



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

**INFORMATION
ON THE MICROCREDIT SYSTEM
OF THE FEDERATION OF BOSNIA AND HERZEGOVINA
AS OF 31.03.2011.**

Sarajevo, May 2011

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1. INTRODUCTION

The law on micro-credit organizations („Official Gazette of the Federation of BiH“, number: 59/06) (Law on MCOs) regulates the establishment, registration, activities, form of organization, business operations, manner of management, termination of operations and supervision of micro-credit organization performance (MCO), that is micro credit foundation (MCF) and micro-credit companies (MCC) in the Federation of BiH. The authorities of the Banking Agency of the Federation of BiH (Agency) over these activities are regulated by the Law on the Banking Agency of Federation of Bosnia and Herzegovina („Official Gazette of the Federation of BiH“, number: 9/96, 27/98, 20/00, 45/00, 58/02, 13/03, 19/03, 47/06, 59/06 and 48/08) and internal acts of the Agency, furthermore all the listed activities are performed within the Department for supervision of micro-credit organizations.

1.1. Agency's regulations regarding business operations of MCOs

The business operations of MCOs are more closely regulated by Agency's regulations, namely the decisions adopted by the Management Board of the Agency, published in the „Official Gazette of the Federation of BiH“ number: 27/07 (the tenth Decision is issued in the “Official Gazette of the Federation of BiH”, Number 32/10) and instructions for business operations of MCOs adopted by the Director of the Agency.

Agency's decisions regarding the business operations of MCOs

- 1. Decision on conditions and the procedure for issuing the business operation license to micro-credit foundation established through the change of micro-credit organization form;*
- 2. Decision on conditions and the procedure for issuing and revoking the business operation license and other approvals to micro-credit organizations;*
- 3. Decision on conditions and procedure for issuing the business operation license and approval for acquisition of ownership participation through investments and transfer of property of the micro-credit foundation;*
- 4. Decision on supervision of the business operations of the micro-credit organizations;*
- 5. Decision on the form and content of reports that the micro-credit organizations submit to the Banking Agency of Federation of Bosnia and Herzegovina and the reporting deadlines;*
- 6. Decision on the amount and manner for allocating and maintaining reserves for covering the loan losses of micro-credit organizations;*
- 7. Decision on unified manner of accrual and recording of effective interest rates on loans and deposits,*
- 8. Decision on other general conditions for business operations of the macro-credit organizations and*
- 9. Decision on fees that the micro-credit organizations pay to the Banking Agency of the Federation of BiH*
- 10. Decision on conditions and the manner of micro credit organization's acting on client's complaints*

Agency's instructions for the business operations of MCOs

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

1.2. Performance trend of MCOs in BiH Federation in 2010

There is a continuation of decline of the gross portfolio of MCCs during the first quarter of 2011, due to more restrictive lending policies that MCOs introduced as an answer to increased credit risk and increased charge off of loans that are 180 days delinquent. The MCOs are too liquid due to slowed lending, and in comparison to the end of 2010 there is a decrease of the funds earned, that is the credit portfolio recorded a decline of 6%. On the level of the microcredit sector in the Federation of BiH, for the first time since 31.12.2008., realized is a positive financial result in the amount of 1 million KM. The ratio of the reserves for loan losses in relation to the portfolio is slightly improving, decreasing from 5,71% to 5,35%. The risk portfolio has improved from 0,43% to 5,75% as of 31.03.2011. The off balance sheet increased by 12% in comparison to the previous year. Evident is the increase trend in the restructured loans.

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

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

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

The consolidation on the level of micro-credit organizations is still an imperative for healing of the sector in the coming period which would stabilize the micro-credit sector, decrease the consequences of the excessive competition, increase the MCOs management and personnel competence, strengthen the capital base of a smaller number of stronger and more sound MCOs, as well as implement significant savings in business operation expenses, which in turn would influence the decrease of the micro-credit interest rates. The Agency will insist on the following: the full application and implementation of the law and regulations of the Agency, improving the transparency of performance of MCOs, overcoming the problems that occurred in the quality of the loan portfolio, obliged exchange of information on the level of sectors and the Central credit registry of CBBiH, improvement of the institutional capacity and internal controls in MCOs, as well as the responsible lending and implementation of the mission and aims of micro-credit sector, and that implies performing the microcredit activities with an aim to improve material position of the users of microcredit, increase of the employment and providing support for the development of the entrepreneurship.

2. THE STRUCTURE OF MICRO-CREDIT ORGANIZATIONS

As of 31.03.2011., there are 18 MCOs in the Federation of Bosnia and Herzegovina, of that 17 MCF (nonprofit organizations) and 1 MCF's (profit organization), as well as 40 MCCs organization units which head offices are in Republic Srpska. One MCF initiated the process of termination of operations, and did not submit the quarterly reports, therefore the data of 16 MCFs has been included in the Information. All MCFs that received the Agency's operating license performed the registration in compliance with the Law on MCOs, that is they were created through the change of MCOs form established in accordance with the Law on micro-credit organizations („Official Gazette of the Federation of BiH, number: 24/00) (Law on MCOs from 2000.). Therefore, all the MCOs are legal successors of the property, rights and obligations of MCOs established in accordance with the Law on MCOs from 2000. In the Attachment 1, there are basic data on MCFs and MCCs to which the Agency issued the operating license for operations regarding the micro-credit lending.

As a result of rationalization of MCCs expenses, and foremost of MCFs, the trend of closing of the organizational units with head offices in the Federation continued as of 31.03.2011, so in comparison to 31.12.2010., the total number of organizational units with the head offices in the Federation declined by 3,3%. MCFs with head office in the Federation of BiH have a total of 350 organizational units, of which in the Federation of BiH 229, Republic Srpska 118 and District Brčko 3. A total of 205 organizational units of MCFs with head offices in the Federation of BiH have authorization to grant micro-credits, and as such are registered in the Registry of micro-credit foundations in the Federation of BiH at the Federal Ministry of Justice. There are 9 MCFs that have organizational units outside of the Federation of BiH.

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

2.1. Personnel

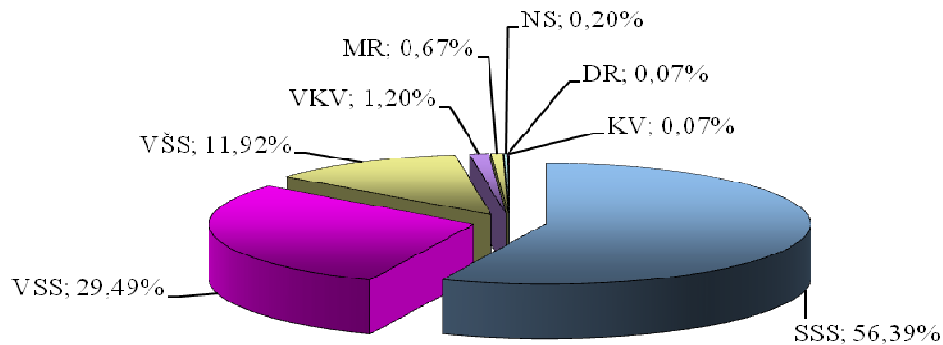
Table 1. Qualification structure of employees

No.	Qualification ¹	31.12.2010.		Total	Participation	31.03.2011.		Total	Participation	Ratio
		MCF	MCC			MCF	MCC			
1	2	3	4	5=(3+4)	6	7	8	9=(7+8)	10	11=9/5
1.	NS	3	0	3	0	3	0	3	0,20	100
2.	KV	2	0	2	0	1	0	1	0,07	50
3.	VKV	21	0	21	1	18	0	18	1,20	86
4.	SSS	876	3	879	58	844	3	847	56,39	96
5.	VŠS	232	0	232	15	179	0	179	11,92	77
6.	VSS	378	3	381	25	440	3	443	29,49	116
7.	MR	10	0	10	1	10	0	10	0,67	100
8.	DR	0	0	0	0	1	0	1	0,07	n/a
TOTAL		1522	6	1528	100	1496	6	1502	100,00	98

As of 31.03.2011., micro-credit sector employed a total of 1.502 employees, which is for 26 employees or 2% less than as of 31.12.2010. MCFs employ 1.496 employees or 99,6%, and MCCs 6 employees or 0,4%.

In the structure of employees the largest participation is of SSS of 56,39%, VSS of 29,49% and VŠS of 11,92%. The percentage of employees with higher education is increasing, while the number of employees with VSS and NS is decreasing in relation to 31.12.2010

Qualification structure of employees as of 31.03.2011.



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

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

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

3.1. Balance Sheet

Table 2. Balance Sheet MCOs

in 000 KM

Description	31.12.2010.					31.03.2011.					Ratio
	For MCFs	%	For MCCs	%	TOTAL	For MCFs	%	For MCCs	%	TOTAL	
1	2	3	4	5	6=(2+4)	7	8	9	10	11=(7+9)	12
ASSETS											
1. Cash	47.527	8	36	3	47.563	43.409	8	44	3	43.453	91
2. Placements to banks	28.751	5	0	0	28.751	22.980	4	0	0	22.980	80
3. Loans	458.551		1.276		459.826	432.264		1.241		433.505	94
4. Less: reserves for loan losses	26.214		36		26.250	23.160		40		23.200	88
5. Net loans	432.337	75	1.240	91	433.576	409.105	76	1.201	90	410.305	95
6. Business premises and other fixed assets	49.115	9	84	6	49.200	48.430	9	82	6	48.512	99
7. Long term investments	3.500	1	0	0	3.500	3.200	1	0	0	3.200	91
8. Other assets	14.319	2	9	1	14.328	14.279	3	7	1	14.286	100
9. Less: reserves for other assets, except loans	701	0	0	0	701	616	0	0	0	616	88
TOTAL ASSETS	574.848	100	1.369	100	576.217	540.786	100	1.334	100	542.120	94
LIABILITIES											
10. Liabilities for loans taken	409.898	71	598	44	410.496	375.590	69	563	42	376.153	92
11. Other liabilities	23.025	4	71	5	23.096	22.063	4	55	4	22.118	96
12. Capital	141.924	25	700	51	142.625	143.132	26	716	54	143.848	101
TOTAL LIABILITIES	574.848	100	1.369	100	576.217	540.786	100	1.334	100	542.120	94
Off balance sheet	144.521		88		144.609	126.856		74		126.931	88

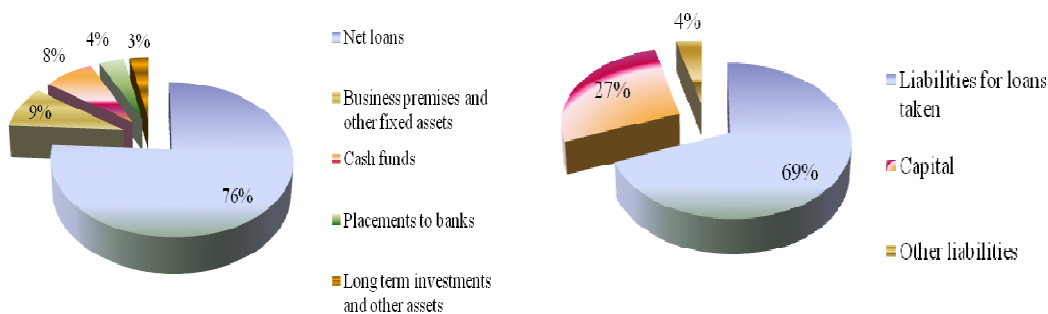
As of 31.03.2011., the MCOs balance sheet amount is 542,1 million KM and it decreased by 150 million KM or 22% in relation to the same period last year, and in comparison to the balance as of 31.12.2009, the balance sheet level declined by 34,1 million KM or 6%. The balance sheet growth was recorded by 4 MCF and the decline by 12 MCF and 1 MCC. The decline of the balance sheet level higher than 10% in relation to the end of 2010 is recorded by 10 MCFs and 1 MCC, decline over 20% by 2 MCFs. The highest participation in the total MCOs balance sheet is by six MCFs with assets in the amount of 501,5 million KM or 93%.

In the asset structure of MCOs, the cash funds are 43,4 million KM or 8% with a decline rate of 9% in comparison to 31.12.2010., and mainly relate to cash funds of MCF. Placements to banks are 23 million KM or 4%. Some MCFs can face with the liquidity risk, the investors are generally showing a higher degree of caution due to expressed business results that is the

trend shown by the sector, which limit the access that the foundations might have to new loans that could cover for the short term liabilities, and that along with the poor collection of loans can lead to insolvency.

Net loans, that is, the gross loans deducted for the loan loss reserves, are 410,3 million KM or 76% of the total assets and are by 117,2 million KM or 22% in decline in comparison to the end of the previous year, that is 23,3 million KM or 5% in relation to 31.12.2010. The decline of the net loans higher than 10% is recorded by 10 MCFs and one MCC, and decline of higher than 20% is recorded by 1 MCF, while 5 MCFs had higher net loans in comparison to the end of the last year.

The business premises and other fixed assets are 48,5 million KM or 9% of total assets and have declined by 1% in comparison to the end of the previous year. Six MCFs have a percentage of fixed assets in the total assets higher than the prescribed amount. The amount of 16,9 million KM or 3% are long term investment (3,2 million KM) and other assets in the amount of 13,7 million KM (deducted for the provisioning for other items of assets apart from loans), and are composed of accrued interest, advance payments, active time reconciliation assets and other. Long term investments refer to one MCF, while two MCFs have a percent of other assets higher than 10% in relation to the total assets.



In the liability structure of MCOs, the liabilities on acquired loans are the basic source of funds and amount to 376,2 million KM or 69% of total liabilities and decreased by 8% in comparison to 31.12.2010.

Table 3. Maturity structure of loans taken

DESCRIPTION	31.12.2010.				31.03.2011.				Ratio
	MCF	MCC	TOTAL	%	MCF	MCC	TOTAL	%	
1					6	7	8=(6+7)	9	10=8/4
1. Liabilities from short term loans taken	88.871	513	89.384	22	74.689	520	75.209	20	84
2. Liabilities from long term loans taken	321.027	86	321.113	78	300.902	43	300.945	80	94
TOTAL	409.898	598	410.496	100	375.590	563	376.153	100	92

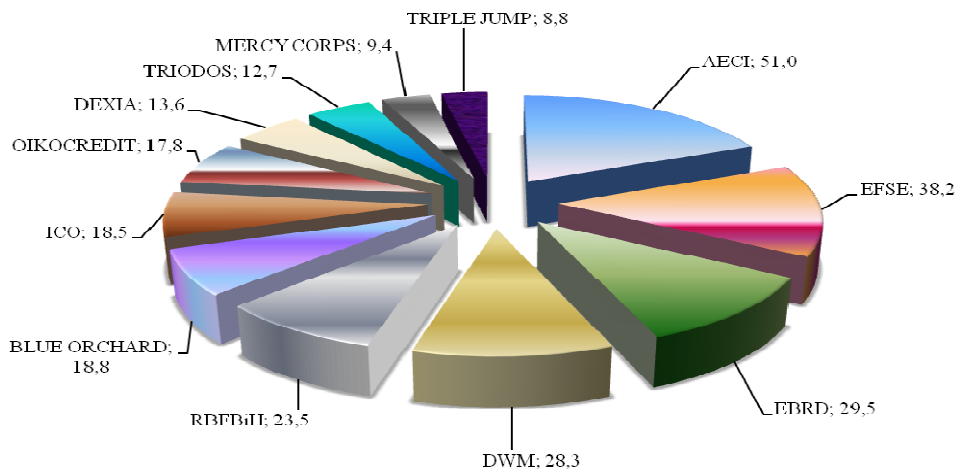
Of total liabilities on loans taken 301 million KM or 80% are long term loans, with a decline rate of 6% in relation to the same quarter of the last year. Of total liabilities on loans taken

75,2 million KM or 20% are short term loans, with a decline rate of 16% in comparison to the end of previous year. The liabilities from taken loans of MCFs amount to 375,6 million KM or 99,8% of total liabilities on loans taken.

The most significant MCO creditors are²:

- 1.) AECE – Agency for international cooperation Kingdom of Spain (51 million KM);
- 2 EFSE – European Fund for the southeast Europe, Luxemburg (38,2 million KM);
- 3.) EBRD – European bank for reconstruction and development, Great Britain (29,5 million KM);
- 4.) DWM – Developing World Markets, USA (28,3 million KM);
- 5.) Development bank of the Federation of BiH³ (23,5 million KM);
- 6.) Blue Orchard Finance S.A., Switzerland (18,8 million KM);
- 7.) ICO – Instituto de Credito Oficial, Spain (18,5 million KM);
- 8.) Oikokredit, Netherlands (17,8 million KM);
- 9.) Dexia Microcredit, Switzerland (13,6 million KM);
- 10.) Triodos – Doen, Netherlands (12,7 million KM);
- 11.) Mercy Corps, USA (9,4 million KM);
- 12.) Triple Jump, Netherlands (8,8 million KM);

Funding sources for MCCs as of 31.03.2011. in million KM



Other liabilities are 22,1 million KM or 4% of total liabilities, and they consist of liabilities towards employees, suppliers, passive time reconcilements and other. A total of 4 MCF have a percentage of other liabilities higher than 10% in relation to the total liabilities.

The off-balance sheet is 126,9 million KM, and it consists of charged off credit receivables (125,6 million KM) and agent contracts (1,3 million KM), and it increased by 12% in comparison to 31.12.2010.

² Of 44 recorded MCOs creditors, the Information lists only the most significant ones.

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

3.2. Capital

The total capital of MCOs as of 31.03.2011., was 143,8 million KM, or 27% of total liabilities and it decreased by 122 thousand KM or 0,08% in comparison to the end of the previous year, that is 1,2 million KM or 1% in relation to the end of 2008. Capital of MCFs is 143,1 million MCF or 99,5%, and the capital of one MCC is 0,7 million KM or 0,5%.

Table 4. Capital structure of MCOs

in 000 KM

DESCRIPTION	31.12.2010.					31.03.2011.					Ratio
	For MCF	%	For MCC	%	TOTAL	For MKF	%	For MKD	%	TOTAL	
1	2	3	4	5	6=2+4	7	8	9	10	11=7+9	12=11/6
Donated capital	42.619	30	0	0	42.619	42.822	30	0	0	42.822	100
Core Capital	9.957	7	600	86	10.557	9.853	7	600	84	10.453	99
Surplus/deficit of income over expenses	84.856	60	0	0	84.856	85.976	60	0	0	85.976	101
Issue premium	0	0	0	0	0	0	0	0	0	0	0
Undistributed income	0	0	3	0	3	0	0	18	3	18	603
Regulatory provisions	0	0	98	14	98	0	0	98	14	98	100
Other reserves	4.493	3	0	0	4.493	4.482	3	0	0	4.482	100
TOTAL CAPITAL	141.924	100	700	100	142.625	143.132	100	716	100	143.848	101

In the capital structure the most significant is the surplus of income over expenses which is 86 million KM, and constitutes 60% of total capital of MCFs, and is in incline by 1% in comparison to the end of the last year. The deficit of income over expenses in the first quarter of 2011 is realized by 8 MCF, and surplus of income over expenses 8 MCF, while one MCC realized a net profit. Undivided profit of one MCC is 116 thousand KM or 16% of the total capital of MCC.

The significant source of capital of MCF is the donated capital which is 42,8 million KM or 30% of the total capital, whereas one MCC does not have donated capital. Core capital of MCOs as of 31.03.2011, was 10,5 million KM or 7% of the total capital. Other reserves are 4,5 million KM, or 3% of total capital and refer to three MCFs.

3.3. Credit portfolio

The core activity of MCOs is the micro-crediting that refers to the amount of 433,5 million KM or 80% of the total assets of the micro credit sector. The level of the total loans of sectors depends on the condition of loans of MCFs referring to 432,3 million KM or 99,7% of total loans, whereas MCCs relate to 1,2 million KM or 0,3% of total loans. Net loans, total loans minus the reserves for loan losses, are presented in the Table 5.

Table 5. Net loans

in 000 KM

No.	DESCRIPTION	31.12.2010.			31.03.2011.			Ratio
		MCF	MCC	Total	MCF	MCC	Total	
1	2	3	4	5=(3+4)	6	7	8=(6+7)	9=8/5
1.	Loans	458.551	1.276	459.826	432.264	1.241	433.505	94
2.	Reserves for loan losses	26.214	36	26.250	23.160	40	23.200	88
3.	Net loans (1.-2.)	432.337	1.240	433.576	409.105	1.201	410.305	95

Net loans are 410,3 million KM and decreased by 22% in comparison to the same period last year, that is 5% in comparison to 31.12.2010. Loans on gross basis decreased by 25% in relation to the end of the previous year that is by 6% in relation to 31.12.2010. Loan loss reserves are 23,2 million KM and have decreased by 54% in relation to the same period last year that is 12% in comparison to 31.12.2010. Although the loan loss reserves in the absolute amount are in decline in relation to the end of the previous year, the ratio of the loan loss reserves and the loan portfolio has insignificantly improved by 0,36% in relation to the ration as of 31.12.2010.

Table 6. Department and maturity structure of micro-credit MCOs as of 31.03.2011.

in 000 KM

No.	Micro-credits	Short term loans	Long term loans	Past due receivables	TOTAL	%
1	2	3	4	5	6=(3+4+5)	7
1.	Legal entities					
a.)	Service industry	550	2.894	59	3.503	43%
b.)	Trade	812	1.993	58	2.862	36%
c.)	Agriculture	78	165	2	245	3%
d.)	Production	225	748	13	985	12%
e.)	Other	65	398	7	469	6%
	TOTAL 1:	1.730	6.198	138	8.066	100%
2.	Individuals					
a.)	Service industry	27.939	63.059	1.740	92.738	22%
b.)	Trade	14.194	47.225	1.445	62.864	15%
c.)	Agriculture	37.045	106.780	2.447	146.272	34%
d.)	Production	3.850	23.394	563	27.807	7%
e.)	Housing needs	15.595	33.194	789	49.578	11%
f.)	Other	19.714	25.481	987	46.181	11%
	TOTAL 2:	118.338	299.133	7.969	425.440	100%
	TOTAL (1+2):	120.067	305.331	8.107	433.505	

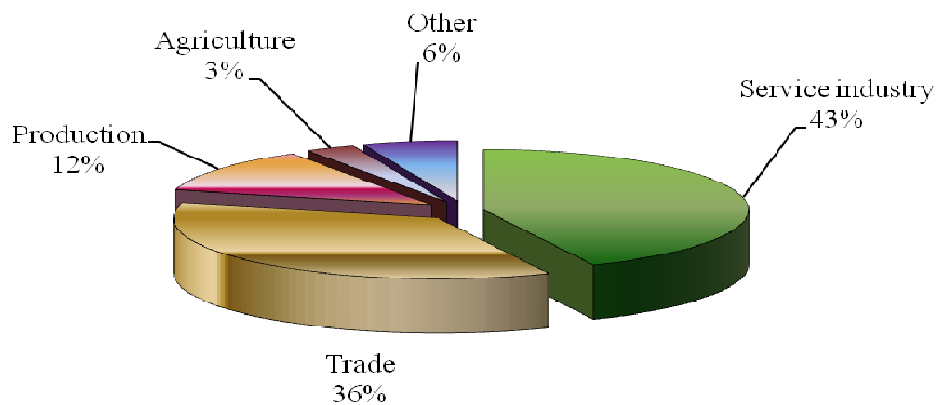
According to the department structure of the micro-credits, 425,4 million KM or 98% of total loans are granted to the individuals, and 8,1 million or 2% to legal entities.

In the maturity structure of the micro-credits, short term loans, which include the past due receivables, are 128,2 million KM or 30%, and long term loans are 305,3 million KM or 70%.

The total past due receivables are 8,1 million KM or 2% of the total loans and almost entirely refer to loans to individuals.

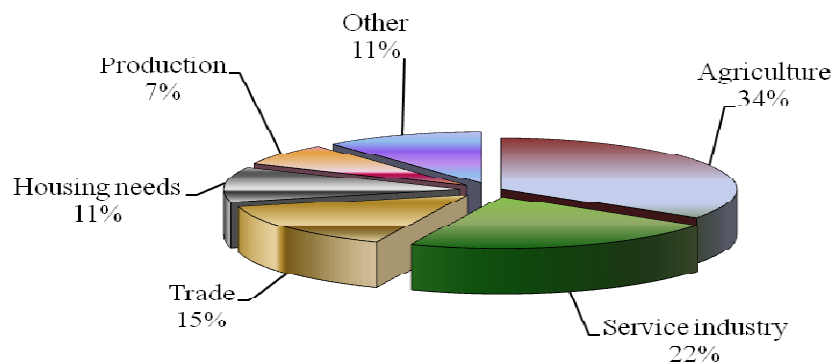
According to the sector structure the largest amount of total amount of micro-credits to **legal entities** has been allocated in the trade and service sector -trade 3,5 million, or 43%, and service industry 2,9 million KM or 36%. One million KM has been allocated for production, which is 12% of the total amount of micro-credits granted to legal entities, then 0,2 million KM for agriculture or 3%, and 0,5 million or 6% for other purposes.

Sectorial structure of micro-loans originated to legal entities



In regard to loans to **individuals**, 146,3 million KM or 34% was granted to agriculture, then 92,7 million KM or 22% for service industry, whereas 62,8 million KM or 15% was granted to the sector of trade, for housing needs 49,6 million KM or 11%, and for production 27,8 million KM or 7%, and for other 46,2 million KM or 11%.

Sectorial structure of micro-loans originated to individuals



Based on the analyses of the sector structure it is concluded that the micro-credit lending is in most part directed to lending to agriculture and service industry and mainly relates to long term loans to individuals, although in the first quarter of 2011 recorded is an increased participation of the short term loans in relation to the previous year (at the end of the previous year, the short term loans with the past due receivables were 11% of the total loans, while that percentage increased to 30% by the end of the first quarter).

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

The base for accrual of the amount of the reserves is the amount of unpaid loans, accrued interest and fees and all other items where MCO is exposed to risk of payment default, which is business failure.

The following table shows the amounts of receivables distributed through the given groups and accrued interests in those groups as of 31.03.2011.:

Table 7. Report on amount and manner of establishing the reserves for loan losses as of 31.03.2011.

in 000 KM

No.	Days of default	Reserve rates	Loan amount	Past due interest		Amount of other assets items	Provisioning			Total Provisioning
				Reserve rates	Amount of interest		For loans	For past due interest	For other items of assets	
							$8=(4 \times 3)/100$	$9=(5 \times 6)/100$	$10=(7 \times 3)/100$	$11=(8+9+10)$
1.	1 - 15	2%	8.207	2%	175	425	213	5	9	226
2.	16 - 30	15%	11.718	100%	189	0	1.558	188	0	1.746
3.	31 - 60	50%	7.988	100%	271	0	3.630	271	0	3.901
4.	61 - 90	80%	5.089	100%	277	0	4.071	277	0	4.348
5.	91 - 180	100%	11.865	100%	1.113	0	11.865	1.113	0	12.978
6.	Over 180	Write off	6.635		1.622	0				
UKUPNO			51.502		3.647	425	21.337	1.854	9	23.200

Defaults in payment of longer than one day have loans in the amount of 44,8 million KM. The rate for the loans in default of more than one day in the first quarter of 2011, is 10,35%, it is lower than in relation to the end of previous year when it was 0,35%.

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

Total amount of accrued reserves on all bases is 23,2 million KM.

- Collection of loan from the guarantor--

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

As of 31.03.2011, according to the reports of the MCOs in the Federation of BiH, 12.175 guarantors repaid 4,1 million KM of the total granted amount of loans of 49,8 million KM (8.712 credit units), which is by 2,2% higher than in relation to the amount paid by the guarantor at the end of the last year (4,2 million KM, paid by 12.734 guarantors, while the amount of the total granted loans was 52,6 million KM – 9.036 credit units). The remaining debt as of 31.03.2011., was 17,2 million KM (31.12.2010.: 18,5 million KM). From the noted data it can be concluded that as of 31.03.2011 there was a slight decline of the amount of loans that were being paid by the guarantors, as well as the amount of repayment that was transferred to the guarantors.

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

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

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

Table 8. Average nominal and effective interest rates for microcredit loans for the 1st quarter of 2011 – through products

No.	DESCRIPTION	Weighted nominal interest rate (average)	Weighted effective interest rate (average)
1.	Short term loans for:		
1.1.	Service industry	26,05%	34,62%
1.2.	Trade	25,52%	33,86%
1.3.	Agriculture	25,17%	32,70%
1.4.	Production	25,75%	32,54%
1.5.	Housing needs	23,72%	27,90%
1.6.	General purpose – basic needs	33,15%	41,19%
1.7.	Other	18,70%	28,17%
2.	Long term loans for:		
2.1.	Service industry	24,53%	29,30%
2.2.	Trade	24,70%	29,25%
2.3.	Agriculture	21,50%	25,27%
2.4.	Production	23,38%	27,00%
2.5.	Housing needs	21,62%	25,42%
2.6.	General purpose - basic needs	26,96%	32,64%
2.7.	Other	23,37%	29,62%

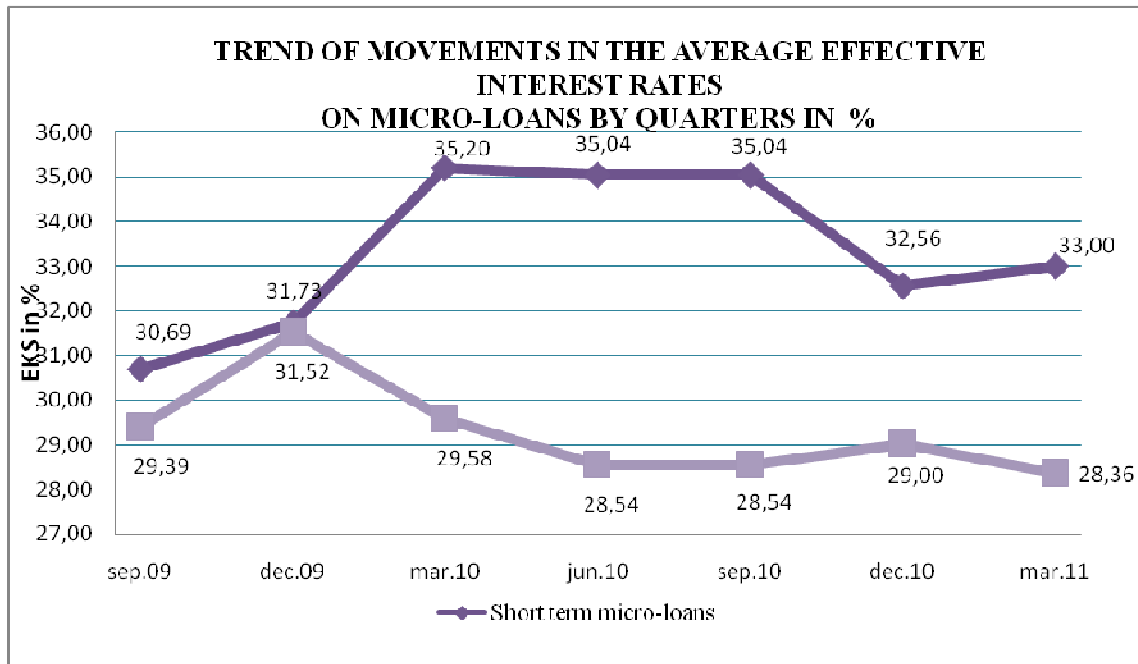
For short term loans, average nominal interest rates are in the range between 18,70% for other to 33,15% for general purpose loans, and for the effective interest rate in the range of 27,90% for housing needs to 41,19% for general purpose loans.

For long term loans, the average nominal interest rates are in the range between 21,50% for housing needs to 26,96% for trade, and effective interest rate in the range of 25,27% for housing needs to 32,64% for trade.

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

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

AVERAGE EIR in %	30.09.09.	31.12.09.	31.03.10.	30.06.10.	30.09.10.	31.12.10.	31.03.11
Short term micro-credits	30,69	31,73	35,20	35,04	35,04	32,56	33,00
Long term micro-credits	29,39	31,52	29,58	28,54	28,54	29,00	28,36



In the first quarter of 2011, the average effective interest rates in the microcredit sector on the long term loans recorded a slight decline (by 0,64%), while the average effective interest rates on the short term loans are slightly increasing (by 0,44%).

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

3.5. Income Statement

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

Table 10. Income Statement MCOs

in 000 KM

No.	DESCRIPTION	For the period 01.01. - 31.03.2010.				For the period 01.01. - 31.03.2011.				Ratio
		MCF	MCC	Total	%	MCF	MCC	Total	%	
1	2	1	2	3=(1+2)	4	5	6	7=(5+6)	8	9=(7/3)
1.	INTEREST INCOME AND SIMILAR TYPES OF INCOME									
1.1.	Interest income and similar types of income	34.099	63	34.162	95	23.283	79	23.362	93	68
1.2.	Operating income	1.728	8	1.736	5	1.880	7	1.887	7	109
2.	TOTAL INCOME (1.1.+1.2.)	35.827	71	35.898	100	25.163	86	25.249	100	70
3.	EXPENSES									
3.1.	Income expenses and similar expenses	9.979	9	9.988	21	6.152	14	6.166	22	62
3.2.	Operating expenses	17.883	54	17.937	39	15.979	67	16.047	58	89
3.3.	Expenses for reserves for loan and other losses	18.374	1	18.375	40	5.232	5	5.237	20	29
4.	TOTAL EXPENSES (3.1.+3.2.+3.3.)	46.236		46.300	100	27.364	87	27.451	100	59
5.	EXTRAORDINARY INCOME	1.449	0	1.449		3.372	16	3.388		234
6.	EXTRAORDINARY EXPENSES	896	0	896		121	0	121		14
7.	TOTAL INCOME -EXPENSES (2+5-4-6)	-9.856	7	-9.849		1.050	16	1.065		
8.	SURPLUS/DEFICIT OF INCOME OVER EXPENSES	-9.856				1.050		1.050		
9.	INCOME BEFORE TAXES		7				16	16		
10.	TAXES		1				2	2		
11.	NET INCOME/LOSS		6				14	14		
12.	TOTAL FINANCIAL RESULT			-9.850				1.064		

The total income of MCOs for the period of 01.01. - 31.03.2011., is 25,2 million KM, of which 25,1 million KM or 99,7% refers to income of MCFs, and 0,1 million KM or 0,3% on income of one MCC. In comparison to the same period of last year, total income of MCCs is in decline by 10,6 million KM, or 30%.

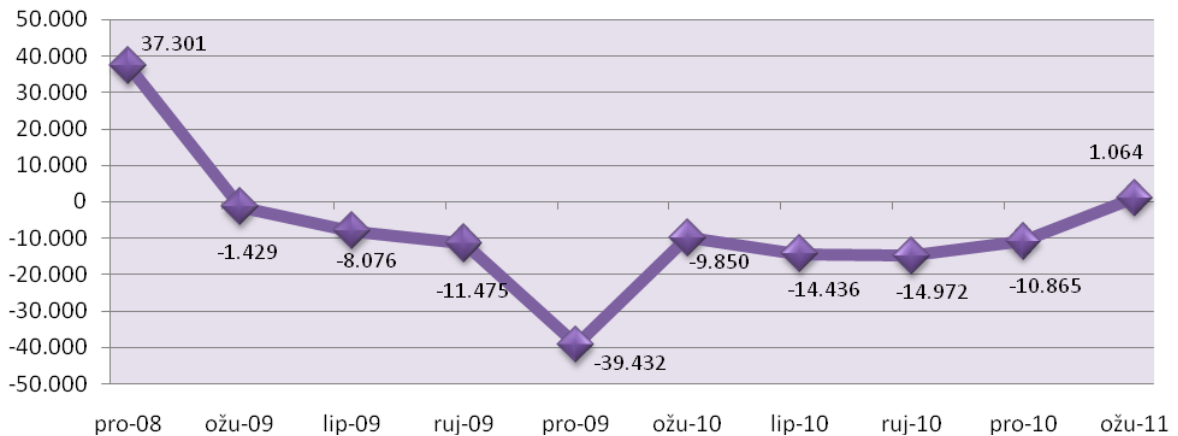
The core income is interest income and it is 23,3 million KM or 93 % of total income and in relation to the same period of previous year the interest income is in decline by 10,8 million KM or 32%.

The total expenses are 27,4 million KM, of which 27,3 million or 99,7% relates to expenses of MCF, and 0,1 million KM or 0,3% to expenses of one MCC. In relation to the same period of last year the total expenses have declined by 18,8 million KM or 41%.

In the structure of expenses, 6,2 million KM or 22% of total expenses are expenses related to interests on acquired loans and other similar expenses, and have decreased by 3,8 million KM or 38% in regard to the same period of last year. Operational expenses are 16 million KM or 58% of total expenses and in relation to the same period of last year decreased by 1,9 million KM or 11%. The operating expenses refer to expenses of salaries and contributions 8,9 million KM (01.01. – 31.03.2010: 9,4 million KM), expenses related to the business premises, other fixed assets and utilities 4,4 million KM (01.01.-31.03.2010: 4,3 million KM), and other operating expenses 2,7 million KM. (01.01.-31.03.2010.: 4,2 million KM). The expenses related to the reserves for loan losses and other losses are 5,2 million KM or 20% of total expenses, and in comparison to the same period last year decreased by 13,1 million KM or 71%.

For the period of 01.01.-31.03.2011., the net income of one MCC was 14 thousand KM (01.01. – 31.03.2010.: 6 thousand KM). In the same period MCF realized a deficit of income over expenses in a total amount of 1 million KM, while in the same period of last year the MCFs realized a deficit of income over expenses in a total amount of 9,8 million KM. In the period from 01.01 to 31.03.2011, of total 16 MCFs, 8 MCFs had a deficit of income over expenses in a total amount of 0,9 million KM, and 8 MCF realized an income surplus in the amount of 1,9 million KM).

Total financial result of MCOs by quarters in 000 KM



On the level of the microcredit sector in the Federation of BiH, for the first time since 31.12.2008., there is realized a positive financial result in the amount of 1 million KM.

4. CONCLUSION AND RECOMANDATIONS

Analyzing the reports of MCOs as of 31.03.2011., we can conclude the following:

- Aggregate balance sheet of MCOs as of 31.03.2011. is 542,1 million KM, of which 540,8 million KM refers to MCFs or 99,7%, and 1,3 million KM to MCCs or 0,3% of the total balance sheet of MCOs;
- At the end of the first quarter, the aggregate balance sheet of MCOs decreased by 150 million KM or 22% in comparison to the same quarter of the last year, that is it decreased by 34,1 million KM or 6% in comparison to 31.12.2010;
- The total gross loans of MCOs as of 31.03.2011. are 433,5 and are 80% of total assets of MCOs, and net loans are 410,3 million KM;
- The basic source of funds for MCOs are liabilities on acquired loans that, as of 31.03.2011., are 376,2 million KM or 69% of total liabilities of MCOs;
- The total capital of MCOs as of 31.03.2011., is 143,8 million KM, of which the capital of MCF is 143,1 million KM, and MCC 0,7 million KM. The most significant items of capital of MCFs are the surplus of income over expenses in the amount of 86 million KM, which constitutes 60% of the total capital of MCF. The undivided profit and reserves of one MCC are 116 thousand KM or 16% of total capital of MCCs, while the core capital is 0,6 million KM or 84% of total capital of MCCs.
- In the period from 01.01. to 31.03.2011, the MCFs realized a surplus in income over expenses in the amount of 1,9 million KM, while the deficit of income over expenses was 0,9 million KM, which means that MCFs as of 31.03.2011., performed with a deficit income over expenses in the total amount of 1 million KM. In the first quarter of 2011, one MCC realized a net profit in the amount of 14 thousand KM.

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

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

ATTACHMENTS

- Attachment 1. Basic Data on MCOs
- Attachment 2. Balance Sheet MCFs
- Attachment 3. Balance Sheet MCCs
- Attachment 4. Income Statement MCFs
- Attachment 5. Income Statement MCCs

Attachment 1

BASIC DATA ON MCOs

No.	Micro-credit organization name	Address and main office	Director	Tel/Fax	E-mail and Web	31.03.2011.	
						Amount of assets in 000 KM	Number of employees
1.	MKD "ADRIA mikro" d.o.o. Mostar	Kneza Višeslava 14 88 000 MOSTAR	Sena-Martina Topić	036/ 348-891, 348-890 fax	adria.mikro@tel.net.ba	1.334	6
2.	MKF "BOSANSKO SELO" Srebrenik	21. Srebreničke brigade bb 75 350 SREBRENİK	Hajrudin Husanović	035/ 644-898 tel/fax	mobossel@bih.net.ba	518	3
3.	MKF "EKI" Sarajevo	Džemala Bijedića bb 71 000 SARAJEVO	Sadina Bina	033/ 754-370, 754-388 fax	sbina@mkoeki.com www.mkoeki.com	119.513	270
4.	MKF "LIDER" Sarajevo	Skenderija 68 71 000 SARAJEVO	Zijad Hasović	033/ 250-580, 250-581 fax	zijadh@lider.ba www.lider.ba	10.792	53
5.	"LOK MKF" Sarajevo	Skenderija 13 71 000 SARAJEVO	Nusret Čaušević	033/ 564-200, 564-201 fax	central.office@lok.ba www.lok.ba	75.507	218
6.	MKF "MELAHA" Sarajevo	Hamdije Kreševljakovića 59 71 000 SARAJEVO	Iso Abinun	033/ 205-737 tel/fax	iso@melaha.ba	949	3
7.	MKF "MIBA" Tuzla	Đorđa Mihajlovića 4/III 75 000 TUZLA	Mirsad Bahić	035/ 277-455 tel/fax	miba@vesta.ba www.miba.ba	714	3
8.	MKF "MI-BOSPO" Tuzla	Bosne srebrene bb 75 000 TUZLA	Nejira Nalić	035/ 270-283, 252-448 fax	mi-bospo@mi-bospo.org www.mi-bospo.org	38.610	135
9.	MKF "MIKRA" Sarajevo	Marka Marulića 2/VI 71 000 SARAJEVO	Sanin Čampara	033/ 616-162, 717-141 fax	mikra@mikra.ba www.mikra.ba	14.231	85
10.	MKF "MIKRO ALDI" Goražde	Panorama bb 73 000 GORAŽDE	Ferida Softić	038/ 226-456, 221-004 fax	mka.aldi@bih.net.ba www.mikroaldi.org	3.488	20
11.	"PARTNER MKF" Tuzla	15. maja bb 75 000 TUZLA	Senad Sinanović	035/ 300-250, 300-269 fax	partner@partner.ba www.partner.ba	120.016	256
12.	MKF "PRIZMA" Sarajevo	Bistrik Medresa 43 71 000 SARAJEVO	Kenan Crnkić	033/ 573-320, 446-583 fax	hq@prizma.ba www.prizma.ba	101.327	211
13.	"PRVA ISLAMSKA MKF" Sarajevo	Jukićeva 75 71 000 SARAJEVO	Edina Hadžimurtezić	033/ 666-224, 268-350 fax	info@islamic-relief.ba	1.587	10
14.	MKF "SANI" Zenica	Mehmedalije Tarabara 10 72 000 ZENICA	Sulejman Haračić	032/ 405-606 tel/fax	mikrosanizenica@yahoo.com	524	3
15.	MKF "SUNRISE" Sarajevo	Hamdije Kreševljakovića 51 71 000 SARAJEVO	Zoran Dučić	033/ 278-020, 278-032 fax	sunrise@microsunrise.ba www.microsunrise.ba	46.555	169
16.	MKF "VORTT-INVEST" Sarajevo	Azize Šaćirbegović 128 71 000 SARAJEVO	Mustafa Kapić	033/720-949, 720-941 fax	vorttdoo@yahoo.com	495	2
17.	MKF "ŽENE ZA ŽENE International" Sarajevo	Džemala Bijedića 130 71 000 SARAJEVO	Seida Sarić	033/ 770-010, 770-012 fax	general@zenezazene.ba www.womenforwomen.org	5.959	55
TOTAL						542.120	1.502

Attachment 2.

BALANCE SHEET OF MCF

in 000 KM

No.	DESCRIPTION	31.12.2010.	%	31.03.2011.	%	Ratio
1	2	3	4	5	6	7=5/3
ASSETS						
1.	Cash (1a+1b)	47.527	8	43.409	8	91
1a)	Cash and noninterest –bearing deposit accounts	18.252	3	19.993	4	110
1b)	Interest-bearing deposit accounts	29.275	5	23.416	4	80
2.	Placement to banks	28.751	5	22.980	4	80
3.	Loans	458.551		432.264		94
3a)	Reserves for loan losses	26.214		23.160		88
3b)	Net loans (3-3a)	432.337	75	409.105	76	95
4.	Premises and other fixed assets	49.115	9	48.430	9	99
5.	Long term investments	3.500	0	3.200	0	91
6.	Other assets	14.319	2	14.279	3	100
7.	Less: reserves for other items of the assets, except loans	701		616		88
8.	TOTAL ASSETS	574.848	100	540.786	100	94
LIABILITIES						
9.	Liabilities on taken short term loans	88.871	15	74.689	14	84
10.	Liabilities on taken long term loans	321.027	56	300.902	56	94
11.	Other liabilities	23.025	4	22.063	4	96
12.	TOTAL LIABILITIES	432.923	75	397.654	74	92
13.	Donated capital	42.619		42.822		100
14.	Core capital	9.957		9.853		99
15.	Surplus of income over expenses	110.607		111.214		101
15a)	For previous years	109.640		109.251		100
15b)	For current year	967		1.963		203
16.	Deficit of income over expenses	25.751		25.238		98
16a)	For previous years	13.997		24.421		0
16b)	For current year	11.754		817		7
17.	Other reserves	4.493		4.482		100
18.	TOTAL CAPITAL	141.925	25	143.132	26	101
19.	TOTAL LIABILITIES	574.848	100	540.786	100	94
OFF-BALANCE SHEET						
	- charged-off loans	79.269		125.552		158
	- agent contracts					

Attachment 3.

BALANCE SHEET MCC

in 000 KM

No.	DESCRIPTION	31.12.2010.	%	31.03.2011.	%	Ratio
1	2	3	4	5	6	7=5/3
ASSETS						
1.	Cash (1a+1b)	36	3	44	3	122
1a)	Cash and noninterest –bearing deposit accounts	36	3	44	3	122
1b)	Interest-bearing deposit accounts	0	0	0	0	0
2.	Placements to banks	0	0	0	0	0
3.	Loans	1.276		1.241		97
3a)	Reserves for loan losses	36		40		111
3b)	Net loans (3-3a)	1.240	90	1.201	90	97
4.	Premises and other fixed assets	84	6	82	6	98
5.	Long term investments	0	0	0	0	0
6.	Other assets	9	1	7	1	0
7.	Less: reserves for other items of the assets, except loans	0		0		0
8.	TOTAL ASSETS	1.369	100	1.334	100	97
LIABILITIES						
9.	Liabilities on taken short term loans	513	38	520	39	101
10.	Liabilities on taken long term loans	86	6	43	3	
11.	Other liabilities	71	5	55	4	77
12.	TOTAL LIABILITIES	669	49	618	46	92
13.	Donated capital	0		0		0
14.	Core capital	600		600		100
15.	Issue premium	0		0		0
16.	Undistributed profit (16a+16b)	3		18		603
16a)	Previous years	0		3		0
16b)	Current year	3		16		517
17.	Regulatory reserves	98		98		
18.	Other reserves	0		0		0
19.	UKUPNO KAPITAL	700	51	716	54	102
20.	TOTAL LIABILITIES	1.369	100	1.334	100	97
OFF BALANCE SHEET						
	- charged-off loans	88		74		85
	- agent contracts	0		0		0

Attachment 4.

BALANCE SHEET MCF

in 000 KM

No.	DESCRIPTION	For the period 01.01. - 31.03.2010.	%	For the period 01.01. - 31.03.2011.	%	Ratio
1	2	3	4	5	6	7=(5/3)
I	FINANCIAL INCOME AND EXPENSES					
1.	Interest income and similar income					
1.1.	Interest from interest bearing deposit accounts with depositary institutions	434	1	163	1	37
1.2.	Interest from placements to banks	178	1	273	1	153
1.3.	Loan interest	32.774	96	22.644	97	69
1.4.	Other financial income	713	2	203	1	29
1.5.	Total interest income and similar income (1.1. to 1.4.)	34.099	100	23.283	100	68
2.	Interest expenses and similar expenses					
2.1.	Interest on borrowings	9.261	93	5.886	96	64
2.2.	Other financial expenses	718	7	266	4	37
2.3.	Total interest expenses and similar expenses (2.1. to 2.2.)	9.979	100	6.152	100	62
3.	Net financial income (1.5. - 2.3.)	24.120		17.131		71
II	OPERATING INCOME AND EXPENSES					
4.	Operating income					
4.1.	Fees for completed services	1.547	90	1.662	88	107
4.2.	Other operating income	181	10	218	12	120
4.3.	Total operating income (4.1. to 4.2.)	1.728	100	1.880	100	109
5.	Operating expenses					
5.1.	Cost of salaries and benefits	9.363	52	8.927	56	95
5.2.	Costs of business premises, other fixed assets and utilities	4.320	24	4.396	27	102
5.3.	Other operating expenses	4.200	23	2.656	17	63
5.4.	Total operating expenses (5.1.to 5.3.)	17.883	100	15.979	100	89
6.	Cost of provisioning for loan and other losses	18.374		5.232		28
7.	Surplus/deficit of income over expenses from direct business operations (3.+4.3.-5.4.-6.)	-10.409		-2.201		21
8.	Extraordinary income	1.449		3.372		233
9.	Extraordinary expenses	896		121		14
10.	Surplus/deficit of income over expenses (7.+8.-9.)	-9.856		1.050		-11

Attachment 5.

INCOME STATEMENT MCC

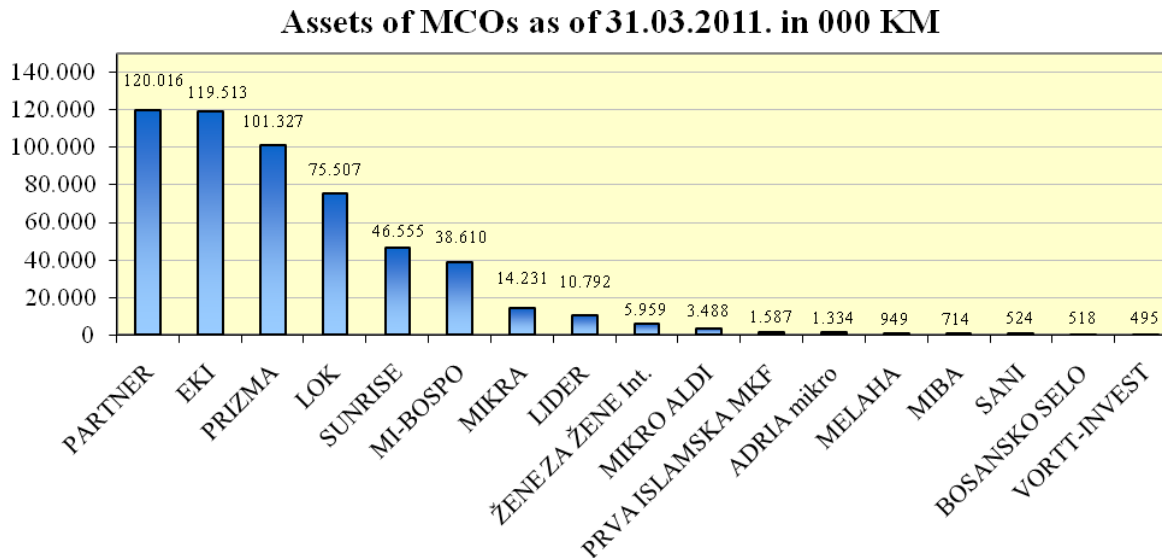
in 000 KM

No.	DESCRIPTION	For the period 01.01. - 31.03.2010.	%	For the period 01.01. - 31.03.2011.	%	Ratio
1	2	3	4	5	6	7=(5/3)
I	FINANCIJSKI PRIHODI I RASHODI					
1.	Interest income and similar income					
1.1.	Interest from interest bearing deposit accounts with depositary institutions	0	0	0	0	n/a
1.2.	Interest from placements to banks	0	0	0	0	n/a
1.3.	Interest from loans	62	98	78	99	125
1.4.	Other financial income	1	2	1	1	100
1.5.	Total interest income and similar income (1.1. to 1.4.)	63	100	79	100	125
2.	Interest expenses and similar expenses					
2.1.	Interest on borrowings	9	100	14	100	160
2.2.	Other financial expenses	0	0	0	0	n/a
2.3.	Total interest expenses and similar expenses (2.1. to 2.2.)	9	100	14	100	160
3.	Net financial income (1.5. - 2.3.)	54		64		119
II	OPERATING INCOME AND EXPENSES					
4.	Operating income					
4.1.	Fees for completed services	6	75	5	66	82
4.2.	Other operating income	2	25	3	34	125
4.3.	Total operating income (4.1. to 4.2.)	8	100	7	100	93
5.	Operating expenses					
5.1.	Costs of salaries and benefits	23	42	23	34	98
5.2.	Costs of business premises, other fixed assets and utilities	22	41	20	30	90
5.3.	Other operating expenses	9	17	25	37	277
5.4.	Total operating expenses (5.1. to 5.3.)	54	100	67	100	125
6.	Cost of provisioning for loan and other losses	1		5		495
7.	PROFIT/LOSS FROM DIRECT BUSINESS OPERATIONS (3.+4.3.-5.4.-6.)	7		-1		-13
8.	Extraordinary income	0		16		n/a
9.	Extraordinary expenses	0		0		n/a
10.	INCOME/LOSS BEFORE TAXES	7		16		221
11.	TAXES	1		2		155
12.	NET PROFIT/LOSS	6		14		233

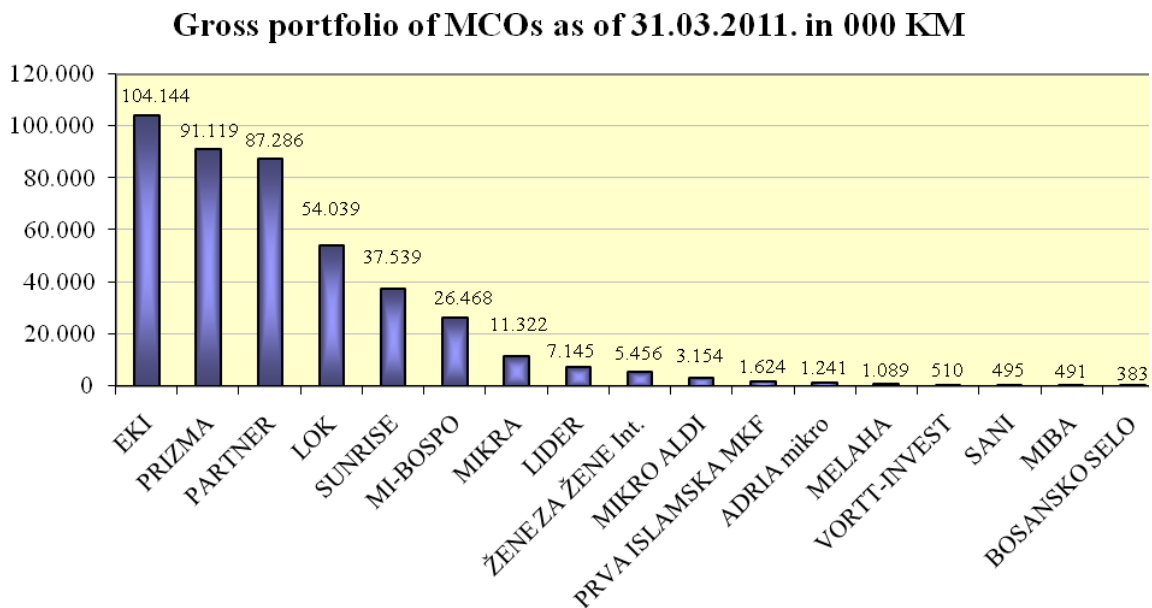
GRAPHS

- Graph 1. Amount of MCOs assets as of 31.03.2011 in 000 KM.
- Graph 2. Amount of MCOs gross portfolio as of 31.03.2011. in 000 KM
- Graph 3. Amount of MCOs capital as of 31.03.2011.
- Graph 4. Income surplus/deficit over the expenses of MCFs, that is net profit/loss of MCCs as of 31.03.2011. in 000 KM
- Graph 5. Number of MCOs employees as of 31.03.2011.
- Graph 6. Average risk weighted EIR for short term loans for MCOs in the 1ST quarter of 2011.
- Graph 7. Average risk weighted EIR for long term loans for MCOs in the 1ST quarter of 2011.

Graph 1.

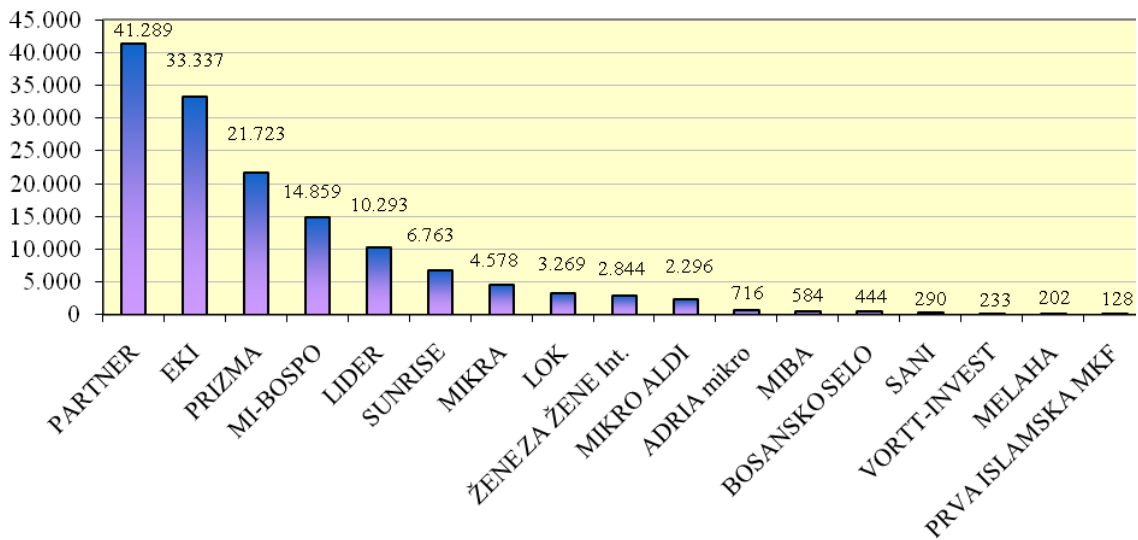


Graph 2.



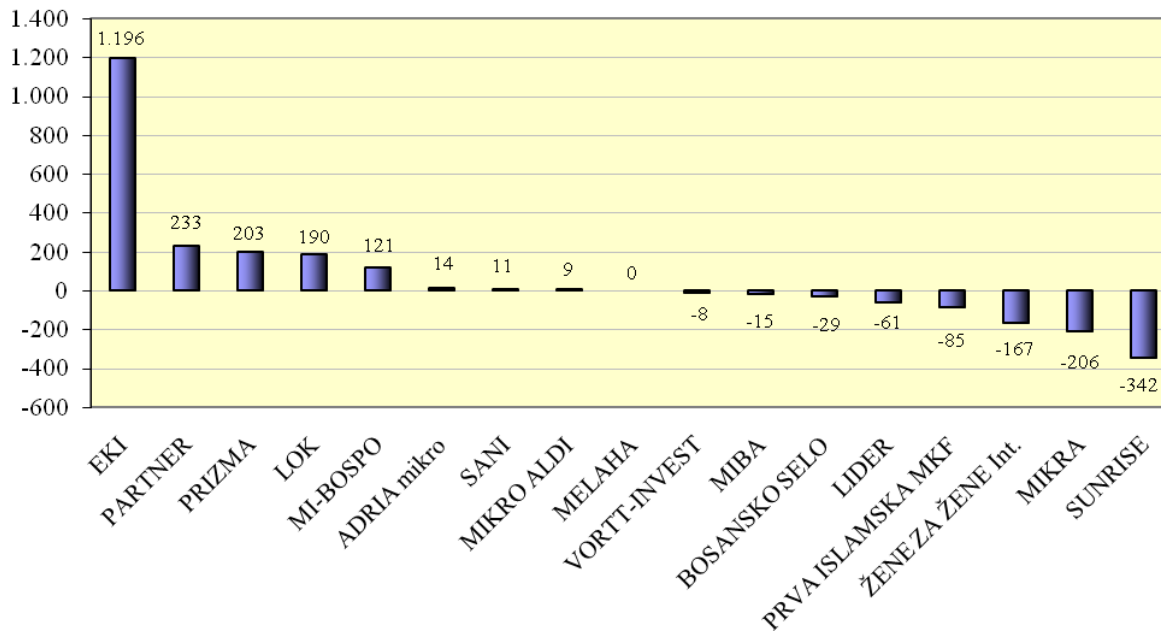
Graph 3.

Capital of MCOs as of 31.03.2011. in 000 KM



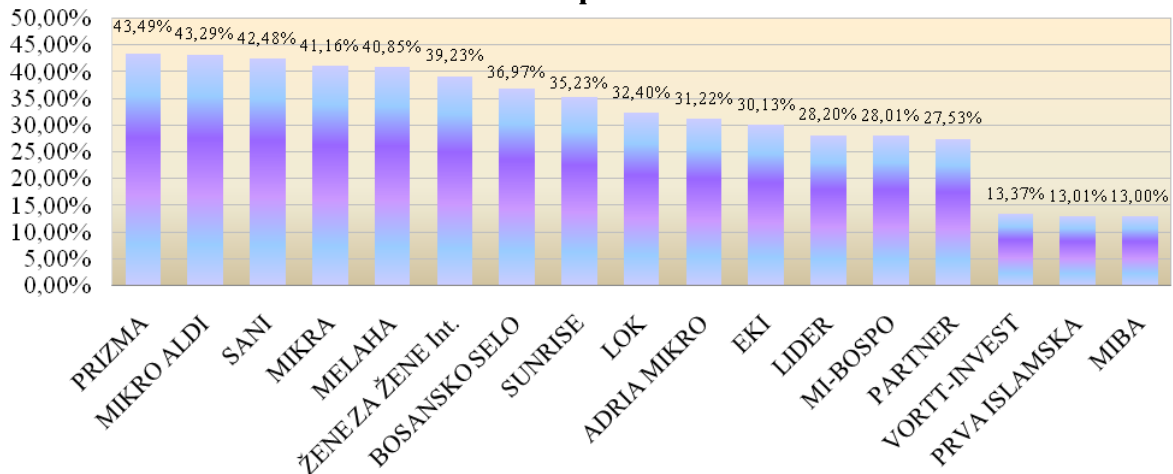
Graph 4.

Surplus/shortage of revenues over expenses of MCFs, that is net profit (loss) of MCCs for period 01.01. - 31.03.2011. in 000 KM



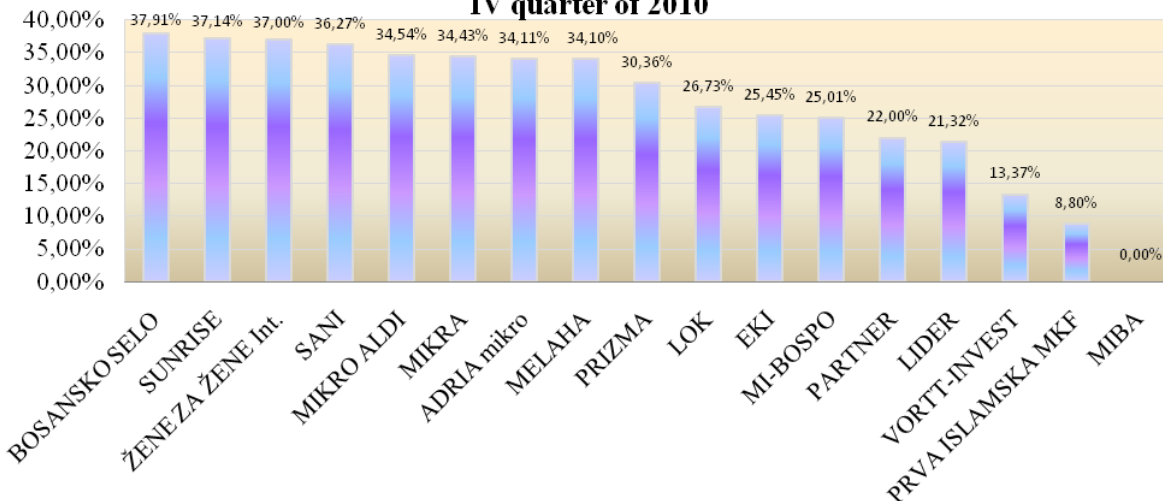
Graph 5.

Average risk-weighted EIR for short term loans based on the MCOs reports in IV quarters of 2011



Graph 6.

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



Graph 7.

Number of employees as of 31.03.2011.

