



**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
30.09.2017**

Sarajevo, November 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 30.09.2017 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 30.09.2017.

CONTENTS

I INTRODUCTION	3
II BUSINESS PERFORMANCE OF THE MCO SYSTEM IN THE FEDERATION OF B&H	5
1. MICROCREDIT SYSTEM STRUCTURE	5
1.1. Status, Number and Network of Branches	5
1.2. Ownership Structure	6
1.3. Human Resources	6
2. FINANCIAL PERFORMANCE INDICATORS	7
2.1. Balance Sheet	7
2.1.1. Liabilities	10
2.1.2. Capital	12
2.1.3. Assets and Asset Quality	14
2.2. Profitability	23
2.3. Weighted Nominal and Effective Interest Rates	26
2.4. Liquidity	30
2.5. FX Risk	30
2.6. Transactions with Related Entities	30
III CONCLUSIONS AND RECOMMENDATIONS	34
IV ANNEXES	36

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 30.09.2017, 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 298 organisational units. As of 30.09.2017, the total headcount of the microcredit system was 1 399, which is up by 148 employees or 12% 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 107 employees of one MCF were hired part-time as employees of the MCC in the first nine 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 30.09.2017 amounted to 1 250 employees, which is 41 employees or 3% more compared to 31.12.2016.

As of 30.09.2017, the balance sheet total of MCOs amounted to KM 485.6 million, KM 413.5 million or 85% of which relate to MCFs and KM 72.1 million or 15% to the MCC. The balance sheet total at the end of the third quarter of 2017 was up by KM 45.5 million or 10% compared to the balance as of 31.12.2016.

As of 30.09.2017, total MCO gross loans, as the most significant item of MCO assets, amounted to KM 405.3 million and made up 83% of total assets of MCOs, therefore being up by 7% compared to the end of the previous year, while net loans amounted to KM 401.9 million and are up by 7% 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 24.63% in the third quarter of 2017, down by 1.01 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 30.09.2017, the microcredit portfolio saw an increase of 7% (KM 27.4 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 0.84%. The portfolio at risk exceeding 30 days past due amounted to 0.92% and is

down by 0.08 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 2.30%. At system level, the percentage of write-offs amounted to 1.00% as of 30.09.2017 and this indicator was lower by 0.11 percentage points compared to the end of the previous year and is within the framework of the prescribed standard.

The main source of funding of MCOs are loan commitments, which amounted to KM 240 million or 49% of total MCO liabilities as of 30.09.2017 and are up by KM 32.1 million or 15% compared to the balance as of 31.12.2016. Total MCO capital as of 30.09.2017 amounted to KM 222.5 million or 46% of total MCO liabilities, which is up by KM 14.9 million or 7% compared to the end of the previous year, with the capital of MCFs amounting to KM 218.2 million or 98.1% and the capital of one MCC amounting to KM 4.3 million or 1.9%. The most significant MCF capital items are excess income over expenses in the amount of KM 166.7 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 1 777 thousand.

In the period from 01.01. to 30.09.2017, out of a total of 11 MCFs, 9 MCFs had excess income over expenses in the total amount of KM 14 231 thousand, while 2 MCFs recorded less income over expenses in the total amount of KM 41 thousand. In the period from 01.01. to 30.09.2017, one MCC recorded net profit in the amount of KM 760 thousand.

At the level of the microcredit system in the Federation of B&H, a positive financial result in the amount of KM 14 950 thousand was recorded, which is up by KM 2 218 thousand or 17% compared to the same period of the previous year.

With respect to operational sustainability, out of 12 MCOs, 7 MCFs and 1 MCC can cover all expenses with the recorded income from regular activities.

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

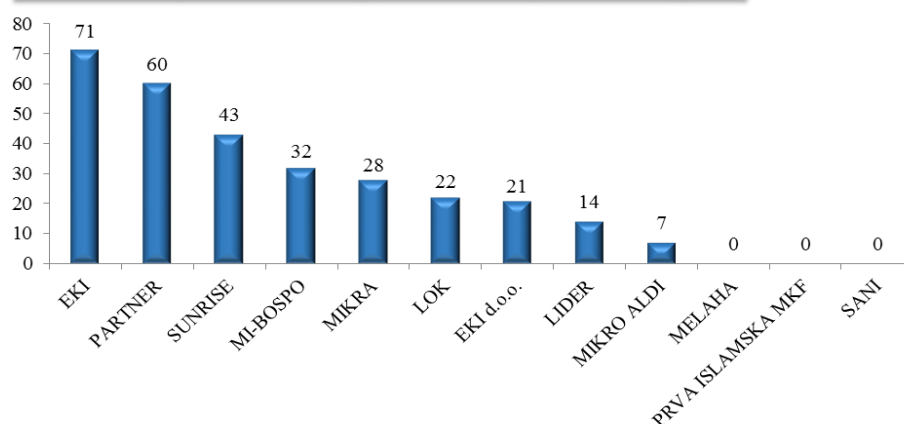
As of 30.09.2017, 12 MCOs have operating licences of the Agency, 11 of which are MCFs (non-profit organisations) and 1 of which is an MCC (profit organisation), as well as 39 organisational units of the MCC seated in Republika Srpska.

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 30.09.2017.

As of 30.09.2017, there was a total of 298 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 193 organisational units of microcredit organisations are seated in the Federation of B&H, 101 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 19 organisational units or 7% compared to the end of the previous year. A total of 151 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.

The number of organisational units as of 30.09.2017 individually by MCO seated in the Federation of B&H is shown in the graph below.

Graph 1. Number of Organisational Units as of 30.09.2017 Individually by MCO Seated in the Federation of B&H



1.2. Ownership Structure

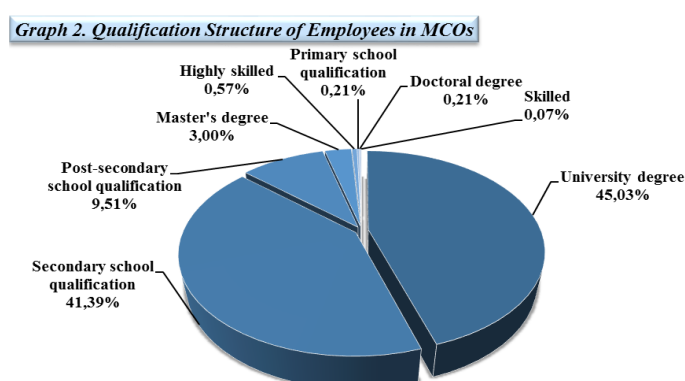
A microcredit organisation is a legal entity which may be established and may operate as a microcredit foundation or a microcredit company. Microcredit foundations in the Federation of B&H have been established by non-governmental, mostly humanitarian organisations (World Vision, CHF International, HO 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

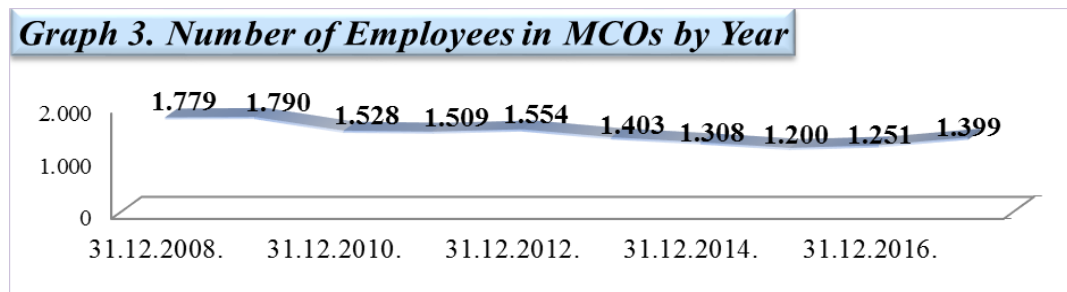
As of 30.09.2017, the total headcount of the microcredit system was 1 399, which is up by 148 employees or 12% compared to 31.12.2016. MCFs employ 1 225 employees or 87.6% and the MCC 174 employees or 12.4%.

No.	Qualification	31.12.2016		Total	Share (%)	30.09.2017		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	0.21	100
2.	S	1	0	1	0.08	1	0	1	0.07	100
3.	HS	10	0	10	0.80	8	0	8	0.57	80
4.	SSQ	509	21	530	42.37	507	72	579	41.39	109
5.	PSSQ	110	5	115	9.19	106	27	133	9.51	116
6.	CD	518	29	547	43.73	557	73	630	45.03	115
7.	MR	41	2	43	3.44	41	1	42	3.00	98
8.	DR	2	0	2	0.16	2	1	3	0.21	150
TOTAL		1 194	57	1 251	100.00	1 225	174	1 399	100.00	112

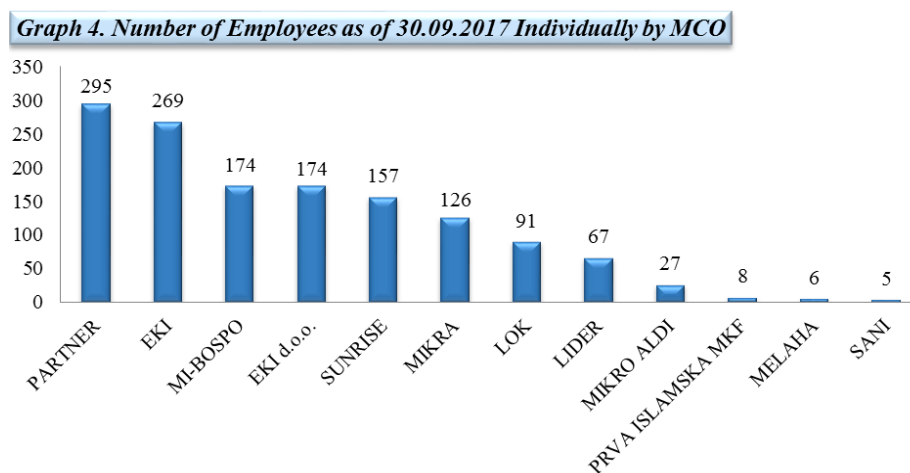
However, we emphasise that this figure does not represent the real increase in employees, but is the result of the fact that 107 employees of one MCF were hired part-time as employees of the MCC in the first nine months of 2017, with the aforementioned being recorded in reports on the qualification structure 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 30.09.2017 amounted to 1 250 employees, which is 41 employees or 3% more compared to 31.12.2016. The employees structure is dominated by university degrees with 45.03%, secondary school qualification with 41.39%, and two-year post-secondary school qualification with 9.51%. The share percentage of employees with secondary school qualification is up by 9%, with university degrees by 15%, with two-year post-secondary school qualification by 16%, while the share percentage of employees with doctoral degrees is up by 50%.



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 30.09.2017, MCOs had 1 399 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.



The number of employees as of 30.09.2017 individually by MCO is shown in the graph below.



2. FINANCIAL PERFORMANCE INDICATORS

2.1. Balance Sheet

As of 30.09.2017, the balance sheet total of MCOs amounts to KM 485.6 million, which is up by KM 45.5 million or 10% 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 4.8 million in the first nine months of 2017 and recorded a drop of 23% compared to the end of the previous year.

Five MCFs and one MCC with assets in the amount of KM 441.3 million or 91% have the largest share in the total MCO balance.

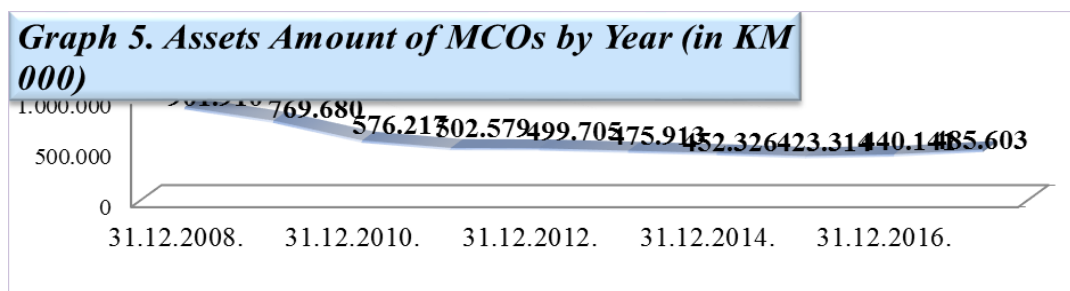
- KM 000 -

Table 2. Balance Sheet MCOs

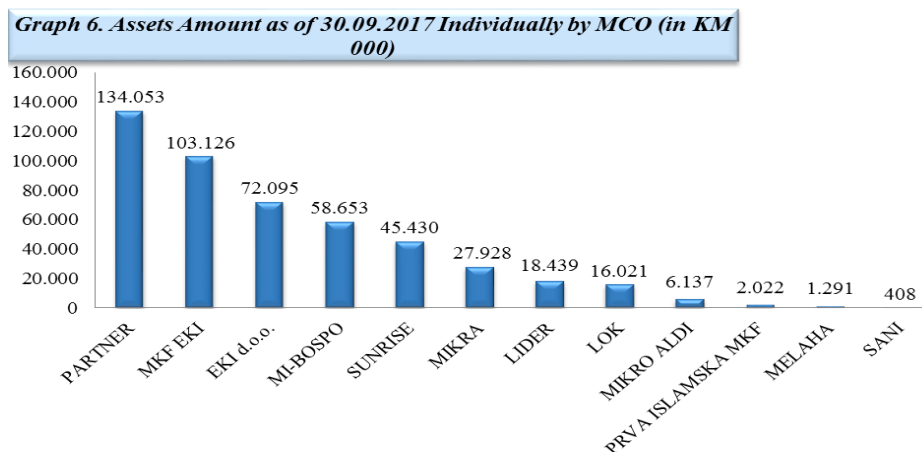
DESCRIPTION	31.12.2016			30.09.2017					Ind.
	Balance for MCFs	Balance for MCCs	TOTAL	Balance for MCFs	%	Balance for MCCs	%	TOTAL	
1	2	4	6=(2+4)	7	8	9	10	11=(7+9)	12

ASSETS									
1. Cash	22 227	4 496	26 723	39 372	9	3 422	5	42 794	160
2. Facilities to banks	733	0	733	1 180	0	0	0	1 180	161
3. Loans	349 791	28 081	377 872	337 748		67 551		405 299	107
4. Loan loss provisions	3 193	176	3 369	3 037		383		3 420	102
5. Net loans	346 598	27 905	374 503	334 711	81	67 168	93	401 879	107
6. Business premises and other fixed assets	28 734	115	28 849	28 215	7	425	1	28 640	99
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	7 154	2	1 102	1	8 256	128
9. Provisions for other assets items, except loans	182	9	191	185		22		207	108
TOTAL ASSETS	407 179	32 962	440 141	413 508	100	72 095	100	485 603	110
LIABILITIES									
10. Loan commitments	179 808	28 100	207 908	175 171	42	64 840	90	240 011	115
11. Other liabilities	23 258	1 337	24 595	20 132	5	2 969	4	23 101	94
12. Capital	204 113	3 525	207 638	218 205	53	4 286	6	222 491	107
TOTAL LIABILITIES	407 179	32 962	440 141	413 508	100	72 095	100	485 603	110
Off-balance sheet records	115 630	220	115 850	111 842		356		112 198	97

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 30.09.2017 amounted to KM 485.6 million and it is lower by even 46% 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 89% and 57%, respectively.



The following graph shows the assets amount as of 30.09.2017 individually by MCO.

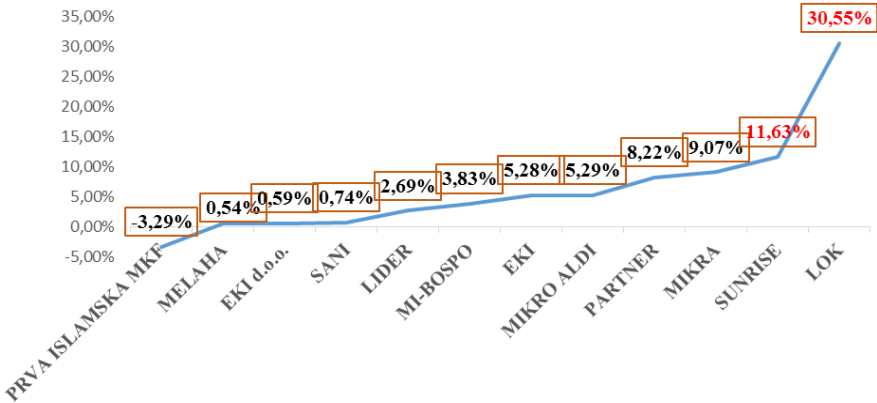


In the assets structure of MCOs, cash funds amount to KM 42.8 million or 9%. They are thus up by KM 16.1 million or 60% compared to 31.12.2016 and largely related to cash funds of MCFs. Facilities to banks amount to KM 1.2 million and are up by KM 0.4 million or 61%.

Net loans, i.e. gross loans net of loan loss provisions amount to KM 401.9 million or 83% of total assets and are up by KM 27.4 million or 7% 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.

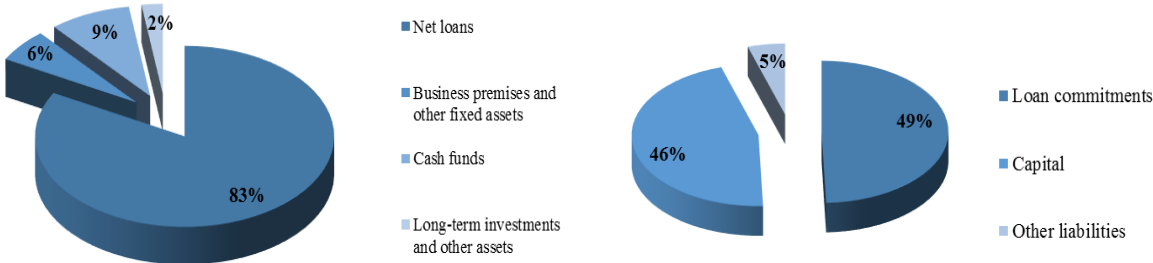
Business premises and other fixed assets amount to KM 28.6 million or 6% of total assets and are down by KM 0.2 million or 1% compared to the end of the previous year. The fixed assets percentage compared to total assets (net of donated capital) is 6.51% at system level, which is within the framework of the allowed amount (up to 10%). Individually, two MCFs violate this standard. Fixed assets vs. total assets (net of donated capital) as of 30.09.2017 individually by MCO are shown in the graph below.

Graph 7. Fixed Assets vs. Total Assets as of 30.09.2017 Individually by MCO



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 8 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 1.70% and individually, this item is above 10% in the case of no MCF.

Graph 8. Assets and Liabilities Structure of MCOs



Loan commitments amounted to KM 240 million or 49% of total liabilities as of 30.09.2017, thus being up by KM 32.1 million or 15% compared to the balance as of 31.12.2016. As of 30.09.2017, total MCO capital amounted to KM 222.5 million or 46% of total MCO liabilities and it is up by KM 14.9 million or 7% 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 240 million or 49% of total liabilities. They are up by 15% compared to 31.12.2016.

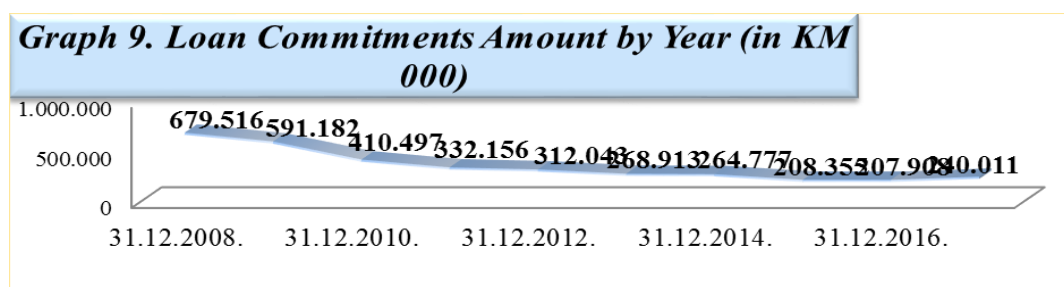
- KM 000 -

Table 3. Maturity Structure of Taken Loans

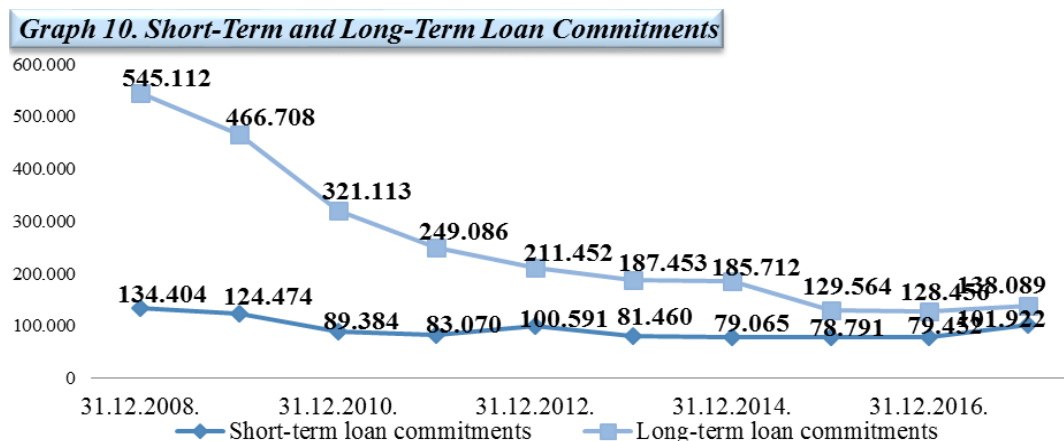
DESCRIPTION	31.12.2016				30.09.2017				Index
	MCFs	MCCs	TOTAL	%	MCFs	MCCs	TOTAL	%	
1	2	3	4=(2+3)	5	6	7	8=(6+7)	9	10=8/4
1. Liabilities on short-term loans	73 903	5 549	79 452	38	84 435	17 487	101 922	42	128
2. Liabilities on long-term loans	105 905	22 551	128 456	62	90 736	47 353	138 089	58	107
TOTAL	179 808	28 100	207 908	100	175 171	64 840	240 011	100	115

Out of total loan commitments, long-term loans (of which there is no record in the case of 2 MCFs) amount to KM 138.1 million or 58% and are up by 7% 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 101.9 million or 42% and are up by 28% compared to the end of the previous year.

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 30.09.2017 amounted to KM 240 million, and are lower by even 65% 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 90% and 80%, respectively.

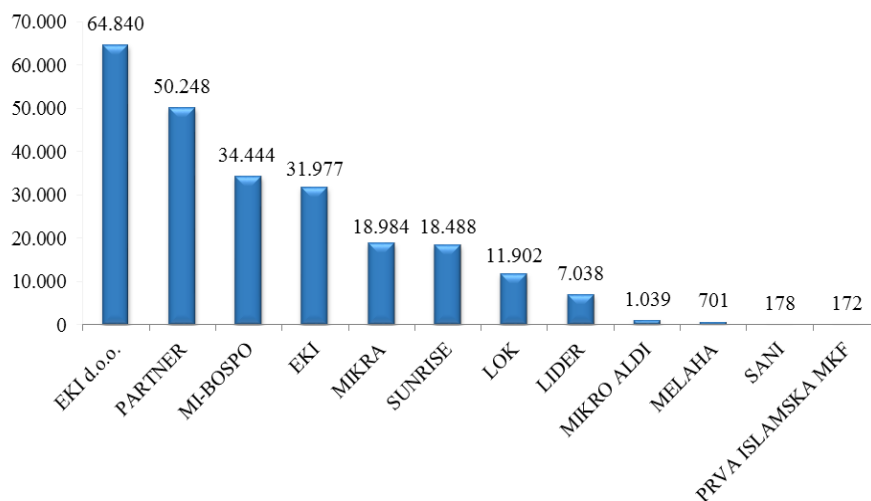


In addition to the fact that loan commitments are lower by 65% compared to 2008 and higher by 15% compared to the end of the previous year, looking at loan commitments by maturity, long-term loans have dropped by even 75% compared to 2008 and are up by 7% compared to the end of 2016, while short-term loans are lower by 24% compared to 2008, but recorded an increase in the amount of 28% compared to the end of 2016.



The following graph shows the amount of loan commitments as of 30.09.2017 individually by MCO.

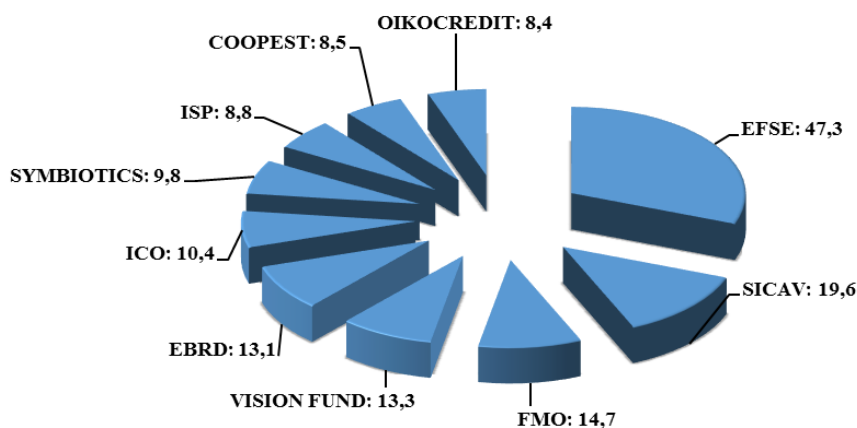
Graph 11. Loan Commitments Amount as of 30.09.2017 Individually by MCO (in KM 000)



The ten most significant creditors of MCOs are:

- 1.) EFSE – European Fund for Southeast Europe, Luxembourg (KM 47.3 million);
- 2.) Responsibility SICAV, Switzerland (KM 19.6 million);
- 3.) FMO, Netherlands (KM 14.7 million);
- 4.) Vision Fund, USA (KM 13.3 million);
- 5.) EBRD – European Bank for Reconstruction and Development, Great Britain (KM 13.1 million);
- 6.) ICO – Instituto de Credito Oficial, Spain (KM 10.4 million);
- 7.) Symbiotics, Switzerland (KM 9.8 million);
- 8.) Intesa Sanpaolo Bank d.d., Bosnia and Herzegovina (KM 8.8 million);
- 9.) Coopest, Netherlands (KM 8.5 million);
- 10.) Oikokredit, Netherlands (KM 8.4 million).

Graph 12. Most Significant Sources of Funding of MCOs (in KM million)



Other liabilities amount to KM 23.1 million or 5% of total liabilities. These include income tax liabilities, liabilities to employees, suppliers, accrued expenses and others. The percentage of other

Banking Agency of the Federation of B&H
Information on the Microcredit System of the Federation of B&H

liabilities at system level compared to total liabilities is 8.78%, and individually, a total of 6 MCFs recorded more than 10% of other liabilities compared to total liabilities.

Off-balance records as of 30.09.2017 amount to KM 112.2 million and are down by 3% compared to the end of the previous year.

2.1.2. Capital

The total capital of MCOs as of 30.09.2017 amounts to KM 222.5 million or 46% of total liabilities, which is up by KM 14.9 million or 7% compared to the end of 2016. The capital of MCFs amounts to KM 218.2 million or 98.1%, and the capital of one MCC to KM 4.3 million or 1.9%.

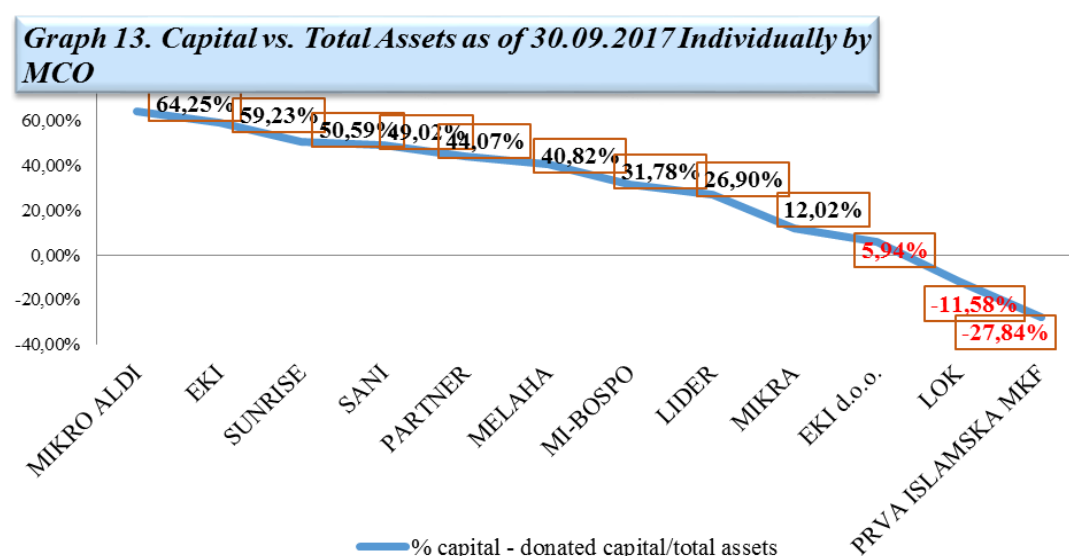
- KM 000 -

Table 4. Capital Structure of MCOs

DESCRIPTION	31.12.2016					30.09.2017					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	14	4 420	100
Surplus/deficit of income over expenses	152 598	75	0	0	152 598	166 739	76	0	0	166 739	109
Issue premiums	0	0	0	0	0	0	0	0	0	0	0
Unallocated profit	0	0	1 016	29	1 016	0	0	1 777	41	1 777	175
Legal reserves	0	0	1 909	54	1 909	0	0	1 909	45	1 909	100
Other reserves	1 844	1	0	0	1 844	1 795	1	0	0	1 795	97
TOTAL CAPITAL	204 113	100	3 525	100	207 638	218 205	100	4 286	100	222 491	107

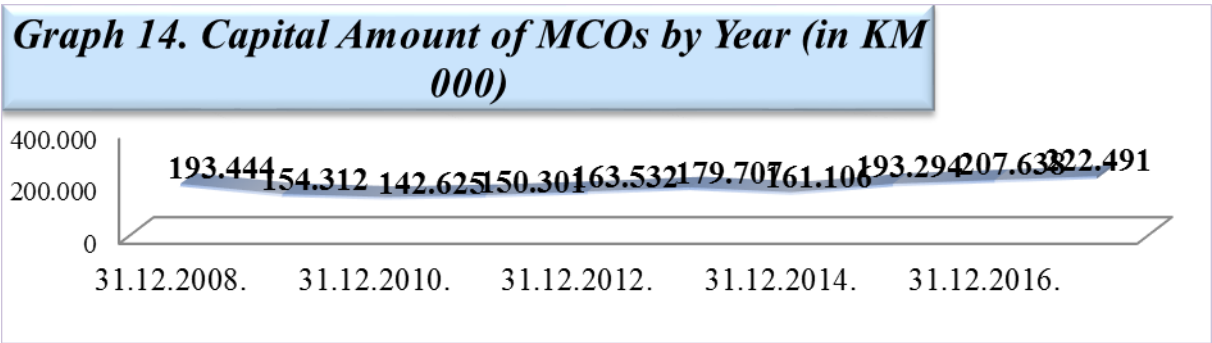
The total capital of the microcredit system (net of donated capital) amounts to 36.38% of total assets, with 2 MCFs and 1 MCC having a percentage of capital amount (net of donated capital) compared to total assets that is lower than the allowed amount, i.e. less than 10% of total assets.

Capital (net of donated capital) vs. total assets as of 30.09.2017 individually by MCO is shown in the graph below.



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

30.09.2017 amounted to KM 222.5 million and is up by KM 29 million or 15% compared to the end of 2008.

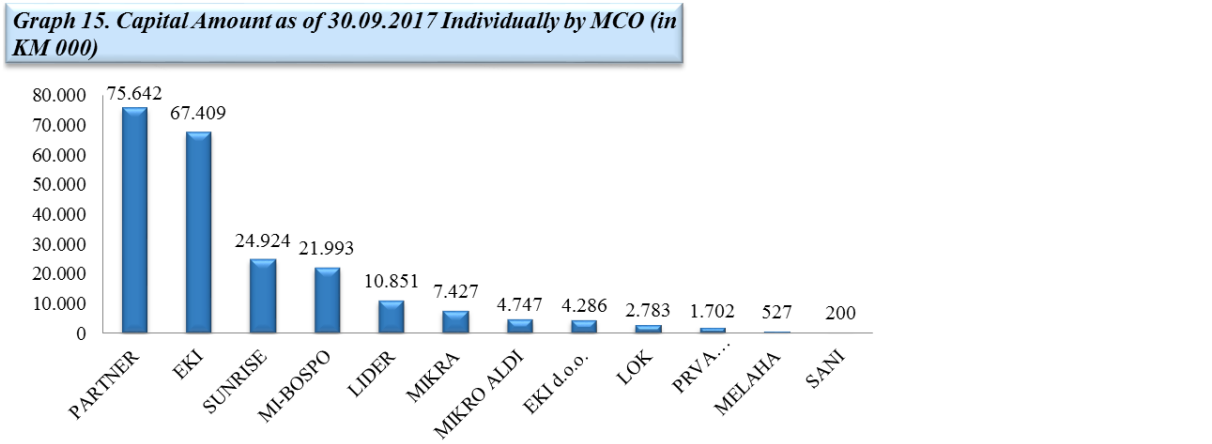


In the capital structure of MCFs, the excess of income over expenses is the most important, and it amounts to KM 166.7 million and makes up 76% of total MCF capital, which is up by KM 14.1 million or 9% compared to the end of the previous year. A deficit of income over expenses for the period from 01.01. to 30.09.2017 was recorded by 2 MCFs, while 9 MCFs recorded an excess of income over expenses and one MCC recorded a net profit. As of 30.09.2017, an excess of income over expenses, i.e. a profit from regular operations was recorded by 7 MCFs and 1 MCC, while 4 MCFs recorded a deficit of income over expenses from regular operations. Out of those 4 MCFs, 2 MCFs recorded a positive result at the end of the third quarter of 2017 due to extraordinary income. Extraordinary income is a direct result of the increased collection of receivables for written-off loans.

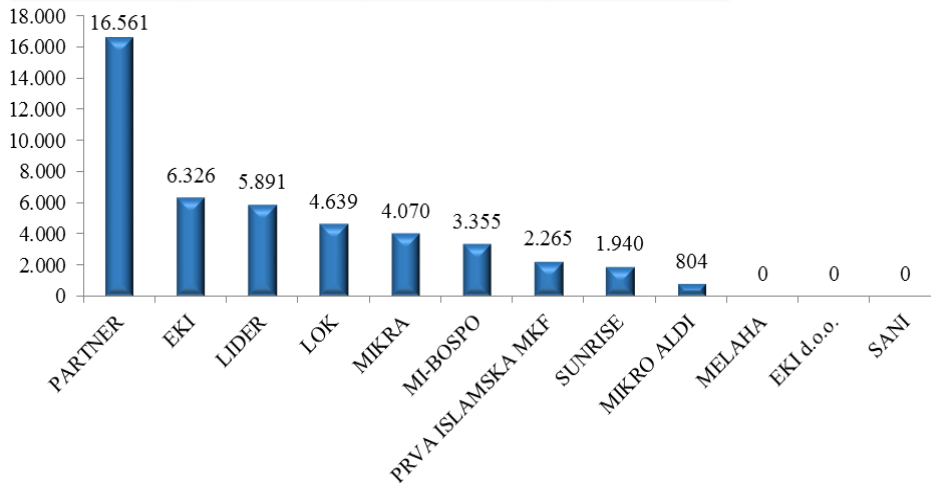
A significant source of MCF capital is donated capital, which amounts to KM 45.9 million or 21% of total MCF capital. The amount of donated capital, as reported by MCOs, is at the same level compared to the end of the previous year. In accordance with Article 11 of the Decision on General Conditions 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 30.09.2017 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 1 777 thousand.

The amount of total capital and donated capital as of 30.09.2017 individually by MCO is shown in the graphs below.



Graph 16. Donated Capital Amount as of 30.09.2017 Individually by MCO (in KM 000)



2.1.3. Assets and Asset Quality

The main activity of MCOs is microlending, to which the amount of KM 405.3 million or 83% of total assets of the microcredit system is related. The level of total system loans depends on loans of MCFs, which account for KM 337.7 million or 83.3% of total loans, while the MCC accounts for KM 67.6 million or 16.7% of total loans. Net loans, which make up total loans net of loan loss provisions are presented in Table 5.

- KM 000 -

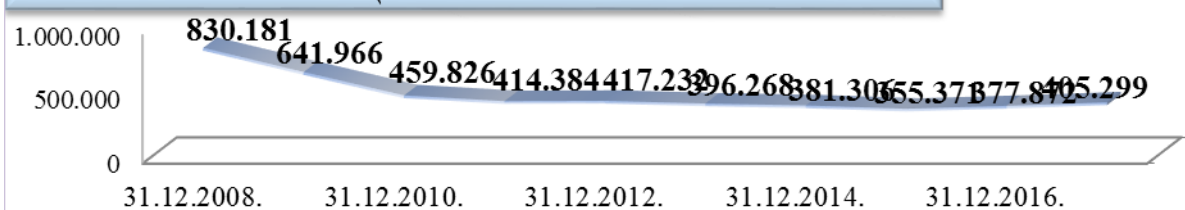
Table 5. Net Loans

No.	DESCRIPTION	31.12.2016			30.09.2017			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	337 748	67 551	405 299	107
2.	Loan loss provisions	3 193	176	3 369	3 037	383	3 420	102
3.	Net loans (1.-2.)	346 598	27 905	374 503	334 711	67 168	401 879	107

Net loans amount to KM 401.9 million and are up by 7% compared to 31.12.2016, while gross loans are also up by 7% compared to the end of the previous year.

Loan loss provisions amount to KM 3.4 million and are up by 2% compared to 31.12.2016. The loan loss provisions to total loan portfolio ratio amounts to 0.84% and recorded an improvement of 0.05% compared to 31.12.2016.

Graph 17. Gross Portfolio Amount of MCOs by Year (in KM 000)

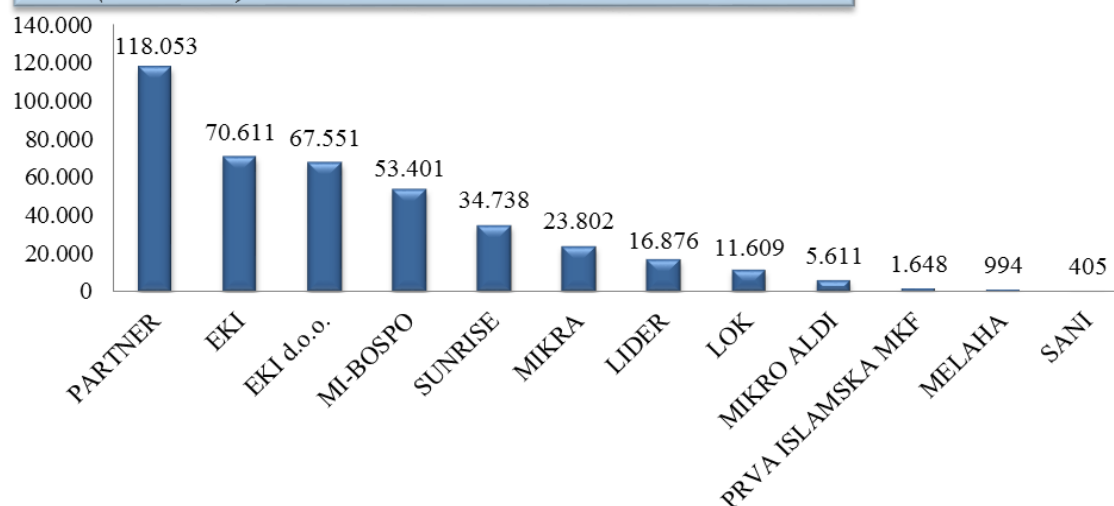


An overview of the gross portfolio of MCOs throughout the years of MCO operations shows that the largest amount was recorded at the end of 2008, when it amounted to KM 830.2 million. The total

gross portfolio as of 30.09.2017 amounted to KM 405.3 million and dropped by 51% 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 91% and 65%, respectively.

The gross portfolio amount as of 30.09.2017 individually by MCO is shown in the graph below.

Graph 18. Gross Portfolio Amount as of 30.09.2017 Individually by MCO (in KM 000)



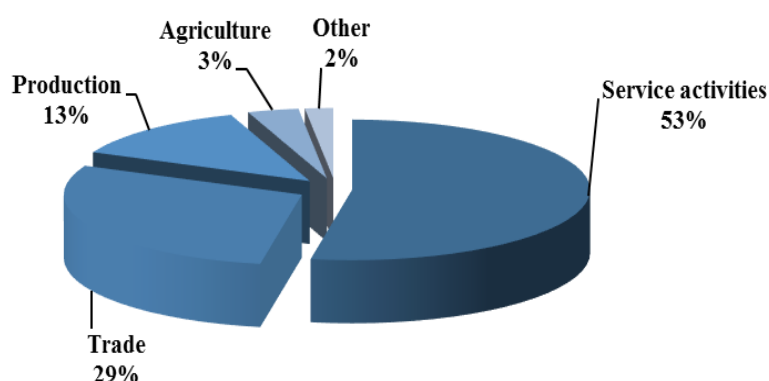
The sector and maturity structure of microloans as of 30.09.2017 is presented in Table 6.

- KM 000 -

Table 6. Sector and Maturity Structure of Microloans as of 30.09.2017						
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	172	5 197	22	5 391	53%
b.)	Trade	206	2 718	33	2 957	29%
c.)	Agriculture	16	349	0	365	3%
d.)	Production	96	1 215	4	1 315	13%
e.)	Other	36	157	2	195	2%
	TOTAL 1:	526	9 636	61	10 223	100%
2.	Natural persons					
a.)	Service activities	4 764	64 395	226	69 385	18%
b.)	Trade	1 430	15 859	78	17 367	4%
c.)	Agriculture	7 825	129 330	289	137 444	35%
d.)	Production	597	6 544	35	7 176	2%
e.)	Housing needs	3 007	79 924	162	83 093	21%
f.)	Other	12 796	67 436	379	80 611	20%
	TOTAL 2:	30 419	363 488	1 169	395 076	100%
	TOTAL (1+2):	30 945	373 124	1 230	405 299	

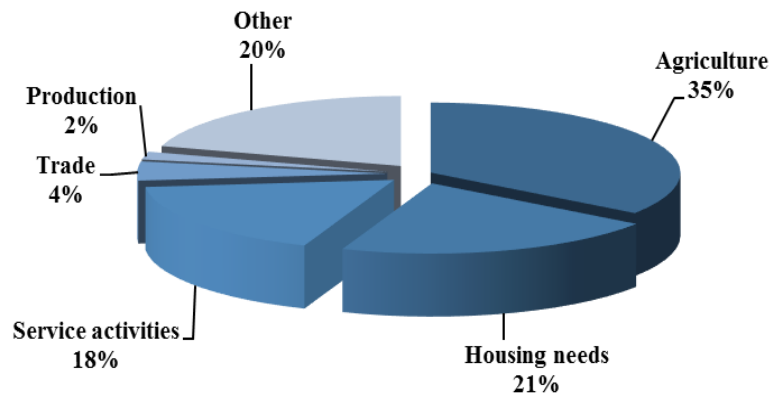
Out of the total number of microloans, KM 10.2 million or 3% were granted to legal entities and KM 395.1 million or 97% were granted to natural persons. In the maturity structure of microloans, short-term loans with receivables due account for KM 32.2 million or 8% and long-term loans for KM 373.1 million or 92%. Receivables due total KM 1.2 million and are almost completely related to loans granted to natural persons.

Graph 19. Sector Structure of Microloans to Legal Entities



The largest amount of total microloans to **legal entities** was placed for service activities and trade – KM 5.4 million or 53% for service activities and KM 2.9 million or 29% for trade. Out of the total microloan amount to legal entities, KM 1.3 million or 13% were granted for production, while KM 0.4 million or 3% were granted for agriculture and KM 0.2 million or 2% for other purposes.

Graph 20. Sector Structure of Microloans to Natural Persons



As for loans to **natural persons**, KM 137.4 million or 35% was placed for agriculture, followed by KM 83.1 million or 21% for housing needs, KM 69.4 million or 18% for service activities, KM 17.4 million or 4% for trade, KM 7.2 million or 2% for production, and KM 80.6 million or 20% for other purposes.

- KM 000 -

Table 7. Sector Structure of Microloans				
Microloans for:	31.12.2016	30.09.2017	Share	Index
Agriculture	126 352	137 809	34%	109
Housing	76 643	83 093	21%	108
Other	69 336	80 806	20%	117
Services	73 333	74 776	18%	102
Trade	22 441	20 324	5%	91

Production	9 767	8 491	2%	87
Total	377 872	405 299	100%	107

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 2% and 17%, with the exception of loans for trade and production, which decreased by 9% to 13% in the reporting period. In terms of microloan maturity, long-term microloans are up by 9% compared to the end of the previous year, while short-term microloans (including receivables due) are down by 7% in the reporting period.

- KM 000 -

DESCRIPTION	31.12.2016	30.09.2017	Share	Index
Long-term microloans	343 405	373 124	92%	109
Short-term microloans with receivables due	34 467	32 175	8%	93
TOTAL	377 872	405 299	100%	107

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 30.09.2017, 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 0.7 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 29 thousand as of 30.09.2017. The loan portfolio that was renegotiated – rescheduled as a result of the natural disasters amounted to KM 136 thousand as of 30.09.2017. Loans for agriculture (33%) and loans for housing needs (29%) have the largest share in the amount of rescheduled loans as a result of the natural disasters.

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

Receivables amounts divided into the set groups and calculated reserves by these groups with the balance as of 30.09.2017 are shown in the following table.

- KM 000 -

No.	Days past due	Provi-sion-ing rates	Loan amount	Share (%)	Interest due		Amount of other assets items	Provisions			Total provisions
					Provi-sion-ing 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%	395 997	97.70	0%	2	335	0	0	0	0
2.	1 – 15	2%	2 655	0.66	2%	40	0	53	1	0	54
3.	16 – 30	15%	2 904	0.72	100%	52	0	436	52	0	488

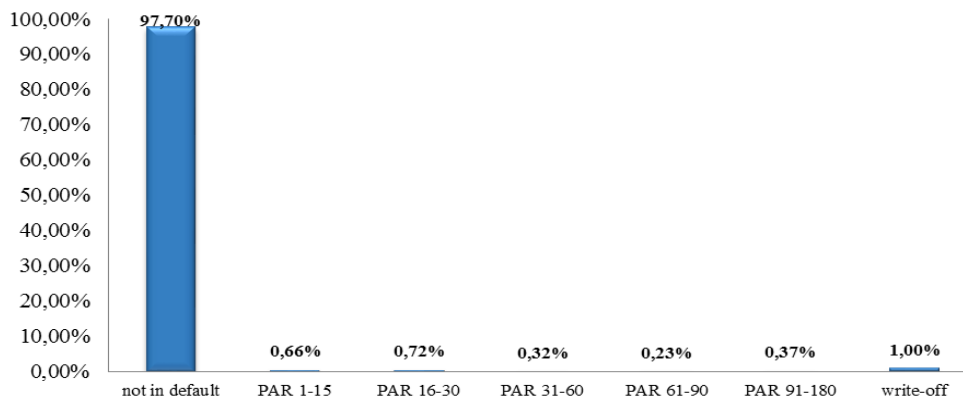
4.	31 – 60	50%	1 297	0.32	100%	38	0	649	38	0	687
5.	61 – 90	80%	935	0.23	100%	36	0	748	36	0	784
6.	91 – 180	100%	1 511	0.37	100%	81	0	1 535	81	0	1 616
TOTAL			405 299	100.00		249	335	3 421	208	0	3 629
7.	More than 180	Write-off	915		100%	78					

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

The amount of defaulted loans for more than one day is KM 9.3 million or 2.30%, while 97.70% 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 3.6 million and they are up by 2% compared to 31.12.2016.

In the first nine months of 2017, the MCO write-off amounted to KM 2.9 million of principal and KM 0.3 million of interest.

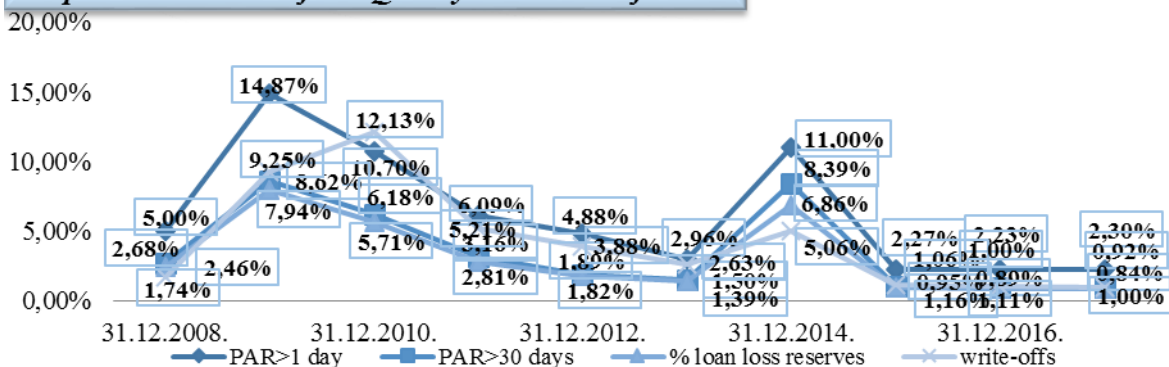
Graph 21. Portfolio Quality of MCOs



2.1.3.1. Key Indicators of Loan Portfolio Quality

Compared to the end of the previous year, as of 30.09.2017, the microcredit portfolio saw an increase of 7% (KM 27.4 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.

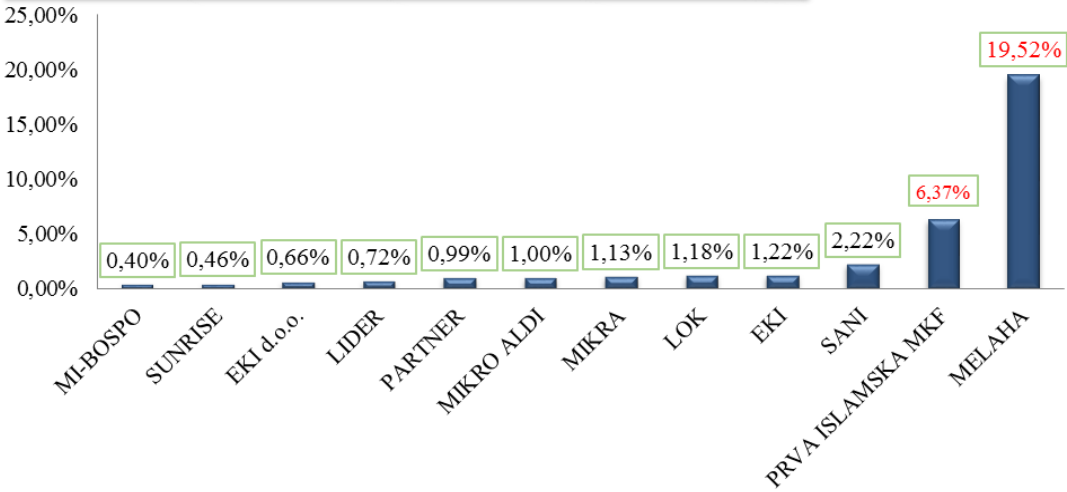
Graph 22. Active Portfolio Quality Indicators of MCOs



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 0.84%. 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 0.92%. 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 2.30%.

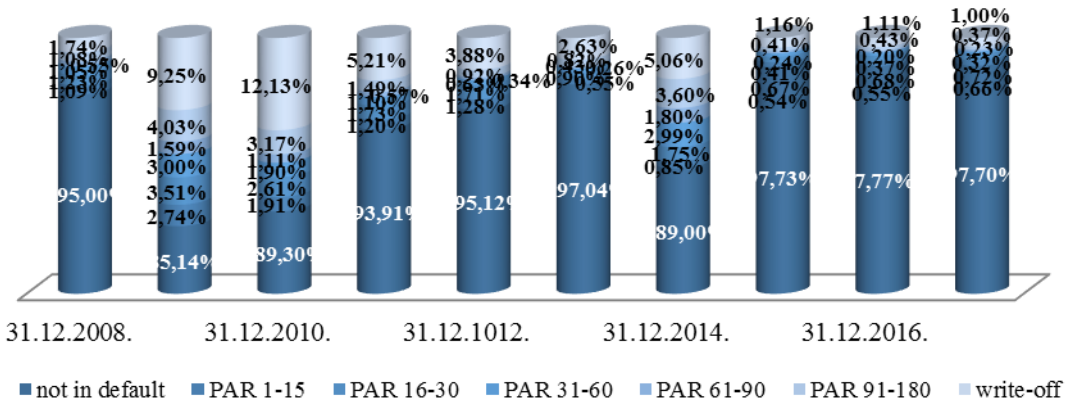
The portfolio at risk over 30 days past due as of 30.09.2017 individually by MCO is shown in the graph below.

Graph 23. Portfolio at Risk Over 30 Days Past Due as of 30.09.2017 Individually by MCO



In the first nine months of 2017, MCOs wrote off 1 688 loan accounts (1 666 write-offs relate to natural persons and 22 to legal entities) in the total amount of KM 3.2 million, KM 2.9 million of which relate to the written-off principal.

Graph 24. Gross Portfolio Classification of MCOs by Year



As of 30.09.2017, the percentage of write-offs at system level amounted to 1.00%, with this indicator being down by 0.11 percentage points compared to the end of the previous year and thus being within the framework of the prescribed standard. Three MCFs do not meet the Agency's standard in terms of the write-off percentage, which must be below 3%.

Microcredit organisations continued with their efforts to collect receivables by write-offs and managed to collect KM 6.2 million of written-off principal and KM 0.5 million of written-off interest in the first nine months of 2017, while the permanent write-off in the same reporting period amounted to KM 64 thousand of principal and KM 16 thousand of interest. Regarding the efficiency of the collection of write-offs in the first nine months of 2017, 2 MCFs had a collection efficiency percentage ranging from 8% to 10% 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 7%.

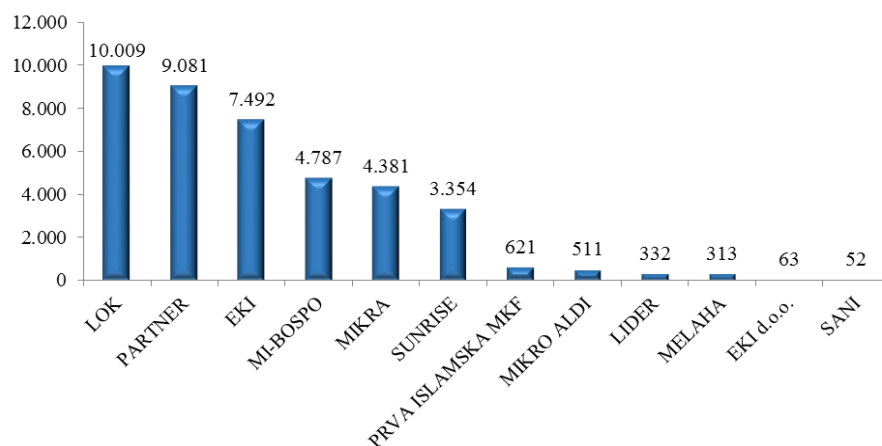
- KM 000 -

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	2 836	243	97	9	2 933	252
<i>Write-off in the period 01.01.-31.03.</i>	905	74	43	6	948	80
<i>Write-off in the period 01.04.-30.06.</i>	1 046	92	24	2	1 070	94
<i>Write-off in the period 01.07.-30.09.</i>	885	77	30	1	915	78
<i>Write-off in the period 01.10.-31.12.</i>	0	0	0	0	0	0
Collected in the current year	6 142	530	63	3	6 205	533
<i>Collection of write-offs in the period 01.01.-31.03.</i>	2 000	173	27	1	2 027	174
<i>Collection of write-offs in the period 01.04.-30.06.</i>	2 091	174	23	2	2 114	176
<i>Collection of write-offs in the period 01.07.-30.09.</i>	2 051	183	13	0	2 064	183
<i>Collection of write-offs in the period 01.10.-31.12.</i>	0	0	0	0	0	0
Permanent write-off in the current year	64	16	0	0	64	16
<i>Permanent write-off in the period 01.01.-31.03.</i>	36	2	0	0	36	2
<i>Permanent write-off in the period 01.04.-30.06.</i>	12	4	0	0	12	4
<i>Permanent write-off in the period 01.07.-30.09.</i>	16	10	0	0	16	10
<i>Permanent write-off in the period 01.10.-31.12.</i>	0	0	0	0	0	0
Balance as of 30.09.2017	96 775	10 428	2 841	304	99 616	10 732

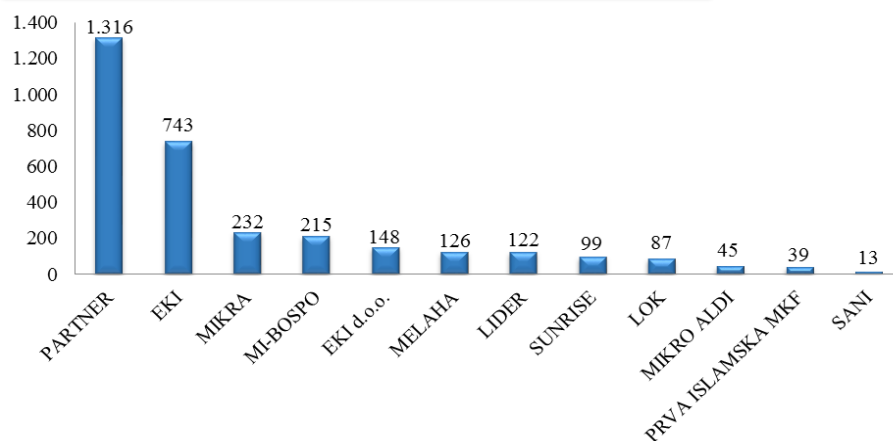
*Note: The data in Table 10 differs from total receivables by write-offs shown in the off-balance records in the amount of KM 1.5 million, which includes court expenses, penalty and process interest as a portion of off-court settlements in the case of three MCFs.

The following graphs show the number of written-off loans as of 30.09.2017, the loan amount written-off in the period 01.01.-30.09.2017, the collection amount by written-off loans in the period 01.01.-30.09.2017 and the total receivables amount by written-off loans as of 30.09.2017 individually by MCO.

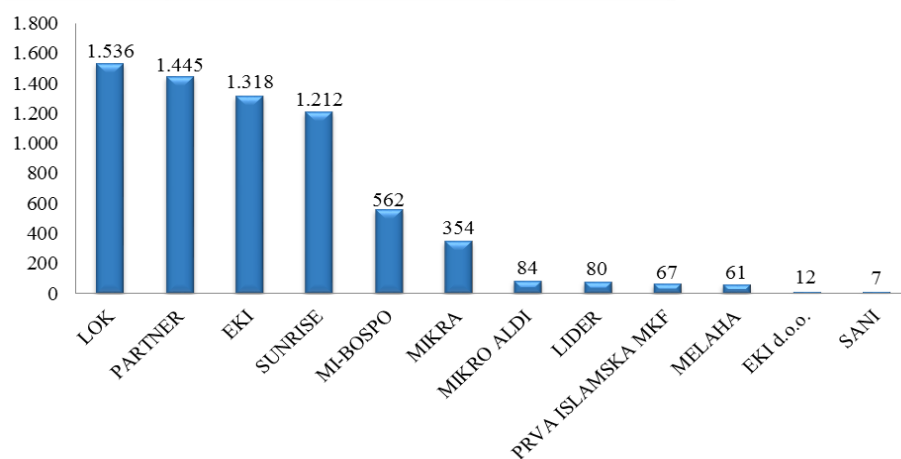
Graph 25. Number of Written-Off Loans in the Off-Balance Sheet Records as of 30.09.2017 Individually by MCO



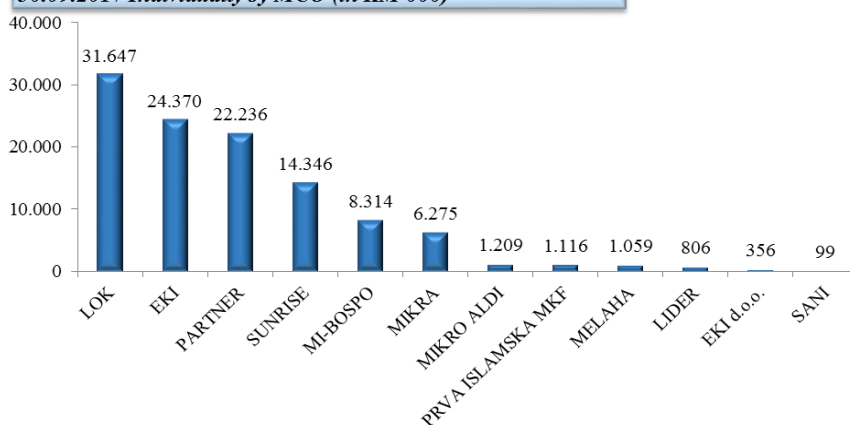
Graph 26. Loan Amount Written-Off in the Period 01.01.-30.09.2017 Individually by MCO (in KM 000)



Graph 27. Collection Amount by Written-Off Loans in the Period 01.01.-30.09.2017 Individually by MCO (in KM 000)



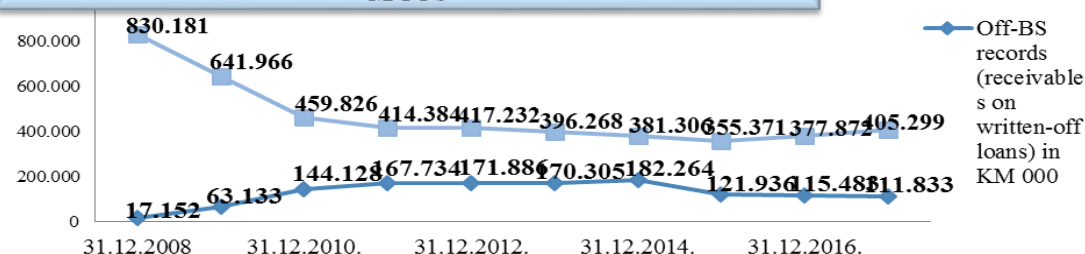
Graph 28. Total Receivables Amount by Written-Off Loans as of 30.09.2017 Individually by MCO (in KM 000)



As of 30.09.2017, total receivables by write-offs, which are in the off-balance sheet records, amount to as KM 111.8 million, down by 3% compared to the end of the previous year.

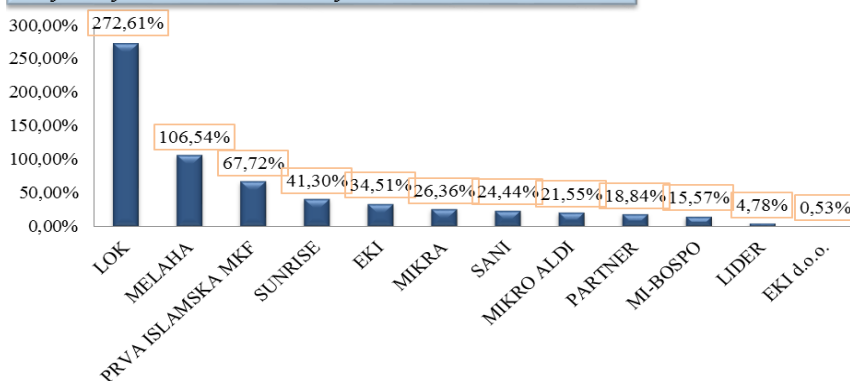
Compared to 2008, the gross portfolio of MCOs is lower by 51%, while receivables by write-offs are almost 7 times higher and make up 28% of the total loan portfolio as of 30.09.2017. There are significant deviations in the quality of the portfolio between different MCOs, which are evident from the data 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 173% 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. 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.

Graph 29. Receivables on Written-Off Loans and Gross Portfolio of MCOs



Total receivables by written-off loans vs. the total gross portfolio of individual MCOs as of 30.09.2017 are shown in the graph below.

Graph 30. Total Receivables by Written-Off Loans vs. Total Gross Portfolio of Individual MCOs as of 30.09.2017



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 30.09.2017 in the Federation of B&H, the total number of loan accounts in the active loan portfolio of MCOs was 156 036, 1.17% of which were being repaid by guarantors, which is down by 0.06 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 30.09.2017 amounted to KM 405 299 thousand KM, with the share of the outstanding loan debt being paid off by guarantors amounting to 1.33%, up by 0.04 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 01.07. to 30.09.2017, a total of 43 complaints was filed against MCOs. In the case of 6 MCFs, there is no evidence of complaints.

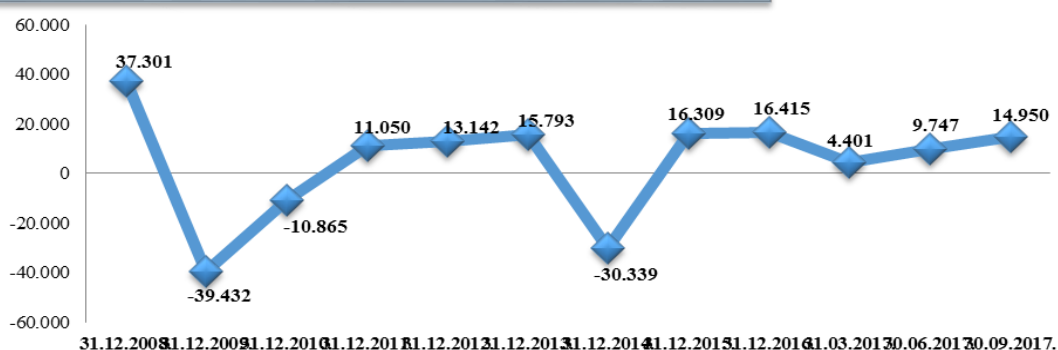
Co-debtors/guarantors have filed 7 complaints, debtors 22 complaints, while other stakeholders filed 14 complaints. The MCOs resolved 8 complaints positively, 31 complaints negatively, while 4 complaints are in the process of being handled and commented on.

2.2. Profitability

In the period from 01.01. to 30.09.2017, one MCC recorded a net profit in the amount of KM 760 thousand (01.01. to 30.09.2016: KM 663 thousand net profit). In that period, MCFs recorded more income over expenses in the total amount of KM 14 190 thousand, while they recorded more income over expenses in the total amount of KM 12 069 thousand in the same period of the previous year.

In the period from 01.01. to 30.09.2017, out of a total of 11 MCFs, 9 MCFs had more income over expenses in the total amount of KM 14 231 thousand, while 2 MCFs recorded less income over expenses in the total amount of KM 41 thousand.

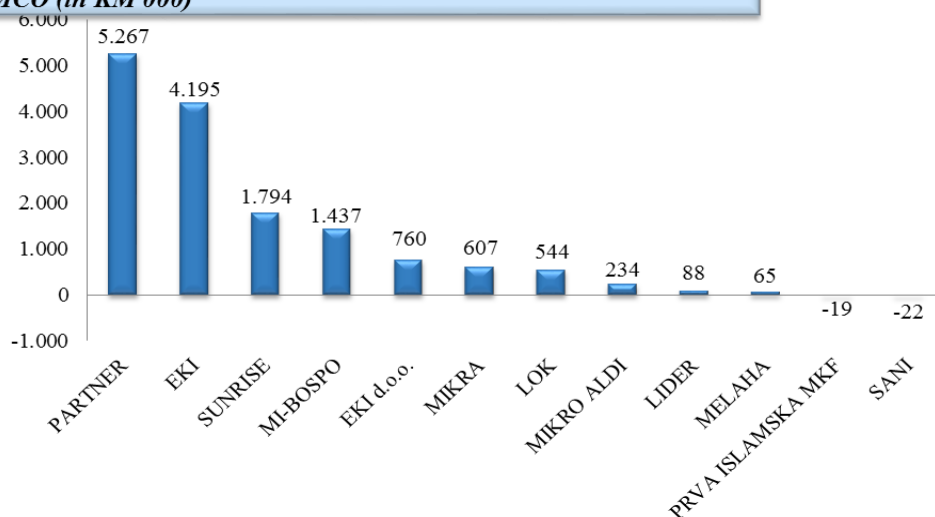
Graph 31. Total Financial Result of MCOs by Year (in KM 000)



At the level of the microcredit system in the Federation of B&H, a positive financial result in the amount of KM 14 950 thousand has been recorded, which is up by KM 2 218 thousand or 17% compared to the same period of the previous year.

The financial result as of 30.09.2017 individually by MCO is shown in the following graph.

Graph 32. Surplus/Deficit of Income over Expenses of MCFs, i.e. Net Profit/Loss of MCCs for the Period 01.01.-30.09.2017 Individually By MCO (in KM 000)



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

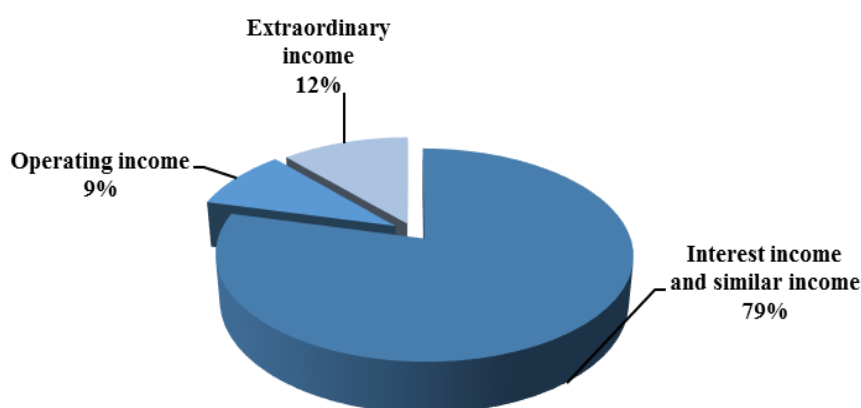
- KM 000 -

No.	DESCRIPTION	For the period 01.01. - 30.09.2016				For the period 01.01. - 30.09.2017				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									
1.1.	Interest-based income and similar income	50 074	2 619	52 693	89	51 132	5 880	57 012	89	108
1.2.	Operating income	6 169	192	6 361	11	6 241	500	6 741	11	106
2.	TOTAL INCOME (1.1.+1.2.)	56 243	2 811	59 054	100	57 373	6 380	63 753	100	108
3.	EXPENSES									
3.1.	Interest-based expenses and similar expenses	7 338	945	8 283	15	6 534	1 729	8 263	14	100
3.2.	Operating expenses	41 439	940	42 379	78	41 709	3 555	45 264	80	107
3.3.	Expenses for loan loss provisions and other losses	3 233	268	3 501	7	2 856	367	3 223	6	92
4.	TOTAL EXPENSES (3.1.+3.2.+3.3.)	52 010	2 153	54 163	100	51 099	5 651	56 750	100	105
5.	EXTRAORDINARY INCOME	8 422	8	8 430		8 395	37	8 432		100
6.	EXTRAORDINARY EXPENSES	586	3	589		479	6	485		82
7.	TOTAL INCOME - EXPENSES (2+5-4-6)	12 069	663	12 732		14 190	760	14 950		117
8.	SURPLUS/DEFICIT OF INCOME OVER EXPENSES	12 069		12 069		14 190		14 190		118
9.	PROFIT BEFORE		663	663			760	760		

	TAXES								
10.	TAXES		0	0		0	0		
11.	NET PROFIT/LOSS		663	663		760	760		
12.	TOTAL FIN. RESULT			12 732			14 950		

The total income of MCOs in the period from 01.01. to 30.09.2017 amounts to KM 63.8 million, which mainly account for MCF income. The total income is up by KM 4.7 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 57 million or 89% of total income and is up by KM 4.3 million or 8% compared to the same period of the previous year, while operating income amounts to KM 6.7 million or 11% of total income and is up by KM 0.4 million or 6% compared to the same period of the previous year.

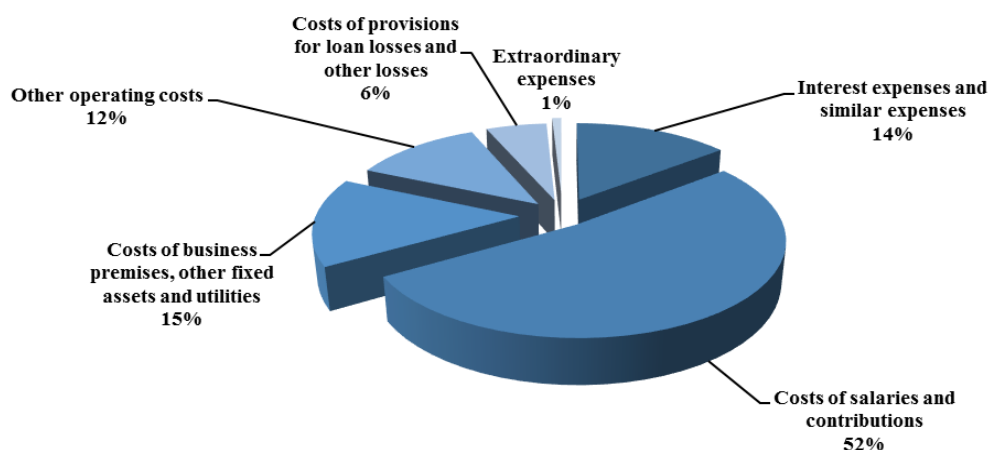
Graph 33. Income Structure (Including Extraordinary Income)



Extraordinary income of MCOs generated in the period from 01.01. to 30.09.2017 amounts to KM 8.4 million and is at approximately the same level 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 nine months of 2017 amounts to KM 0.5 million and is down by KM 0.1 million or 18% compared to the same period of the previous year.

Total expenses amount to KM 56.8 million, 51.1 million or 90% of which account for the expenses of MCFs, and KM 5.7 million or 10% for the expenses of one MCC. Compared to the same period of the previous year, total expenses are up by KM 2.6 million or 5%. In the expenses structure, KM 8.3 million or 14% of total expenses account for interest expenses on taken loans and other similar expenses and are at approximately the same level compared to the same period of the previous year. Operating expenses amount to KM 45.3 million or 80% of total expenses and are up by KM 2.9 million or 7% compared to the same period of the previous year. Operating expenses include salary and contributions expenses in the amount of KM 29.9 million (01.01. to 30.09.2016: KM 28.5 million), costs of business premises, other fixed assets and utilities in the amount of KM 8.6 million (01.01. to 30.09.2016: KM 7.8 million) and other operating expenses in the amount of KM 6.8 million (01.01. to 30.09.2016: KM 6.1 million). Expenses for loan loss provisions and other losses amount to KM 3.2 million or 6% of total expenses and are down by 8% compared to the same period of the previous year.

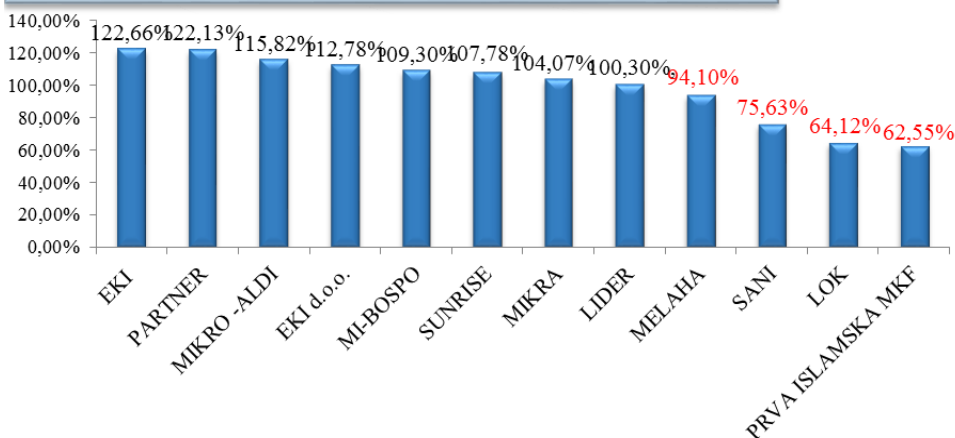
Graph 34. Expenses Structure (Including Extraordinary Expenses)



With respect to operational sustainability¹, out of 12 MCOs, 7 MCFs and 1 MCC can cover all expenses with the recorded income from regular activities, while 4 MCFs have not been operationally sustainable in the reporting period.

Operational sustainability in the period 01.01.-30.09.2017 individually by MCO is shown in the following graph.

Graph 35. Operational Sustainability in the Period 01.01.-30.09.2017 Individually by MCO



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

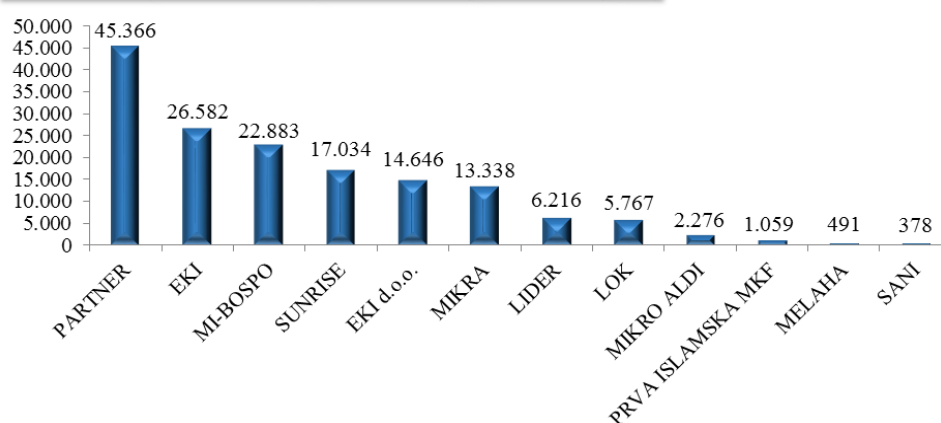
¹ Operational sustainability calculated according to the formula: (Total interest income and similar income + Total operating income) / (Total interest expenses and similar expenses + Total operating expenses + Costs of provisions for loan losses and other losses + Extraordinary expenses).

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 third quarter of 2017, MCOs placed microloans in the total amount of KM 96.8 million, which is up by KM 9 million or 10% compared to the microloan amount placed in the same period of the previous year. As of 30.09.2017, MCOs had 156 036 active loan accounts, which is up by 2 762 loan accounts or 2% compared to the end of the previous year.

The following graph shows the number of active loan accounts as of 30.09.2017 individually by MCO.

Graph 36. Number of Active Loan Accounts as of 30.09.2017 Individually by MCO



As of 30.09.2017, the average amount of microloans at system level was KM 2 597, the average amount of microloans in MCFs was KM 2 389, while the average amount of microloans in the MCC was KM 4 612.

Table 12. Average Weighted Nominal and Effective Interest Rates on Microloans for Q3 2017 – by Product

No.	DESCRIPTION	Total amount of microloan payment in Q3 2017 (in KM 000)	Weighted nominal interest rate (average)	Weighted effective interest rate (average)
1.	Short-term microloans for:	14 183	21.54%	28.68%
1.1.	Service activities	2 231	20.96%	27.44%
1.2.	Trade	656	20.08%	27.05%
1.3.	Agriculture	3 130	19.61%	25.70%
1.4.	Production	282	16.43%	21.64%
1.5.	Housing needs	1 486	21.19%	28.47%
1.6.	Non-purpose – basic needs	1 548	21.75%	28.96%
1.7.	Other	4 850	23.24%	31.30%
2.	Long-term microloans for:	82 622	20.21%	23.94%
2.1.	Service activities	15 252	20.26%	23.87%
2.2.	Trade	3 577	20.05%	23.88%
2.3.	Agriculture	27 781	18.78%	22.00%
2.4.	Production	1 396	20.19%	24.19%
2.5.	Housing needs	17 194	19.95%	23.20%
2.6.	Non-purpose – basic needs	2 033	21.55%	26.44%
2.7.	Other	15 389	22.88%	27.96%
TOTAL		96 805	20.41%	24.63%

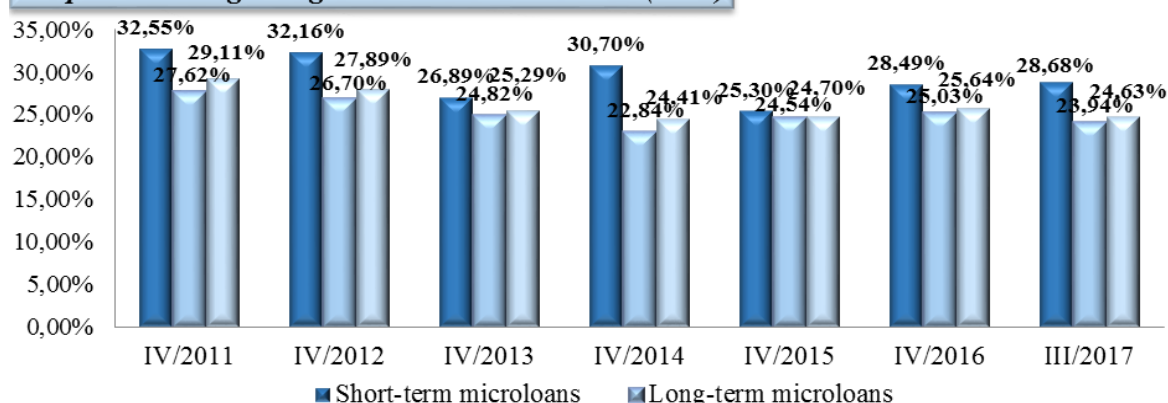
The average weighted nominal interest rate on short-term loans ranges from 16.43% for production up to 23.24% for other loans, and the effective interest rate ranges from 21.64% for production up to 31.30% for other loans. The average weighted nominal interest rate on long-term loans ranges from

18.78% for agriculture up to 22.88% for other loans, and the effective interest rate ranges from 22.00% for agriculture up to 27.96% for other 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	III/2017
Short-term microloans	32.55%	32.16%	26.89%	30.70%	25.30%	28.49%	28.68%
Long-term microloans	27.62%	26.70%	24.82%	22.84%	24.54%	25.03%	23.94%
Total microloans	29.11%	27.89%	25.29%	24.41%	24.70%	25.64%	24.63%

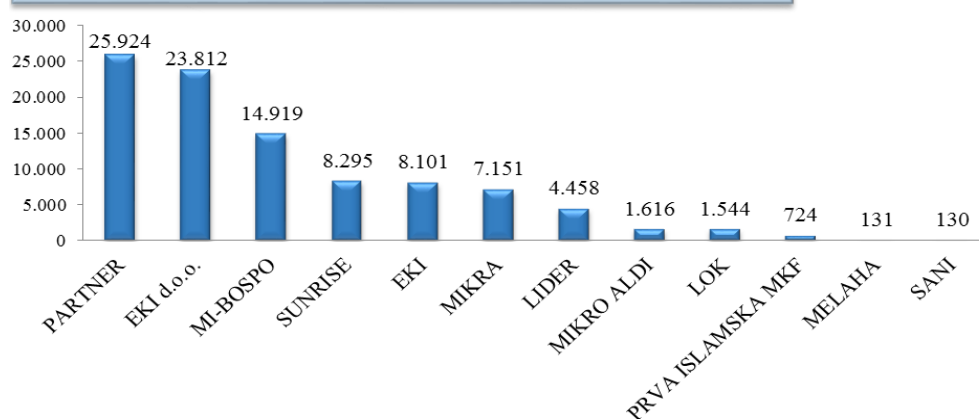
Graph 37. Average Weighted EIR on Microloans (in %)



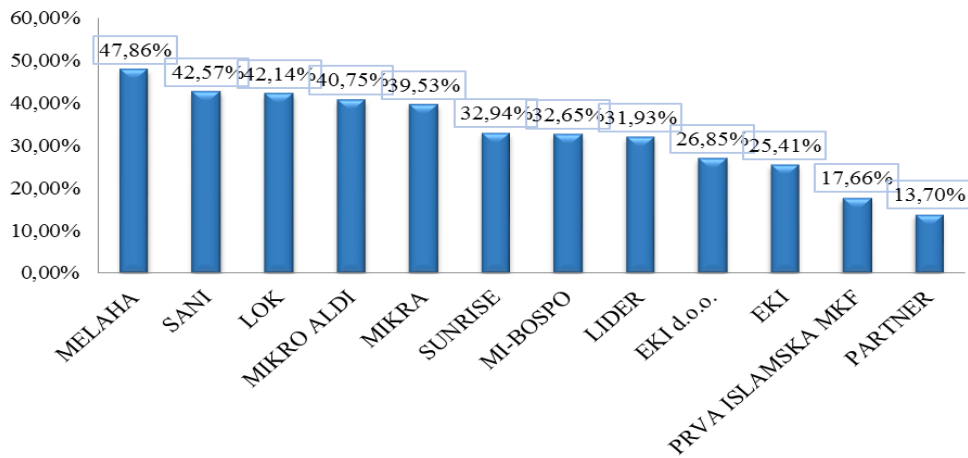
Microcredit organisations decreased effective interest rates on total microloans, so that, at the end of the third quarter of 2017, average weighted effective interest rates on total loans in the microcredit system amounted to 24.63% and recorded a decrease of 1.01 percentage points compared to the fourth quarter of 2016. Compared to the same period, average weighted effective interest rates on short-term loans amounted to 28.68% and recorded an increase of 0.19 percentage points. Average weighted effective interest rates on long-term loans amounted to 23.94% at the end of the third quarter of 2017 and are down by 1.09 percentage points compared to the fourth quarter of the previous year.

The graphs below show the total amount of microloans disbursed in the third quarter of 2017 as well as the average weighted EIR on short-term, long-term and total loans in the third quarter of 2017 individually by MCO.

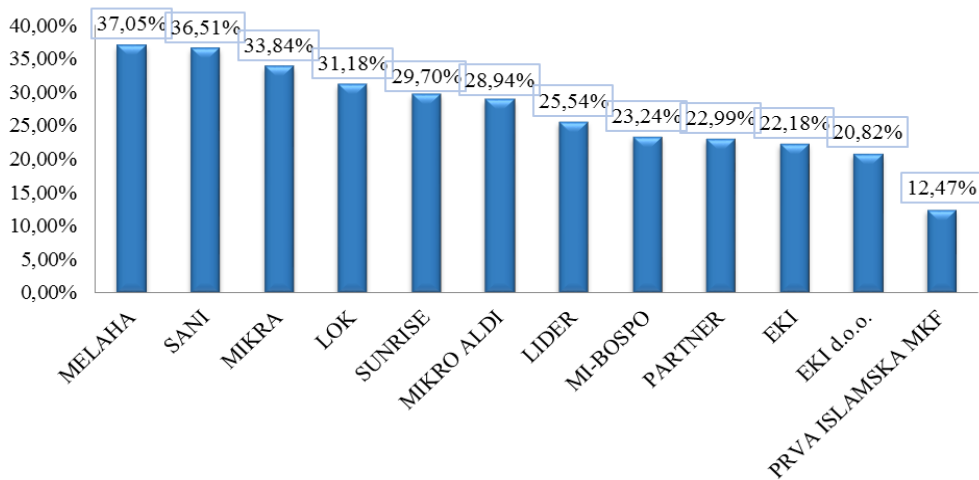
Graph 38. Total Microloans Disbursed by Individual MCOs in Q3 2017 (in KM 000)



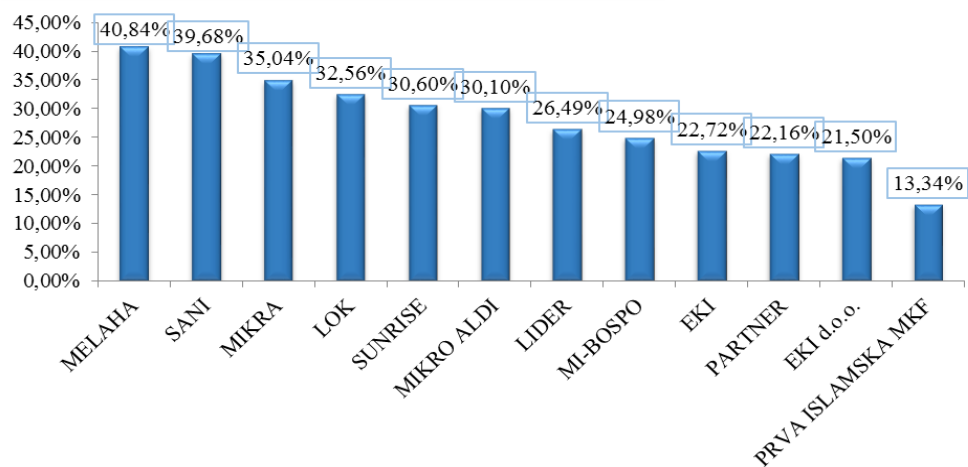
Graph 39. Average Weighted EIR on Short-Term Loans in Q3 2017 Individually by MCO



Graph 40. Average Weighted EIR on Long-Term Loans in Q3 2017 Individually by MCO



Graph 41. Average Weighted EIR on Total Loans in Q3 2017 Individually by MCO



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 30.09.2017, in one MCO, the liquidity position is endangered in such a way that, due to it being harder to obtain new borrowings, the repayment of current liabilities can significantly affect the difficulties of keeping the loan portfolio at approximately the same level or at a level that is down by 5%.

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 nine 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 1 178 980 million. One MCF and 1 MCC have a 83% 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.-30.09.2017	Share (%)
-----	----------------------------	--	-----------

1.	Payment of joint expenses of a related person	487 197	41.32%
2.	Cost reimbursement	394 585	33.47%
3.	Transactions with the founder and founder-related persons	133 725	11.34%
4.	Payment by invoices for delivered goods/services	98 944	8.39%
5.	Borrowings from legal entities and natural persons	56 729	4.81%
6.	Lease of business premises	7 800	0.66%
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		1 178 980	100.00%

Table 13 provides a breakdown of transactions with related entities in the period from 01.01. to 30.09.2017, which shows that the largest share in transactions with related entities belongs to payments of joint expenses of a related person (41.32%), followed by cost reimbursement (33.47%) and transactions with the MCOs' founders and their related persons (11.34%). 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.

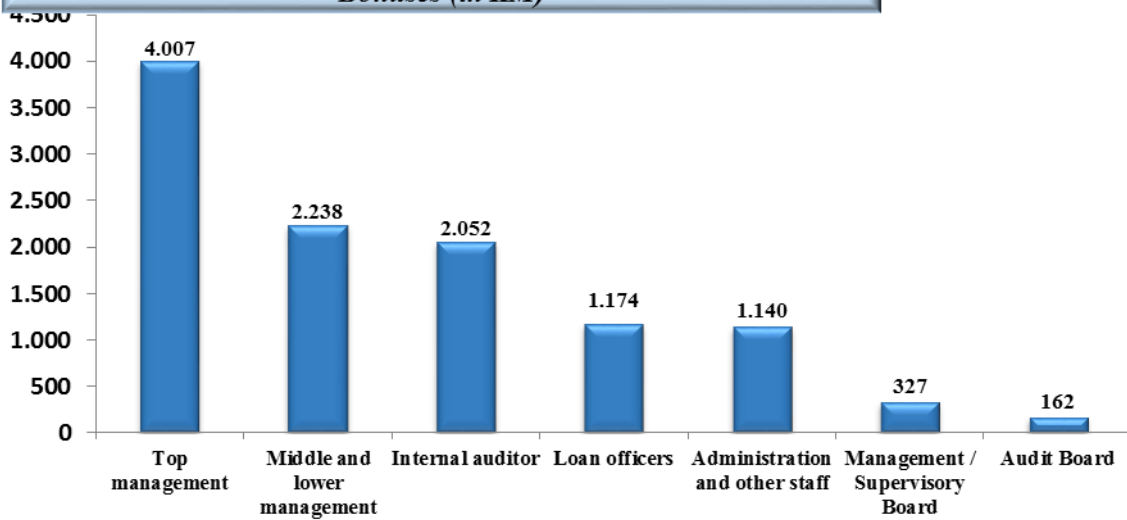
The reported transactions of MCOs with related entities refer to transactions conducted with entities related to the MCOs' founders and their related persons (91%), members of the Management Board (6%), and members of the audit board (3%). During the examinations in the period to come, the Agency will 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. 41 of the Law on Associations and Foundations.

Salary and contributions' expenses generated in the period 01.01. to 30.09.2017 are up by 5% compared to the same period of the previous year. According to MCO reports, as of 30.09.2017, the average monthly net salary of MCO employees was KM 1 255 and the average monthly net amount of incentives, stimulations and bonuses was KM 60. This means that the average monthly net salary with bonuses was KM 1 315 in the microcredit system. As of 30.09.2017, the average monthly net salary of a senior management member in the microcredit system was KM 4 007 including bonuses, while average monthly net compensations paid to Management Board members in MCOs were KM 327 and to audit board members KM 162. As of the reporting date, the average monthly net salaries of internal auditors in MCOs were KM 2 052 including bonuses, of middle and lower management KM 2 238, of loan officers KM 1 174 and of administration and other staff KM 1 140.

Graph 42. Average Monthly Salary/Compensation in MCOs, Including Bonuses (in KM)

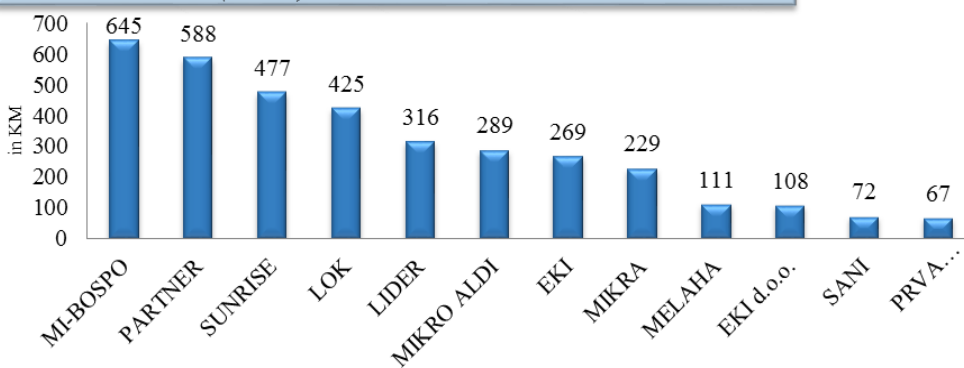


Article 39 of the Law on MCOs stipulates that the microcredit foundations shall invest the excess income over expenses in performing microcredit activities and that the direct or indirect allocation of the excess of income over expenses to founders, members of bodies, responsible persons and employees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

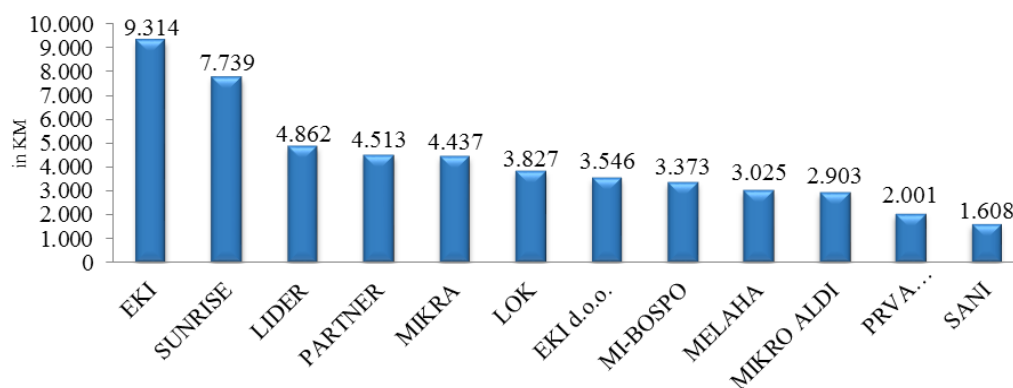
In the case of two MCFs, the average monthly net salary of the senior management is significantly higher compared to the microcredit system average.

The following graphs show the average monthly compensations to members of the Management/Supervisory Board, the average monthly income of senior management and loan officers of individual MCOs for the period 01.01.-30.09.2017.

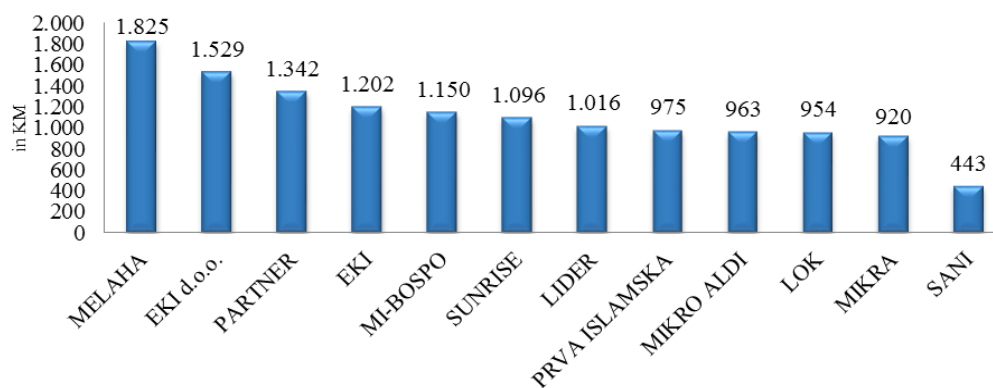
Graph 43. Average Monthly Compensations to Members of Management/Supervisory Board of Individual MCOs for the Period 01.01.-30.09.2017 (in KM)



Graph 44. Average Monthly Income of Senior Management of Individual MCOs for the Period 01.01.-30.09.2017 (in KM)



Graph 45. Average Monthly Income of Loan Officers of Individual MCOs for the Period 01.01.-30.09.2017 (in KM)



III CONCLUSIONS AND RECOMMENDATIONS

When analysing MCO reports as of 30.09.2017, 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 10%, the loan portfolio is up by 7%, with improvements of certain quality indicators. A real increase was also recorded with respect to the number of employees (by 3%), capital (by 7%) and loan commitments (by 15%).

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. -11-02/17
Sarajevo, 21.11.2017

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

Annex 2. Main Data on MCOs

Annex 3. Balance Sheet of MCFs

Annex 4. Balance Sheet of MCCs

Annex 5. Income Statement of MCFs

Annex 6. Income Statement of MCCs

Annex 7. Overview of Donated Funds of MCFs

Annex 1.

REGULATIONS OF THE BANKING AGENCY FOR MCO BUSINESS OPERATIONS AS OF 30.09.2017

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	30.09.2017. godine			
						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	72 095	4 286	174	21
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	103 126	67 409	269	71
3.	MKF "LIDER" Sarajevo	ul. Turhanija 2 71 000 SARAJEVO	Džavid Sejfović	033/ 250-580, 250-581 fax	dzavids@lider.ba www.lider.ba	18 439	10 851	67	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	16 021	2 783	91	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	1 291	527	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	58 653	21 993	174	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	27 928	7 427	126	28
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	6 137	4 747	27	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	134 053	75 642	295	60
10.	"PRVA ISLAMSKA MKF" Sarajevo	ul. Jukićeva 75 71 000 SARAJEVO	Edina Hadžimurtezić	033/ 666-233, 666-224 fax	info@mfi.ba	2 022	1 702	8	0
11.	MKF "SANI" Zenica	ul. Mehmedalije Tarabara 10 72 000 ZENICA	Sulejman Haračić	032/ 405-606 tel/fax	mikrosanizenica@yahoo.com	408	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	45 430	24 924	157	43
TOTAL						485 603	222 491	1 399	298

Annex 3.

BALANCE SHEET OF MCFs*in KM 000*

No.	DESCRIPTION	31.12.2016	%	30.09.2017	%	Index
1	2	3	4	5	6	7=5/3
ASSETS						
1.	Cash (1a+1b)	22 227	6	39 372	9	177
1a)	Cash and non-interest bearing deposit accounts	11 698	3	29 548	7	253
1b)	Interest-bearing deposit accounts	10 529	3	9 824	2	93
2.	Facilities to banks	733	0	1 180	0	161
3.	Loans	349 791		337 748		97
3a)	Loan loss reserves	3 193		3 037		95
3b)	Net loans (3-3a)	346 598	85	334 711	81	97
4.	Business premises and other fixed assets	28 734	7	28 215	7	98
5.	Long-term investments	3 061	1	3 061	1	100
6.	Other assets	6 008	1	7 154	2	119
7.	Minus: provisions for other assets items, except loans	182		185		102
8.	TOTAL ASSETS	407 179	100	413 508	100	102
LIABILITIES						
9.	Short-term loan commitments	73 903	18	84 435	20	114
10.	Long-term loan commitments	105 905	26	90 736	22	86
11.	Other liabilities	23 258	6	20 132	5	87
12.	TOTAL LIABILITIES	203 066	50	195 303	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		227 977		107
15a)	For previous years	199 850		214 042		107
15b)	For current year	14 056		13 935		99
16.	Deficit of income over expenses	61 308		61 238		100
16a)	For previous years	61 268		61 197		100
16b)	For current year	40		41		103
17.	Other reserves	1 844		1 795		97
18.	TOTAL CAPITAL	204 113	50	218 205	53	107
19.	TOTAL LIABILITIES	407 179	100	413 508	100	102
OFF-BALANCE SHEET RECORDS						
	- written-off loans	115 263		111 477		97
	- agent business	367		365		99

Annex 4.

BALANCE SHEET OF MCCs

in KM 000

No.	DESCRIPTION	31.12.2016	%	30.09.2017	%	Index
1	2	3	4	5	6	7=5/3
ASSETS						
1.	Cash (1a+1b)	4 496	14	3 422	5	76
1a)	Cash and non-interest bearing deposit accounts	4 496	14	3 422	5	76
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		67 551		241
3a)	Loan loss reserves	176		383		218
3b)	Net loans (3-3a)	27 905	85	67 168	93	241
4.	Business premises and other fixed assets	115	0	425	0	370
5.	Long-term investments	0	0	0	0	n/a
6.	Other assets	455	1	1 102	2	242
7.	Minus: provisions for other assets items, except loans	9		22		244
8.	TOTAL ASSETS	32 962	100	72 095	100	219
LIABILITIES						
9.	Short-term loan commitments	5 549	17	17 487	24	315
10.	Long-term loan commitments	22 551	68	47 353	66	210
11.	Other liabilities	1 337	4	2 969	4	222
12.	TOTAL LIABILITIES	29 437	89	67 809	94	230
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		1 777		175
16a)	Of previous years	331		1 017		307
16b)	Of current year	685		760		111
17.	Legal reserves	1 909		1 909		100
18.	Other reserves	0		0		n/a
19.	TOTAL CAPITAL	3 525	11	4 286	6	122
20.	TOTAL LIABILITIES	32 962	100	72 095	100	219
OFF-BALANCE SHEET RECORDS						
	- written-off loans	220		356		162
	- agent business	0		0		n/a

Annex 5.

INCOME STATEMENT OF MCFs

in KM 000

No.	DESCRIPTION	For the period 01.01. - 30.09.2016	%	For the period 01.01. - 30.09.2017	%	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	35	0	12	0	34
1.2.	Interest on facilities to banks	1	0	5	0	500
1.3.	Loan interest	49 179	98	50 065	98	102
1.4.	Other financial income	859	2	1 050	2	122
1.5.	Total interest income and similar income (1.1. to 1.4.)	50 074	100	51 132	100	102
2.	Interest expenses and similar expenses					
2.1.	Interest on borrowed funds	6 726	92	6 130	94	91
2.2.	Other financial expenses	612	8	404	6	66
2.3.	Total interest expenses and similar expenses (2.1. to 2.2.)	7 338	100	6 534	100	89
3.	Net financial income (1.5. - 2.3.)	42 736		44 598		104
II	OPERATING INCOME AND EXPENSES					
4.	Operating income					
4.1.	Fees for services performed	5 613	91	5 619	90	100
4.2.	Other operating income	556	9	622	10	112
4.3.	Total operating income (4.1. do 4.2.)	6 169	100	6 241	100	101
5.	Operating expenses					
5.1.	Salary and contributions costs	27 714	67	27 368	66	99
5.2.	Costs of business premises, other fixed assets and utility costs	7 794	19	7 979	19	102
5.3.	Other operating expenses	5 931	14	6 362	15	107
5.4.	Total operating expenses (5.1. to 5.3.)	41 439	100	41 709	100	101
6.	Loan loss provisions and provisions for other losses	3 233		2 856		88
7.	Surplus/deficit of income over expenses from regular operations (3.+4.3.-5.4.-6.)	4 233		6 274		148
8.	Extraordinary income	8 422		8 395		100
9.	Extraordinary expenses	586		479		82
10.	Surplus/deficit of income over expenses (7.+8.-9.)	12 069		14 190		118

Annex 6.

INCOME STATEMENT OF MCCs

in KM 000

No.	DESCRIPTION	For the period 01.01. - 30.09.2016	%	For the period 01.01. - 30.09.2017	%	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	2 617	100	5 875	100	224
1.4.	Other financial income	2	0	5	0	250
1.5.	Total interest income and similar income (1.1. to 1.4.)	2 619	100	5 880	100	225
2.	Interest expenses and similar expenses					
2.1.	Interest on borrowed funds	905	96	1 649	95	182
2.2.	Other financial expenses	40	4	80	5	200
2.3.	Total interest expenses and similar expenses (2.1. to 2.2.)	945	100	1 729	100	183
3.	Net financial income (1.5. - 2.3.)	1 674		4 151		248
II	OPERATING INCOME AND EXPENSES					
4.	Operating income					
4.1.	Fees for services performed	177	92	457	91	258
4.2.	Other operating income	15	8	43	9	287
4.3.	Total operating income (4.1. to 4.2.)	192	100	500	100	260
5.	Operating expenses					
5.1.	Salary and contributions costs	739	79	2 503	71	339
5.2.	Costs of business premises, other fixed assets and utility costs	52	5	586	16	1.127
5.3.	Other operating expenses	149	16	466	13	313
5.4.	Total operating expenses (5.1. to 5.3.)	940	100	3 555	100	378
6.	Loan loss provisions and provisions for other losses	268		367		137
7.	PROFIT/LOSS FROM REGULAR BUSINESS OPERATIONS (3.+4.3.-5.4.-6.)	658		729		n/a
8.	Extraordinary income	8		37		463
9.	Extraordinary expenses	3		6		200
10.	PROFIT/LOSS BEFORE TAXES	663		760		115
11.	TAXES	0		0		n/a
12.	NET PROFIT/LOSS	663		760		115

Annex 7.
**OVERVIEW OF DONATED FUNDS OF MCFs
as of 30.09.2017**
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 Gorazde	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 Islamic Relief WW, Representative Office Sarajevo			1 198		479		200	1 229		613	3 719
7.										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.												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.	Mercy Corps								229			229
20.	Unipromet						170					170
21.	Nedžad Beglerović			102								102
22.	NOVIB							80				80
23.	EBRD										75	75
24.	Other	8		184		12	65				10	279
Operating expenses donations		1 019	874	2 810	500	1 344	17	146	2 558	0	711	9 979
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	100			127
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	19 348	2 265	2 736	56 764