4.	Operating income					
4.1.	Fees for services performed	3 745	91	3 800	89	101
4.2.	Other operating income	379	9	471	11	124
4.3.	Total operating income (4.1. do 4.2.)	4 124	100	4 271	100	104
5.	Operating expenses					
5.1.	Salary and contributions costs	18 631	66	18 295	65	98
5.2.	Costs of business premises, other fixed assets and utility costs	5 327	19	5 540	20	104
5.3.	Other operating expenses	4 115	15	4 116	15	100
5.4.	Total operating expenses (5.1. to 5.3.)	28 073	100	27 951	100	100
6.	Loan loss provisions and provisions for other losses	2 233		1 967		88
7.	Surplus/deficit of income over expenses from regular operations (3.+4.3.-5.4.-6.)	1 874		3 959		211
8.	Extraordinary income	5 575		5 870		105
9.	Extraordinary expenses	411		373		91
10.	Surplus/deficit of income over expenses (7.+8.-9.)	7 038		9 456		134

Annex 7.

INCOME STATEMENT OF MCCs

in KM 000

No.	DESCRIPTION	For the period 01.01. - 30.06.2016	%	For the period 01.01. - 30.06.2017	%	Index
1	2	3	4	5	6	7=(5/3)
I	FINANCIAL INCOME AND EXPENSES					
1.	Interest income and similar income					
1.1.	Interest by interest-bearing deposit accounts with deposit institutions	0	0	0	0	n/a
1.2.	Interest on facilities to banks	0	0	0	0	n/a
1.3.	Loan interest	1 657	100	3 240	100	196
1.4.	Other financial income	1	0	4	0	400
1.5.	Total interest income and similar income (1.1. to 1.4.)	1 658	100	3 244	100	196
2.	Interest expenses and similar expenses					
2.1.	Interest on borrowed funds	557	96	959	93	172
2.2.	Other financial expenses	22	4	72	7	327
2.3.	Total interest expenses and similar expenses (2.1. to 2.2.)	579	100	1 031	100	178
3.	Net financial income (1.5. - 2.3.)	1 079		2 213		205
II	OPERATING INCOME AND EXPENSES					
4.	Operating income					
4.1.	Fees for services performed	115	92	248	90	216
4.2.	Other operating income	10	8	28	10	280
4.3.	Total operating income (4.1. to 4.2.)	125	100	276	100	221
5.	Operating expenses					
5.1.	Salary and contributions costs	458	79	1 418	69	310
5.2.	Costs of business premises, other fixed assets and utility costs	30	5	379	19	1 263
5.3.	Other operating expenses	95	16	254	12	267
5.4.	Total operating expenses (5.1. to 5.3.)	583	100	2 051	100	352
6.	Loan loss provisions and provisions for other losses	176		177		101
7.	PROFIT/LOSS FROM REGULAR BUSINESS OPERATIONS (3.+4.3.-5.4.-6.)	445		261		59
8.	Extraordinary income	5		34		680
9.	Extraordinary expenses	3		4		133
10.	PROFIT/LOSS BEFORE TAXES	447		291		65
11.	TAXES	0		0		n/a
12.	NET PROFIT/LOSS	447		291		65

Annex 8.
**OVERVIEW OF DONATED FUNDS OF MCFs
as of 30.06.2017**
KM 000

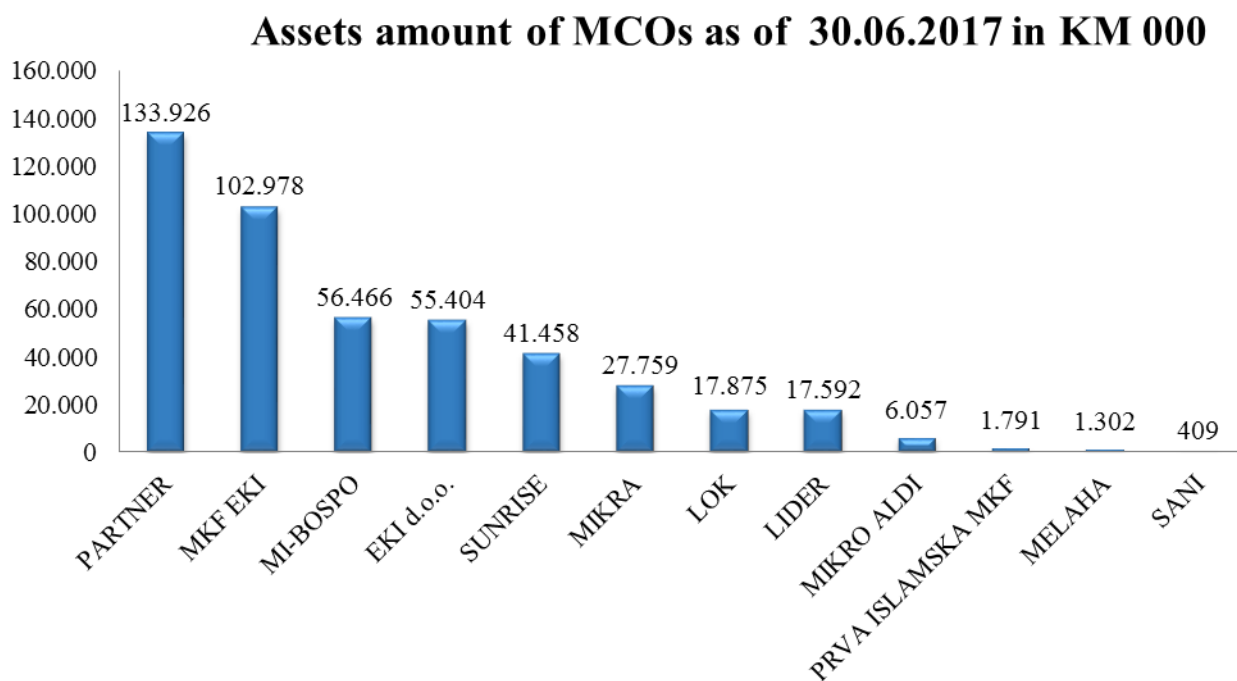
No.	Donor	MKF EKI Sarajevo	MKF LIDER Sarajevo	LOK MKF Sarajevo	MKF MELAHA Sarajevo	MKF ML-BOSPO Tuzla	MKF MIKRA Sarajevo	MKF MIKRO ALDI Goražde	PARTNER MKF Tuzla	PRVA ISLAMSKA MKF	MKF SUNRISE Sarajevo	TOTAL
Credit fund donations		6 326	5 891	4 639	0	3 354	4 070	804	16 561	2 265	1 940	45 850
1.	Mercy Corps								10.091			10.091
2.	USAID	3 046		543					3 046			6 635
3.	CHF-(SIDA, MEDI, HILP)		5 891									5 891
4.	LIP			1 479		947			675		1 214	4 315
5.	CRS						4 070					4 070
6.	UNHCR			1 198		479		200	1 229		613	3 719
7.	Islamic Relief WW, Representative Office Sarajevo									2 265		2 265
8.	UNDP	1 932		153					59			2 144
9.	UMCOR			637		377			317			1 331
10.	IRC					371			805			1 176
11.	SIDA Housing	1 080										1 080
12.	Women's World Banking PRM/USA State Department			577		1 034						1 034
13.	Department											577
14.	OXFAM							500				500
15.	EZE, Germany								339			339
16.	USDA Know-How Project	237										237
17.	Church World Service					146						146
18.	Other	31		52				104			113	300
Fixed assets donations		8	0	286	0	12	235	80	229	0	85	935
19.	Unipromet						235					235
20.	Mercy Corps								229			229
21.	Nedžad Beglerović			102								102
22.	NOVIB							80				80
23.	EBRD										75	75
24.	Other	8		184		12					10	214
Operating expenses donations		1 019	874	2 810	500	1 344	17	146	2 557	0	711	9 978
25.	LIP			1 515					201		711	2 427
26.	USAID					1 344			591			1 935
27.	CHF		874									874
28.	Mercy Corps								808			808
29.	SIDA Housing	748										748
30.	PM			556								556
31.	BCT			519								519
32.	JKPHD La Benevolencija				500							500
33.	KfW								498			498
34.	NBR			220								220
35.	UNHCR								176			176
36.	EFSE	26						1	99			126
37.	NOVIB							110				110
38.	EBRD	105							1			106
39.	IFC	104										104
40.	Other	36					17	35	183			271
TOTAL DONATED CAPITAL		7 353	6 765	7 735	500	4 710	4 322	1 030	19 347	2 265	2 736	56 763

Annex 9.

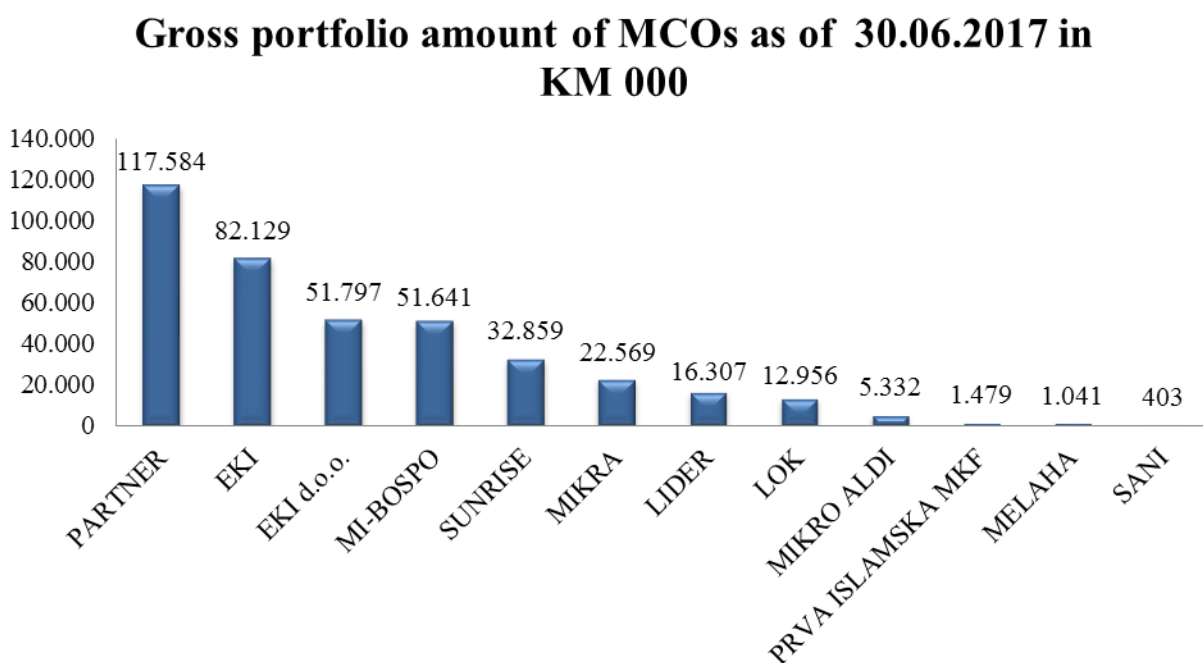
GRAPHS – OTHER BUSINESS PERFORMANCE INDICATORS OF MCOs

- Graph 21. Assets amount of MCOs as of 30.06.2017 in KM 000
- Graph 22. Gross portfolio amount of MCOs as of 30.06.2017 in KM 000
- Graph 23. Loan commitments amount of MCOs as of 30.06.2017 in KM 000
- Graph 24. Capital amount of MCOs as of 30.06.2017 in KM 000
- Graph 25. Donated capital amount (by reports) of MCOs as of 30.06.2017 in KM 000
- Graph 26. Surplus/deficit of income over expenses of MCFs, i.e. net profit/loss of MCCs for the period 01.01.- 30.06.2017 in KM 000
- Graph 27. Operational sustainability of MCOs in the period 01.01.- 30.06.2017
- Graph 28. Number of employees of MCOs as of 30.06.2017
- Graph 29. Number of organisational units of MCOs seated in the Federation of B&H as of 30.06.2017
- Graph 30. Number of active loan accounts of MCOs with the balance as of 30.06.2017
- Graph 31. Number of written-off loans in the off-balance records as of 30.06.2017
- Graph 32. Loan amount in KM 000 written-off in the period 01.01.- 30.06.2017
- Graph 33. Collection amount by written-off loans in KM 000 in the period 01.01.- 30.06.2017
- Graph 34. Total receivables amount by written-off loans of MCOs in KM 000 with balance as of 30.06.2017
- Graph 35. Total receivables by written-off loans vs. total gross portfolio of MCOs as of 30.06.2017
- Graph 36. Risk portfolio over 30 days past due as of 30.06.2017
- Graph 37. Fixed assets and capital vs. total assets as of 30.06.2017
- Graph 38. Average monthly compensations to members of management/supervisory board of MCOs for the period 01.01.- 30.06.2017
- Graph 39. Average monthly income of senior management in MCOs for the period 01.01.- 30.06.2017
- Graph 40. Average monthly income of loan officers of MCOs for the period 01.01.- 30.06.2017
- Graph 41. Total microloans disbursed in Q2 2017 in KM 000
- Graph 42. Average weighted EIR on total loans as per MCO reports of in Q2 2017
- Graph 43. Average weighted EIR on short-term loans as per MCO reports in Q2 2017
- Graph 44. Average weighted EIR on long-term loans as per MCO reports in Q2 2017

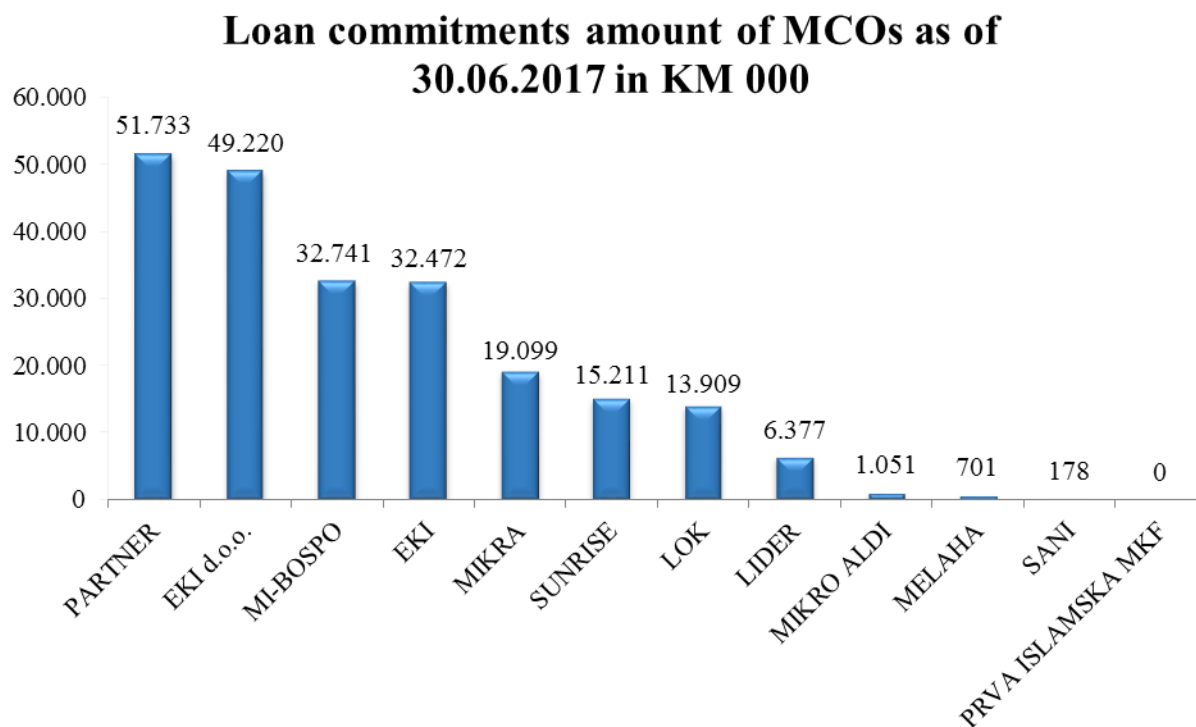
Graph 21.



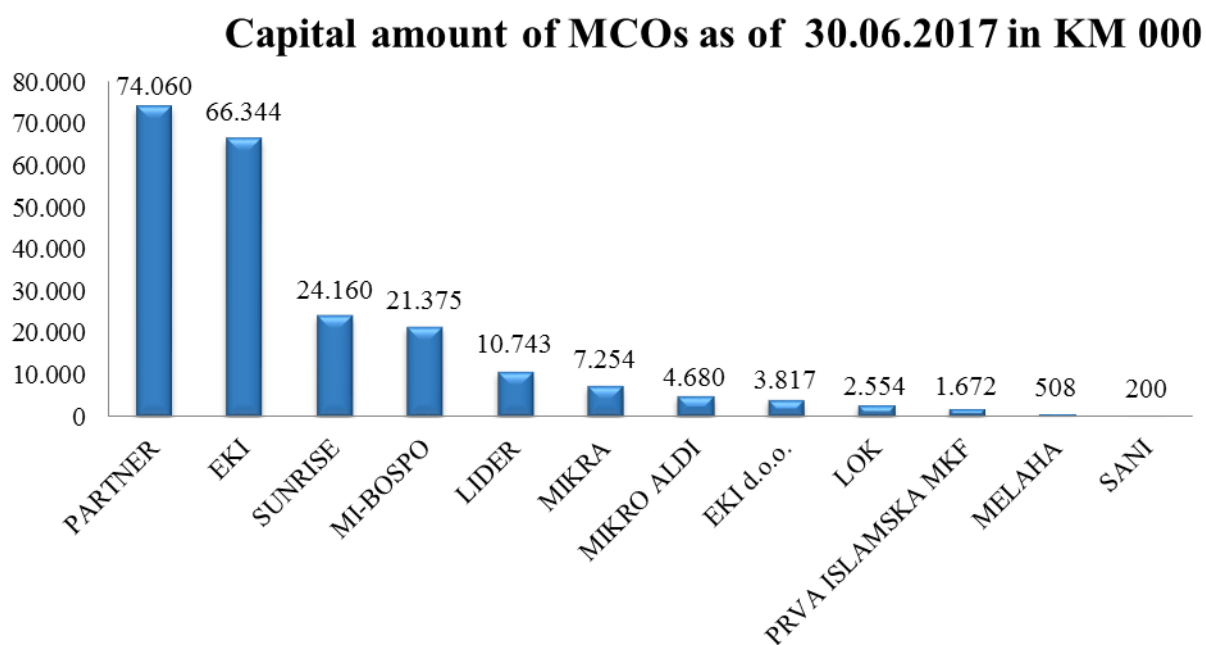
Graph 22.



Graph 23.

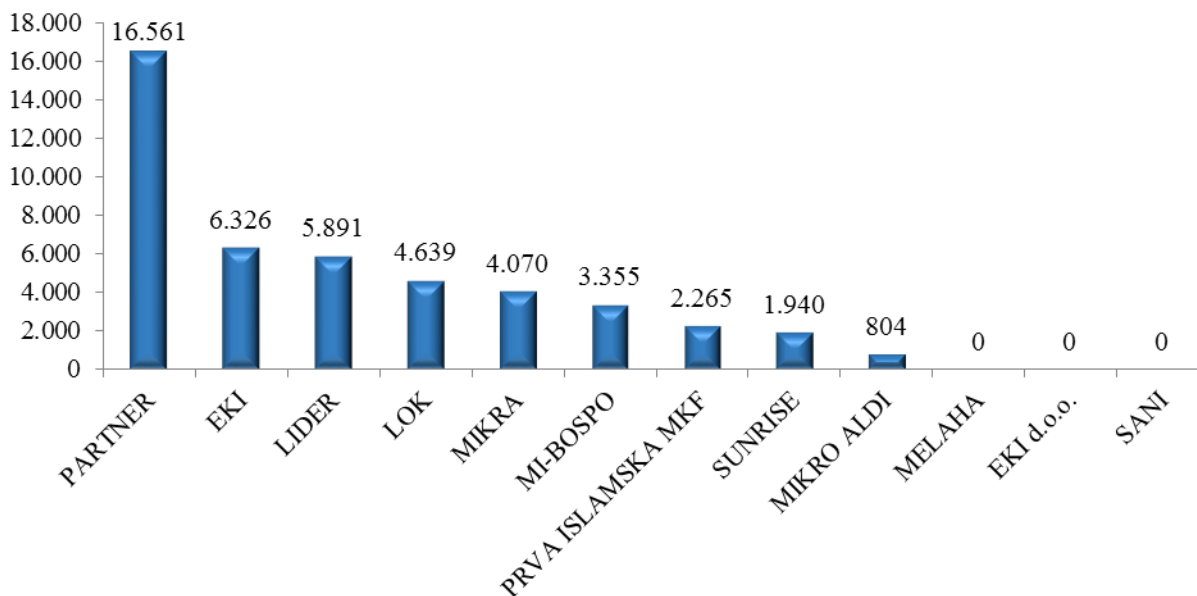


Graph 24.



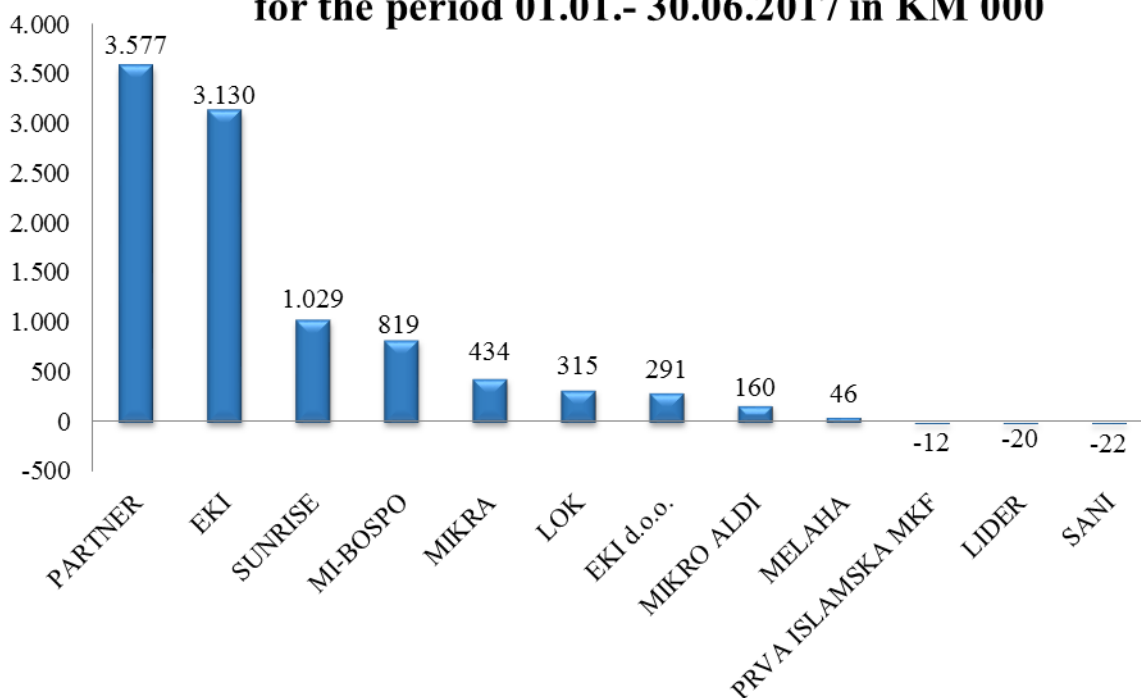
Graph 25.

Donated capital amount (by reports) of MCOs as of 30.06.2017 in KM 000

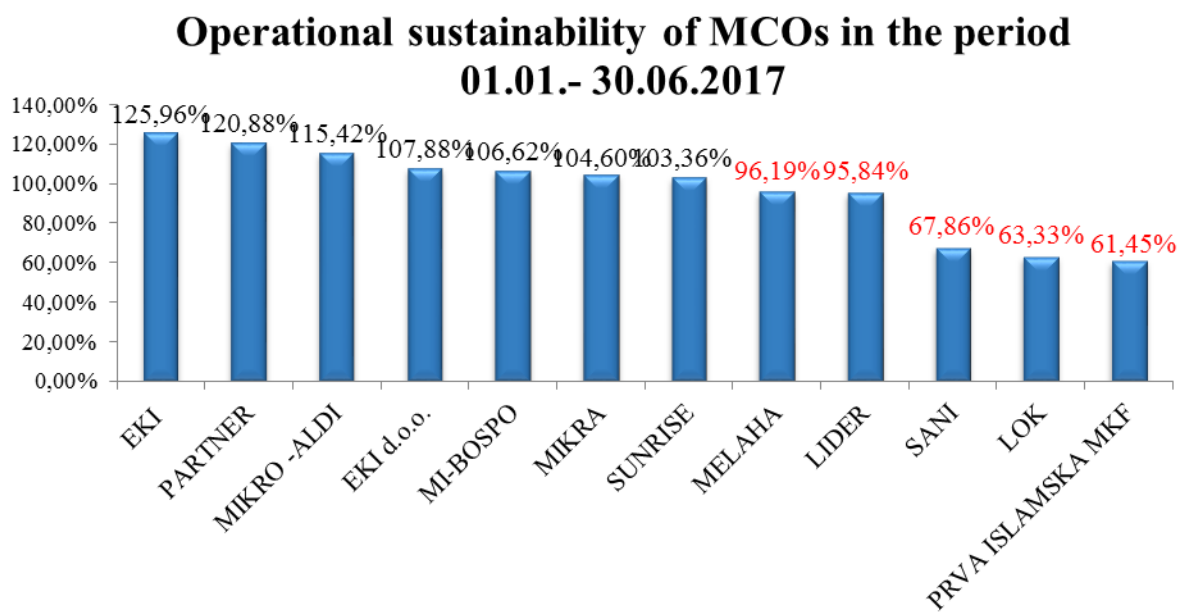


Graph 26.

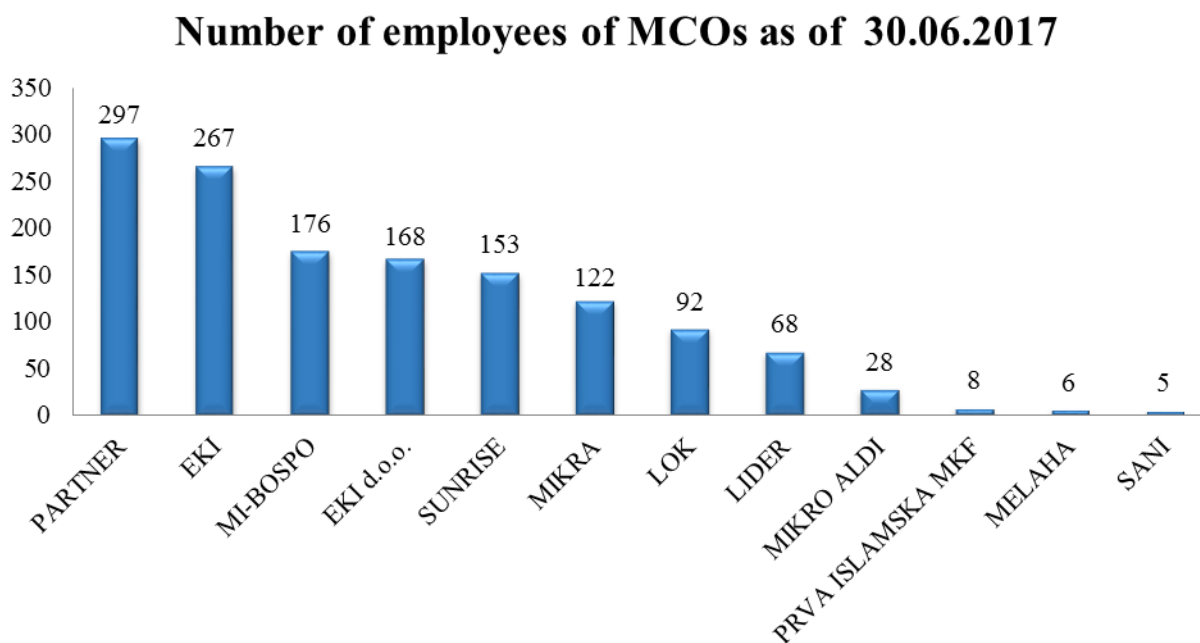
Surplus/deficit of income over expenses of MCFs, i.e. net profit/loss of MCCs for the period 01.01.- 30.06.2017 in KM 000



Graph 27.

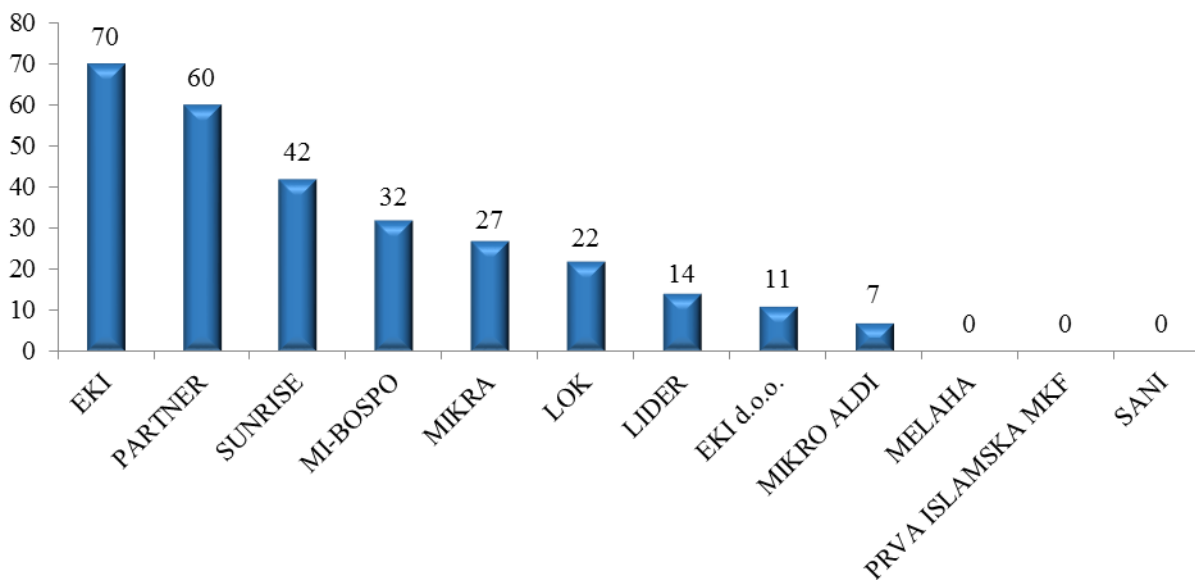


Graph 28.



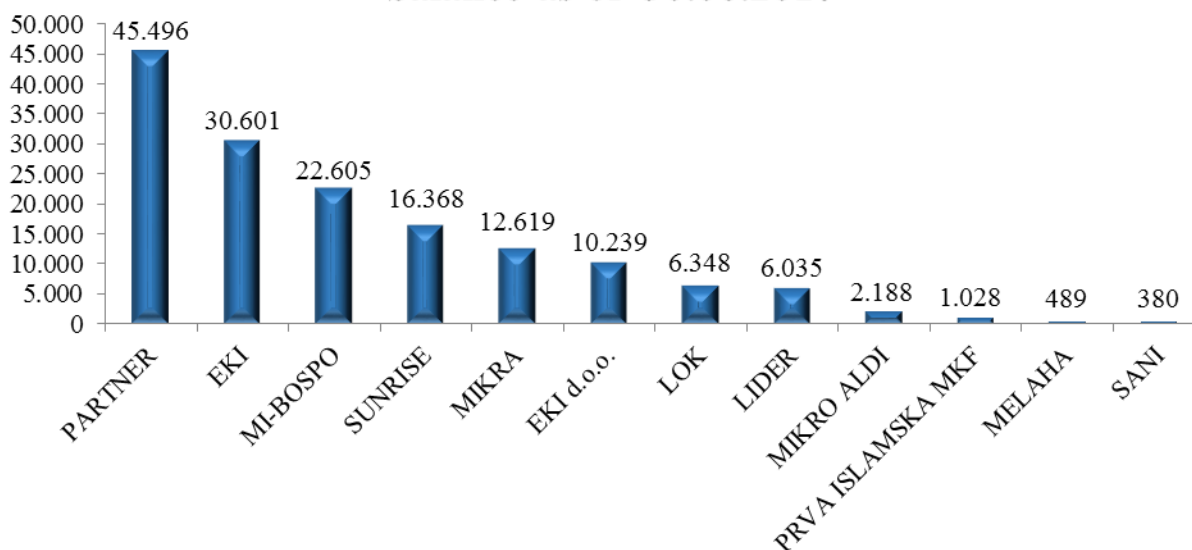
Graph 29.

Number of organisational units of MCOs seated in the Federation of B&H as of 30.06.2017



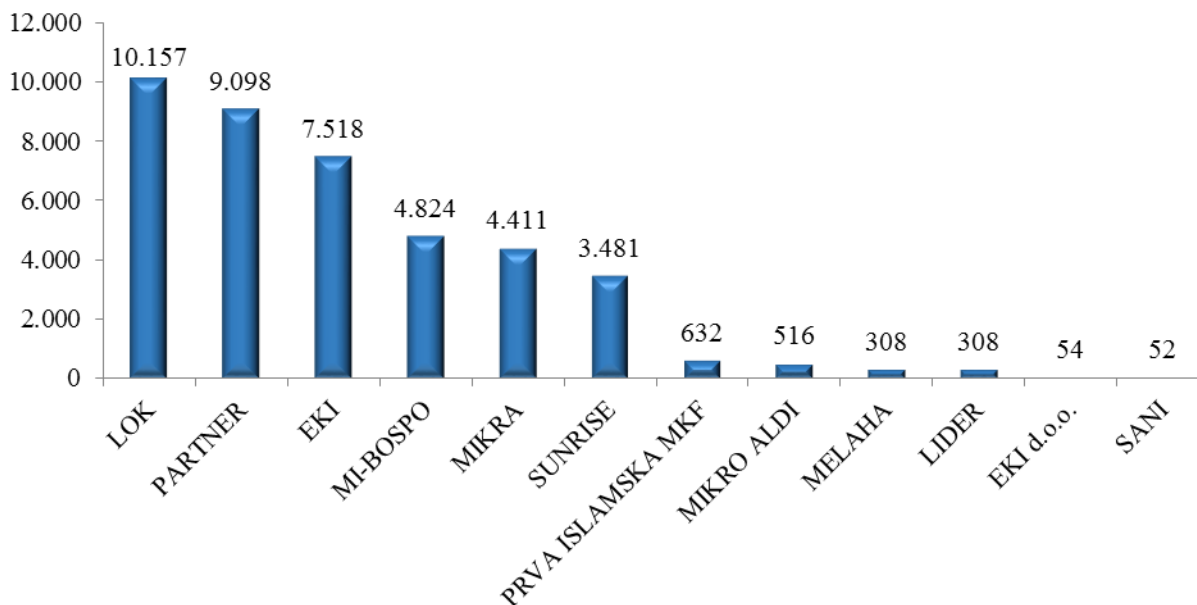
Graph 30.

Number of active loan accounts of MCOs with the balance as of 30.06.2017



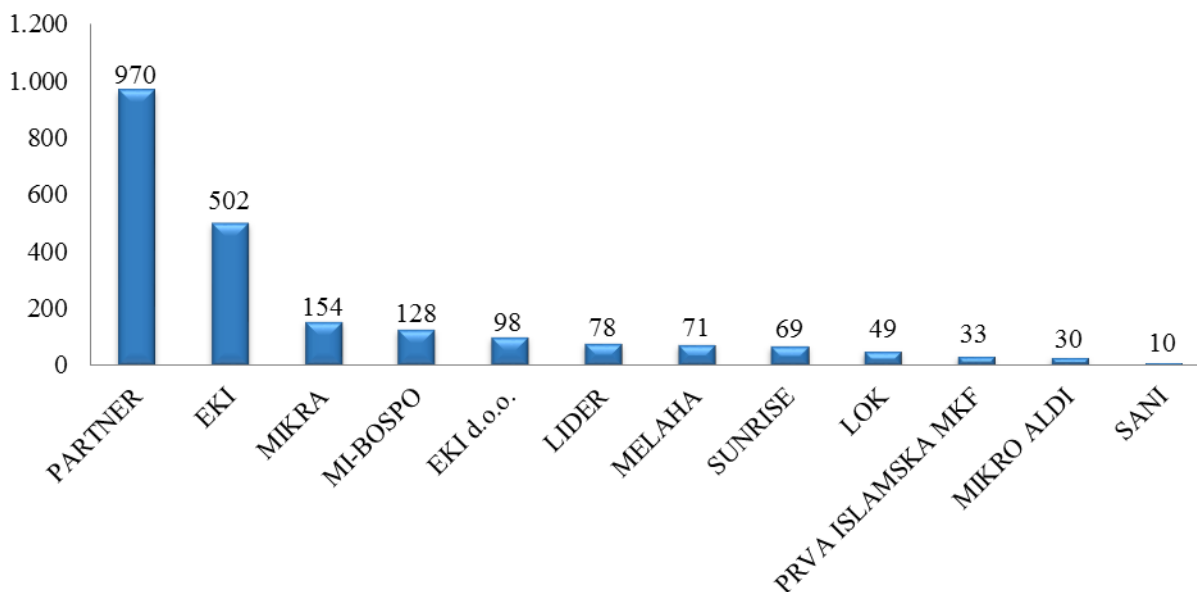
Graph 31.

Number of written-off loans in the off-balance records as of 30.06.2017



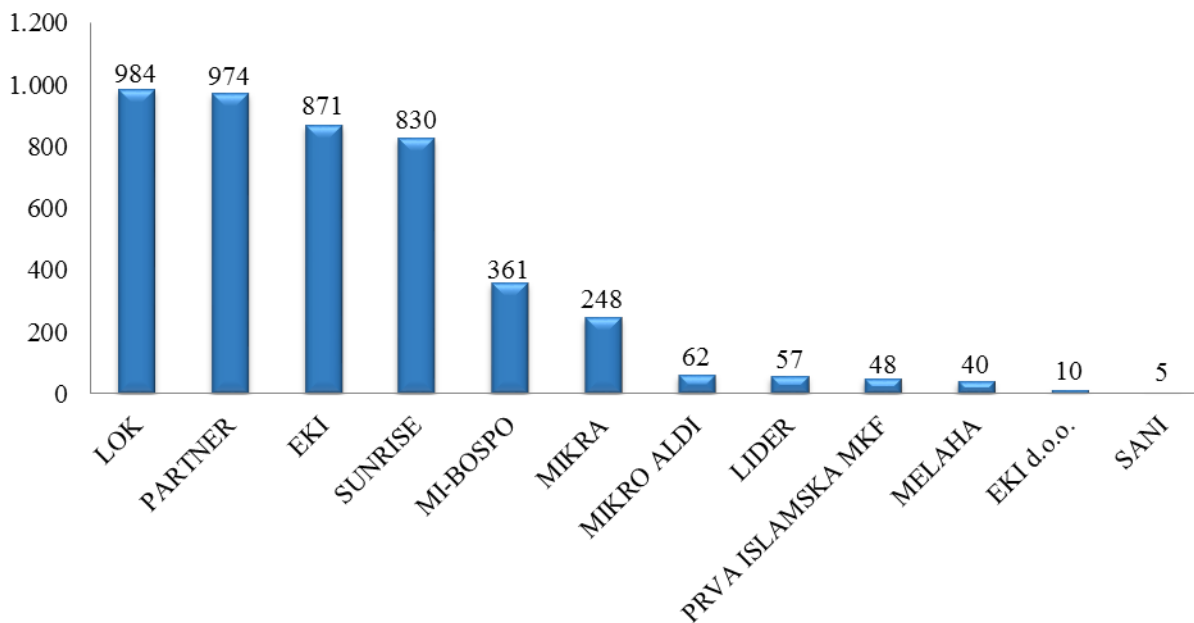
Graph 32.

Loan amount in KM 000 written-off in the period 01.01.- 30.06.2017



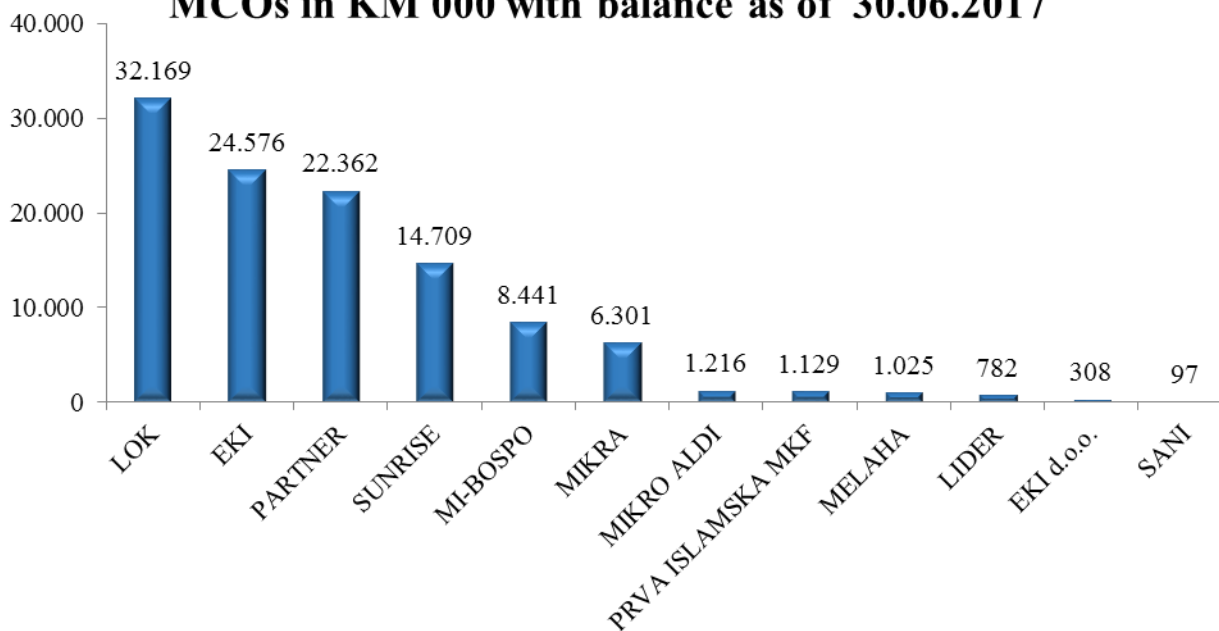
Graph 33.

Collection amount by written-off loans in KM 000 in the period 01.01.- 30.06.2017



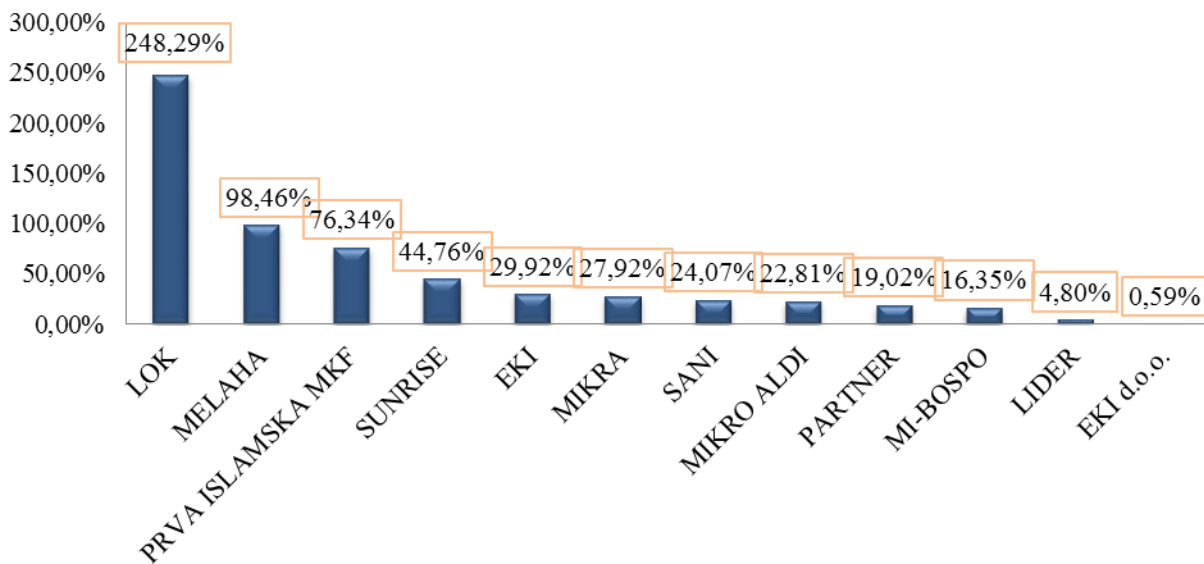
Graph 34.

Total receivables amount by written-off loans of MCOs in KM 000 with balance as of 30.06.2017



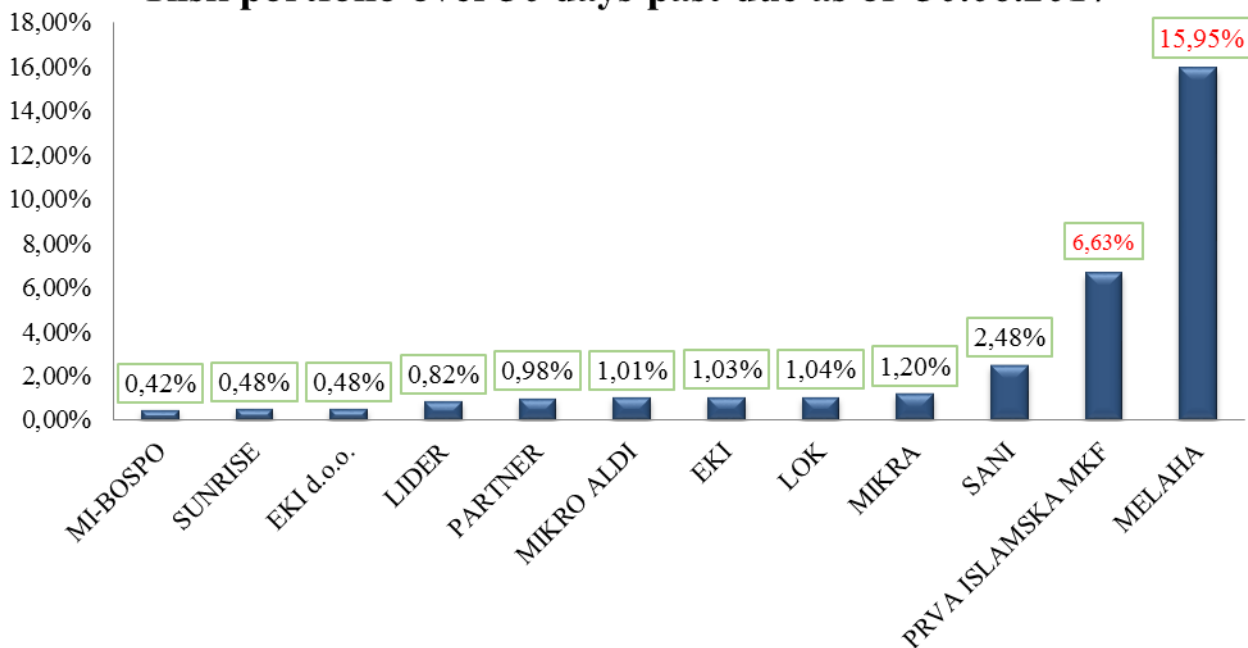
Graph 35.

Total receivables by written-off loans vs. total gross portfolio of MCOs as of 30.06.2017

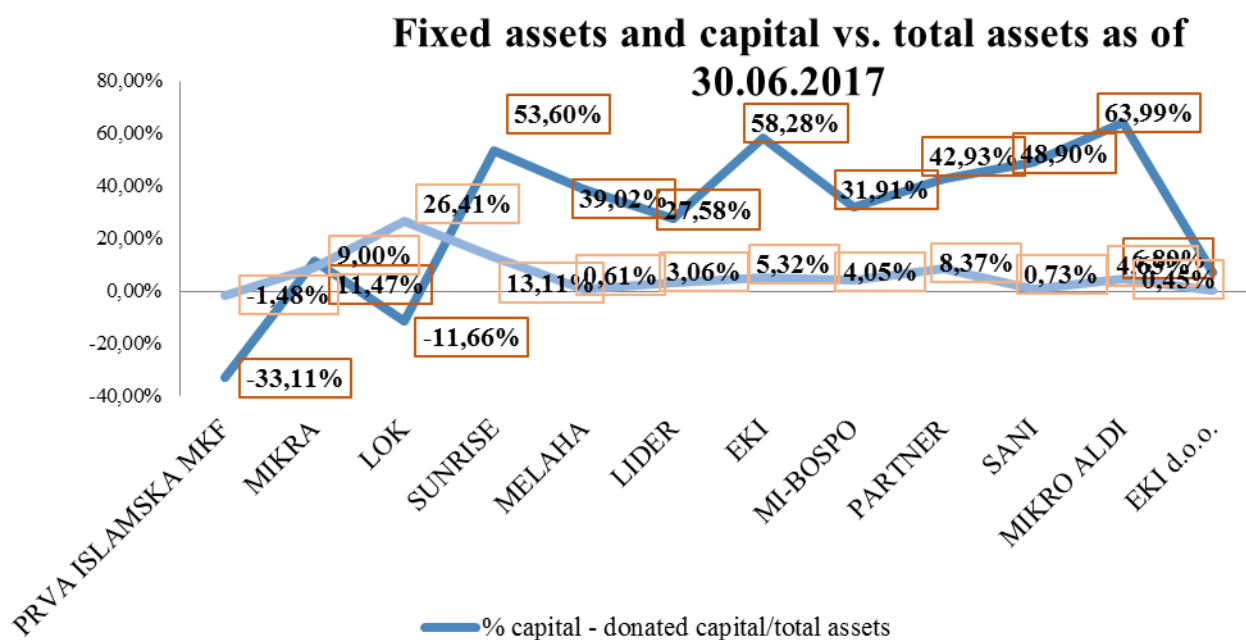


Graph 36.

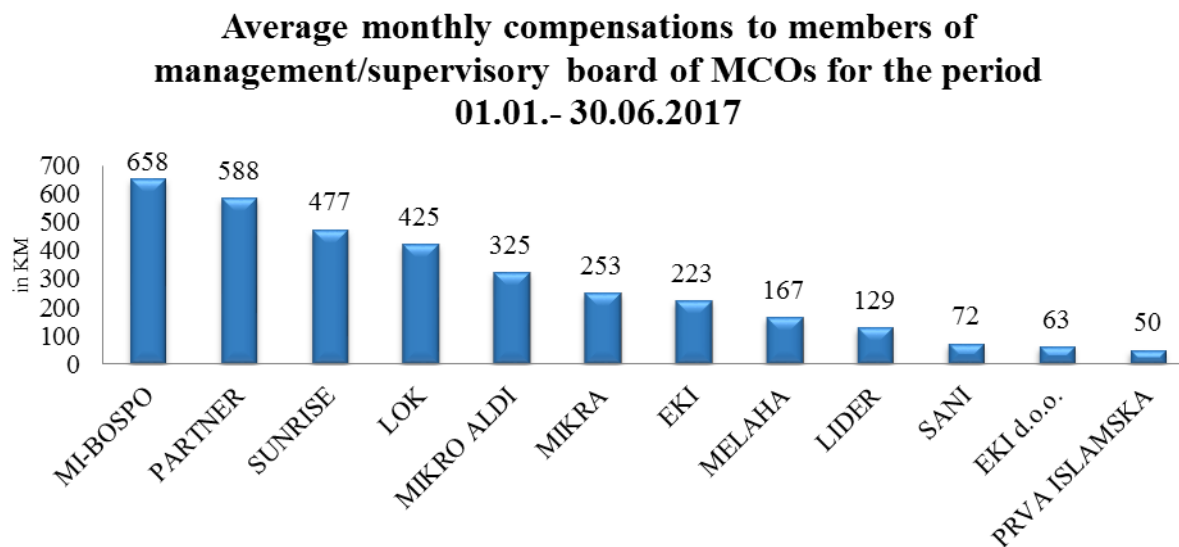
Risk portfolio over 30 days past due as of 30.06.2017



Graph 37.

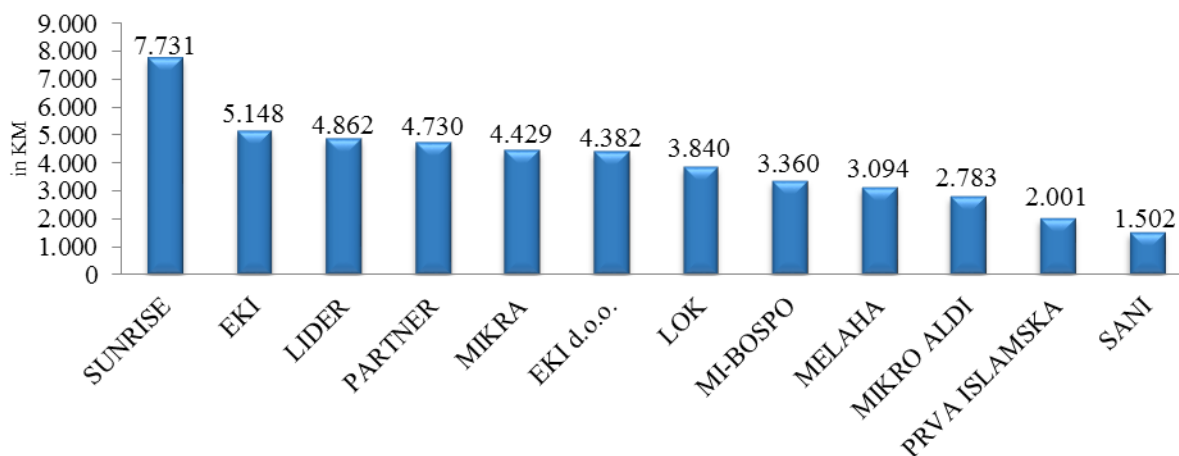


Graph 38.



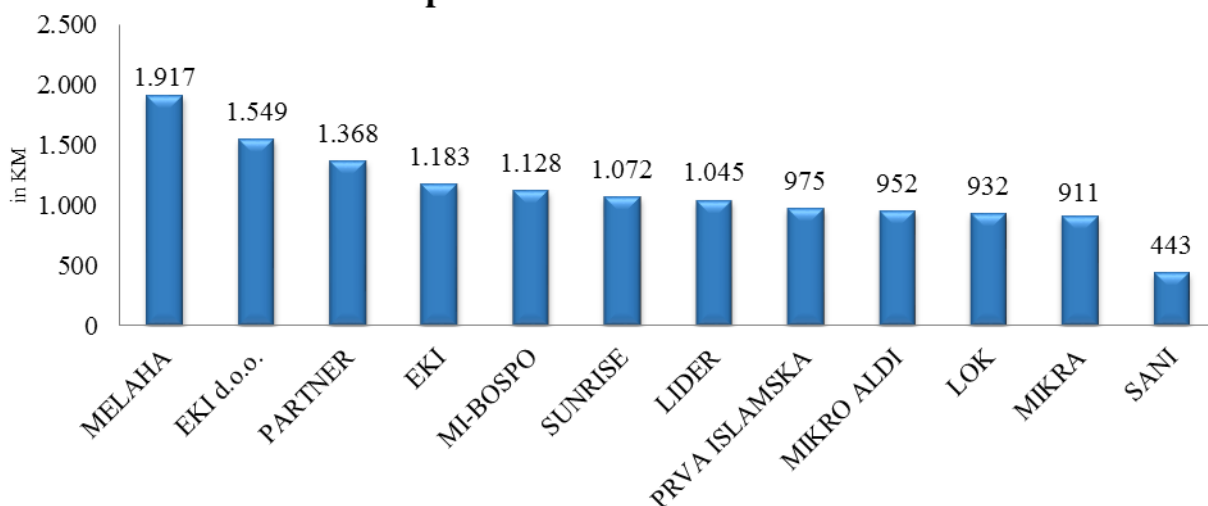
Graph 39.

Average monthly income of senior management in MCOs for the period 01.01.- 30.06.2017



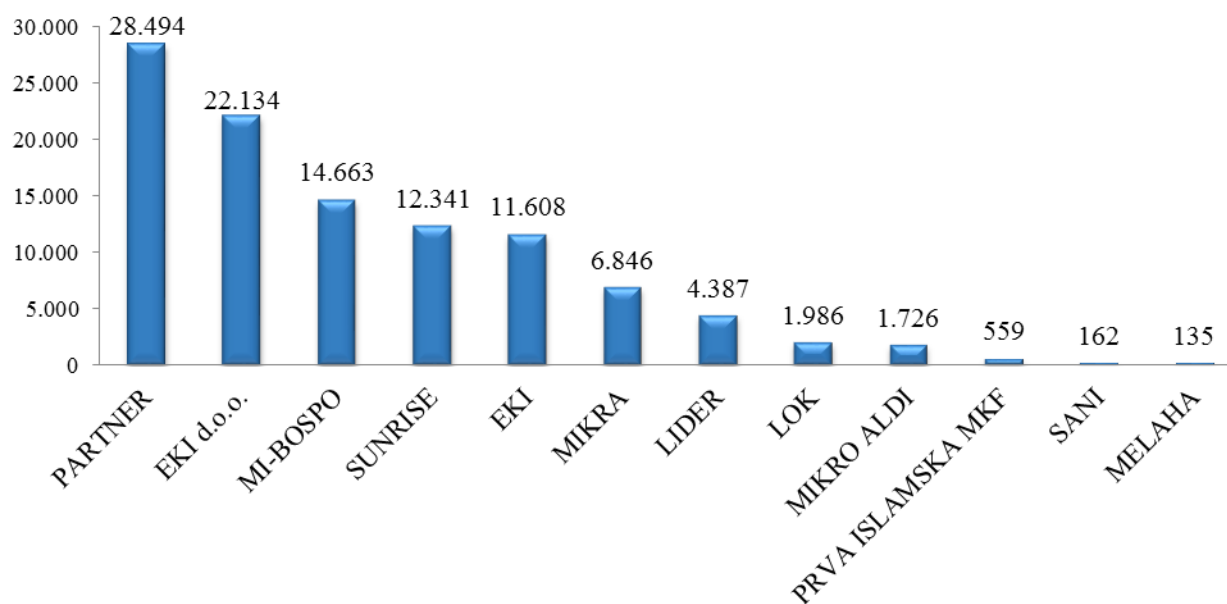
Graph 40.

Average monthly income of loan officers of MCOs for the period 01.01.- 30.06.2017



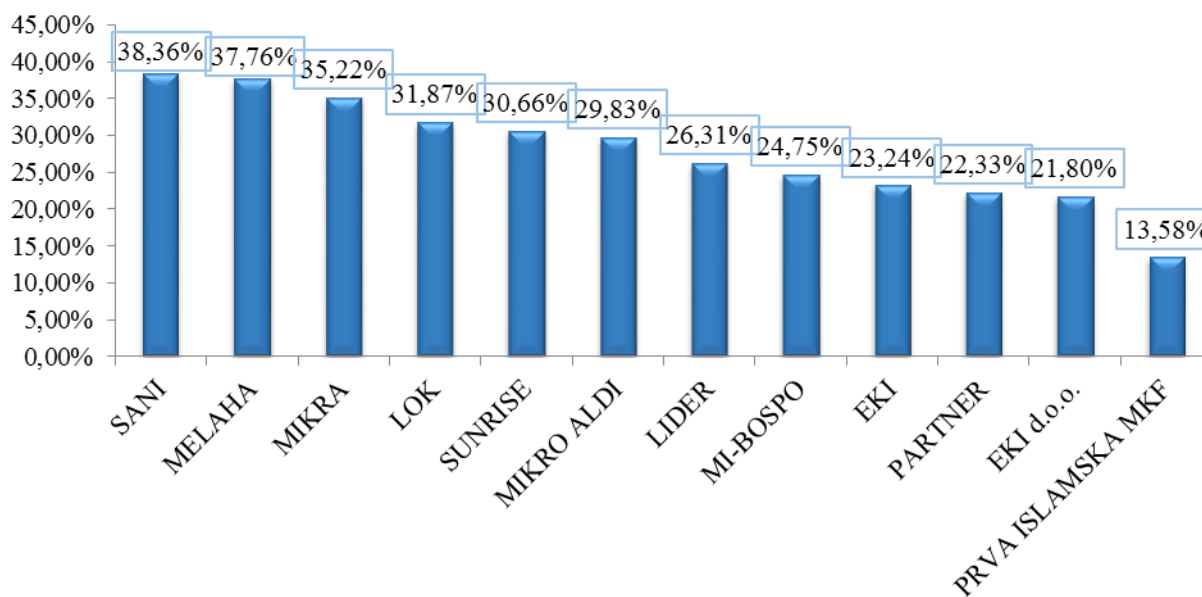
Graph 41.

Total microloans disbursed in Q2 2017 in KM 000

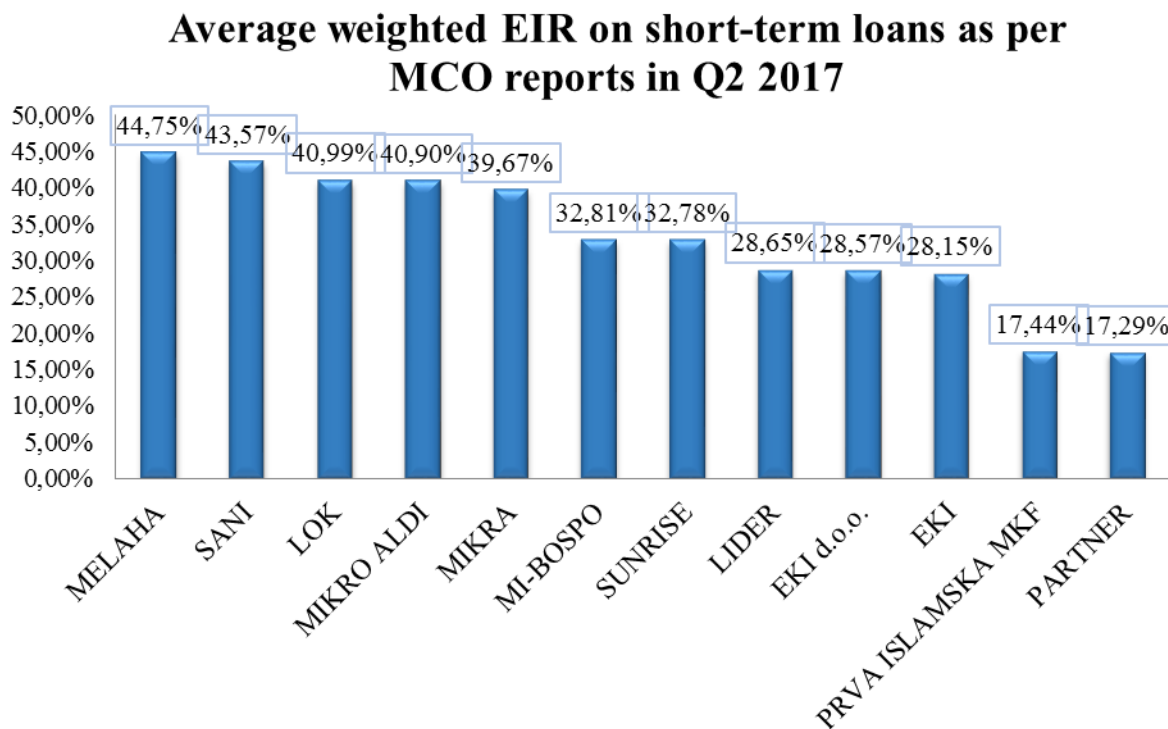


Graph 42.

Average weighted EIR on total loans as per MCO reports of in Q2 2017



Graph 43.



Graph 44.

